Teledyne Technologies Incorporated (TDY)

Time to Dyne!

Downside Scenario	Current Price	Price Target	Upside Scenario
$310.00	$378.54	$438.00	$524.00
(18%)		*16%*	*39%*

Symbol	NYSE: TDY
52-Week Range	$364.98 - 448.71
YTD Performance	(5.6%)
Market Cap (M)	$17,861
Net Debt (M)	$2,736
Dividend Yield	0.0%
NTM P/E	19.6x
NTM EV/EBITDA	15.0x
ROE	9.6%
ROA	4.7%
ROIC	5.6%

FY (Jan.)	2022A	2023E	2024E
EPS (Adj.)			
Q1	4.46	3.73	5.48
YoY Change	*100.0%*	*(16.3%)*	*46.9%*
Q2	3.59	3.87	6.06
YoY Change	*142.1%*	*7.7%*	*56.5%*
Q3	3.73	4.15	6.11
YoY Change	*32.8%*	*11.0%*	*47.3%*
Q4	4.75	5.64	6.75
YoY Change	*30.1%*	*18.8%*	*19.7%*
Year	16.53	17.39	24.40

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- TDY is a well-diversified business that has been selling-off due to constraints within its supply chain, poor margin expansion, and government-related issues such as the debt ceiling and potential shutdown. Along with this, investors have continued to underappreciate the Company's acquisition of FLIR Systems, due to unprofitable business segments and the negative impact it had on Teledyne's margins.
- Continuing to deleverage from a net leverage ratio of 4.30x following the acquisition of FLIR, TDY's strong free cash flow generation has allowed the Company to improve its credit profile while giving itself the option of engaging in bolt-on acquisitions to expand into niche markets. Management has an elite track record of acquisitions and the poor macroeconomic environment presents attractive valuations, so TDY is presented with the opportunity to engage in accretive M&A activity.
- The diversification of TDY's product portfolio has allowed for resiliency within the global markets, regardless of the macro pressures and geