

Teledyne Technologies Inc

Robust order book offsetting slowing DI concerns, maintain Buy, raise PO to \$490

Reiterate Rating: BUY | PO: 490.00 USD | Price: 432.82 USD

Robust long-cycle demand supports Buy; PO to \$490

Since reporting earnings on January 24th, TDY shares have traded down ~2.6% vs. the S&P up ~1.8%. Investors remain concerned as Digital Imaging's (DI) full year margins contracted 8bps Y/Y, and on the uncertainty of recovery in industrial automation end-markets. Given DI represents 51% of TDY's overall business, we view the concerns are valid, but likely overdone. We see TDY's book-to-bill above one and growth from longer-cycle businesses (A&D, Space, & Medical), meaningfully offsetting headwinds in shorter-cycle businesses (Machine Vision, Semis, Commercial Thermography). We anticipate DI's growth to be back-half weighted and see potential for an upside surprise on a recovery in Industrial CapEx spending. We reiterate our Buy and increase our PO to \$490 from \$430 on the strong demand environment and long-cycle outlook (see page 3 for details).

M&A appetite undeterred – in search of the next “pearl”

M&A remains a top priority for capital deployment, despite valuations of larger opportunities remaining “inflated”. TDY's liquidity position remains healthy with interest expense of ~2%, and Net-Debt-to-EBITDA of ~1.6x. While the balance sheet strength would allow for another large deal (like FLIR), we see it more likely TDY will pursue multiple smaller bolt-on opportunities. We continue to see TDY as uniquely talented at finding and integrating niche product driven companies which complement the existing portfolio. Additionally, with recent M&A activity in A&D picking up, ([TGI Product Support Sale](#), [LHX Avionics Sale](#), [Ball Aero Sale](#)), we wouldn't be surprised to see TDY adding a Commercial Aero name next to its string of pearl.

Primed for defense growth on intense threat environment

Both the Aerospace & Defense Electronics (A&DE), and Digital Imaging segments are primed to meet the strong demand as the global threat environment intensifies. We anticipate A&DE benefiting from the [munitions stockpile replenishment, and strong unmanned systems demand](#) as a sub-supplier of components in missiles, and unmanned/manned systems. In DI, we see [FLIR as having achieved its long-awaited turnaround](#). FLIR's revenue reached its highest in point in two-years, benefiting from [ISR, public safety, and unmanned systems demand](#). We anticipate margins to continue to benefit from the latest facilities consolidation efforts and greater overhead absorption on higher volumes.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	18.18	19.69	20.65	22.75	24.70
GAAP EPS	16.53	18.51	17.55	19.65	21.64
EPS Change (YoY)	7.8%	8.3%	4.9%	10.2%	8.6%
Consensus EPS (Bloomberg)			20.56	22.17	24.14
DPS	0	0	0	0	0
Valuation (Dec)					
P/E	23.8x	22.0x	21.0x	19.0x	17.5x
GAAP P/E	26.2x	23.4x	24.7x	22.0x	20.0x
EV / EBITDA*	17.6x	17.0x	15.7x	14.9x	14.1x
Free Cash Flow Yield*	1.9%	3.5%	4.7%	5.1%	5.9%

* For full definitions of *IQmethod*SM measures, see page 5.

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12654837

Timestamp: 05 February 2024 03:00AM EST

05 February 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	430.00	490.00
2024E Rev (m)	5,865.9	5,875.5
2025E Rev (m)	6,136.1	6,146.3
2026E Rev (m)	6,410.7	6,421.8
2024E EPS	20.80	20.65

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Stock Data

Price	432.82 USD
Price Objective	490.00 USD
Date Established	5-Feb-2024
Investment Opinion	B-1-9
52-Week Range	364.98 USD - 448.71 USD
Mrkt Val (mn) / Shares Out (mn)	20,422 USD / 47.2
Free Float	98.8%
Average Daily Value (mn)	98.90 USD
BofA Ticker / Exchange	TDY / NYS
Bloomberg / Reuters	TDY US / TDY.N
ROE (2024E)	10.3%
Net Dbt to Eqty (Dec-2023A)	28.1%
ESGMeter™	High

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to ["BofA ESGMeter Methodology"](#).

iQprofileSM Teledyne Technologies Inc

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	6.5%	7.0%	6.4%	6.4%	6.5%
Return on Equity	11.0%	10.8%	10.3%	10.4%	10.4%
Operating Margin	17.8%	18.4%	19.2%	19.7%	20.2%
Free Cash Flow	394	721	969	1,041	1,205

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	0.6x	0.9x	1.1x	1.0x	1.1x
Asset Replacement Ratio	0.3x	0.4x	0.4x	0.4x	0.4x
Tax Rate	13.1%	7.5%	22.5%	22.5%	22.5%
Net Debt-to-Equity Ratio	40.2%	28.1%	15.6%	4.4%	-6.1%
Interest Cover	10.9x	13.4x	20.9x	26.5x	30.7x

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	5,459	5,636	5,875	6,146	6,422
% Change	18.3%	3.2%	4.3%	4.6%	4.5%
Gross Profit	2,330	2,439	2,569	3,432	3,558
% Change	26.6%	4.7%	5.3%	33.6%	3.7%
EBITDA	1,304	1,351	1,458	1,542	1,628
% Change	30.9%	3.6%	7.9%	5.8%	5.5%
Net Interest & Other Income	(64)	(76)	(33)	27	80
Net Income (Adjusted)	868	943	999	1,112	1,219
% Change	16.2%	8.7%	5.9%	11.3%	9.7%

Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	789	887	849	960	1,068
Depreciation & Amortization	332	316	330	330	330
Change in Working Capital	(627)	(301)	(89)	(139)	(58)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	(7)	(66)	(3)	12	(6)
Capital Expenditure	(93)	(115)	(118)	(123)	(128)
Free Cash Flow	394	721	969	1,041	1,205
% Change	-45.5%	83.0%	34.4%	7.4%	15.8%
Share / Issue Repurchase	24	45	45	46	48
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	(175)	(950)	(200)	0	(450)

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	638	648	1,463	2,550	3,353
Trade Receivables	884	862	900	942	985
Other Current Assets	1,296	1,471	1,611	1,419	1,497
Property, Plant & Equipment	770	777	716	706	702
Other Non-Current Assets	10,766	10,770	10,618	10,421	10,224
Total Assets	14,354	14,528	15,308	16,038	16,760
Short-Term Debt	300	600	600	600	600
Other Current Liabilities	1,223	1,166	1,222	915	942
Long-Term Debt	3,621	2,645	2,445	2,445	1,995
Other Non-Current Liabilities	1,037	891	891	891	891
Total Liabilities	6,181	5,302	5,158	4,851	4,428
Total Equity	8,173	9,226	10,151	11,187	12,332
Total Equity & Liabilities	14,354	14,528	15,308	16,038	16,760

* For full definitions of iQmethodSM measures, see page 5.

Company Sector

Aerospace

Company Description

Teledyne is a specialized industrial company that makes sensors, transmitters and analyzers. Since spinning out of what is now Alleghany Technologies over 20 years ago, it has transformed itself from a primarily Aerospace and Defense company into a diversified industrial company with revenues of \$4.6bn in 2021. Key to growth is its acquisition strategy, with its three largest deals to date all focused on the attractive Imaging segment.

Investment Rationale

We believe TDY is a well-managed company with a diverse and balanced portfolio. Due to a combination of organic growth and its acquisitive nature TDY grew reported EPS at a 13% CAGR from 2016-21. We expect earnings accretion from acquisitions as TDY puts its historical playbook to work and finds immediate cost synergies. This, combined with the focus on deleveraging, mgn expansion and FCF generation, should position it at the head of its peer group.

Stock Data

Average Daily Volume 228,491

Quarterly Earnings Estimates

	2023	2024
Q1	4.53A	4.55E
Q2	4.67A	4.70E
Q3	5.05A	5.45E
Q4	5.44A	5.95E

Maintain Buy; Increase PO: \$490

We roll our valuation one year forward to 2025 (prior 2024) and increase our PO to \$490 from \$430 based on a 1.2x (unchanged) EV/EBITDA rel. multiple to the S&P500 on 2025. TDY's avg rel. multiple is 1.15x. We increase our PO reflecting the market rerating and strong demand across segments. We maintain our Buy rating, noting potential upside from M&A, increased Aerospace & Defense demand, and execution on the cost reduction efforts across the business.

Instrumentation benefiting from diverse end-markets

Instrumentation continued to impress with 5.8% topline growth and adj. operating margins improving 170bps Y/Y. We anticipate Instrumentation to see modest growth in 2024, up 4% Y/Y. We expect healthy demand to continue in the marine segments, driven by continue demand in defense & security, offshore energy, and infrastructure spending. We anticipate marine segment growth will offset lower sales growth in Environment Instrumentation and Test & Measurement. We do anticipate margins to benefit from cost reductions efforts and by strong pricing control.

Lowering 2024 EPS on DI headwinds, recovery in outyears

We lower our 2024 EPS est. to \$20.65 (vs. prior \$20.80), reflecting puts and takes of stronger margin expectations in instrumentation, and Aerospace & Defense, slightly offsetting lower DI margins on lower volumes. In the near-term, we expect margin expansion driven from the cost reductions, pricing, and a recovery in volumes in DI to offset the lower margin growth in 2024. As a result, our outyear EPS estimates remain unchanged 2025E: \$22.75, 2026E: \$24.70, 2027E: \$26.75.



Price objective basis & risk

Teledyne Technologies Inc (TDY)

We value TDY based on a relative EV/EBITDA multiple. Historically, TDY has traded on average 1.15x the market on an EV/EBITDA. We apply a slight premium at 1.2x which we think is appropriate due to best-in-class operations. Applying this to our 2025 estimates, we derive a \$490 PO.

Upside risks to our PO are higher accretion from acquisitions, a more rapid top- and bottom-line recovery in the industrials businesses and even further operating leverage.

Downside risks are poor integration of FLIR, another industrials downturn, a significant decline in the Department of Defense (DOD) budget, an exogenous event that prevents international sales.

Analyst Certification

I, Ronald J. Epstein, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

US - Aerospace and Defense Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	AerCap Holdings N.V.	AER	AER US	Ronald J. Epstein
	Air Lease Corporation	AL	AL US	Ronald J. Epstein
	Booz Allen Hamilton	BAH	BAH US	Mariana Perez Mora
	BWX Technologies, Inc.	BWXT	BWXT US	Ronald J. Epstein
	CACI International	CACI	CACI US	Mariana Perez Mora
	Cadre Holdings Inc	CDRE	CDRE US	Ronald J. Epstein
	Crane Co.	CR	CR US	Ronald J. Epstein
	Embraer	ERJ	ERJ US	Ronald J. Epstein
	General Dynamics	GD	GD US	Ronald J. Epstein
	HEICO Corporation	HEI	HEI US	Ronald J. Epstein
	Howmet Aerospace Inc.	HWM	HWM US	Ronald J. Epstein
	KBR	KBR	KBR US	Mariana Perez Mora
	Leidos Holdings	LDOS	LDOS US	Mariana Perez Mora
	Leonardo DRS, Inc.	DRS	DRS US	Ronald J. Epstein
	Northrop Grumman	NOC	NOC US	Ronald J. Epstein
	Palantir Technologies	PLTR	PLTR US	Mariana Perez Mora
	Parsons Corporation	PSN	PSN US	Mariana Perez Mora
	RBC Bearings Inc	RBC	RBC US	Ronald J. Epstein
	Teledyne Technologies Inc	TDY	TDY US	Ronald J. Epstein
	TransDigm Group Inc.	TDG	TDG US	Ronald J. Epstein
	Triumph Group	TGI	TGI US	Ronald J. Epstein
NEUTRAL				
	Albany International	AIN	AIN US	Ronald J. Epstein
	Boeing	BA	BA US	Ronald J. Epstein
	Garmin	GRMN	GRMN US	Ronald J. Epstein
	Hexcel Corporation	HXL	HXL US	Ronald J. Epstein
	L3Harris	LHX	LHX US	Ronald J. Epstein
	Lockheed Martin	LMT	LMT US	Ronald J. Epstein
	RTX Corp	RTX	RTX US	Ronald J. Epstein
	Textron	TXT	TXT US	Ronald J. Epstein
UNDERPERFORM				
	Bombardier	BDRBF	BDRBF US	Ronald J. Epstein
	Bombardier Inc.	YBBD B	BBD/B CN	Ronald J. Epstein
	CAE Inc.	YCAE	CAE CN	Ronald J. Epstein
	CAE Inc.	CAE	CAE US	Ronald J. Epstein
	Huntington Ingalls Industries	HII	HII US	Ronald J. Epstein

US - Aerospace and Defense Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Mercury Systems	MRCY	MRCY US	Ronald J. Epstein
	Spirit AeroSys-A	SPR	SPR US	Ronald J. Epstein
RSTR				
	Rocket Lab	RKLB	RKLB US	Ronald J. Epstein

iQmethodSM Measures Definitions**Business Performance**

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

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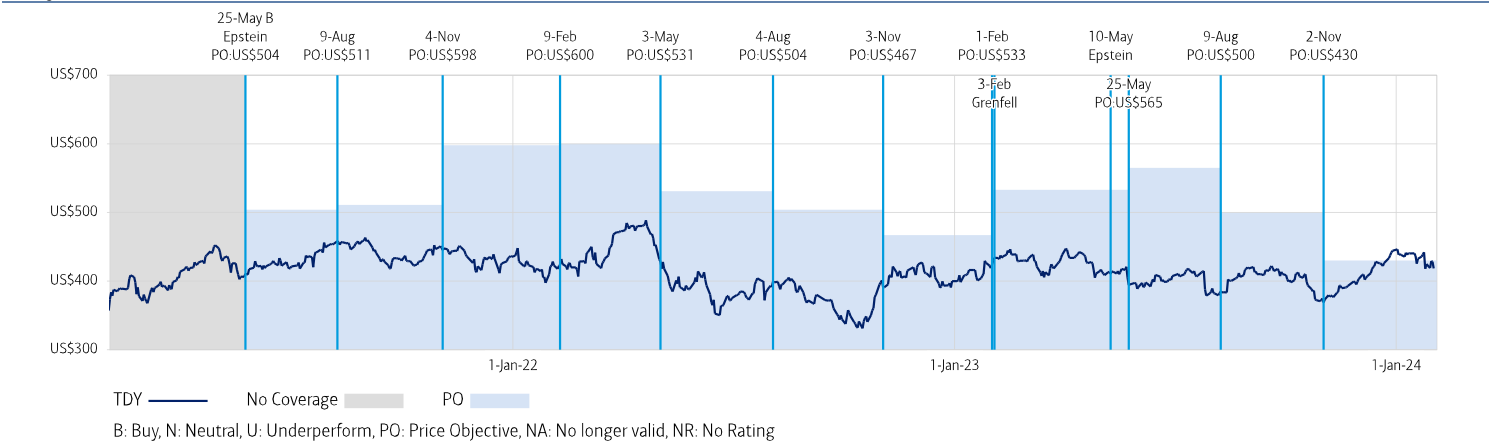
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Teledyne Tech. Inc. (TDY) Price Chart



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Equity Investment Rating Distribution: Aerospace/Defense Electronics Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	31	62.00%	Buy	23	74.19%
Hold	11	22.00%	Hold	9	81.82%
Sell	8	16.00%	Sell	6	75.00%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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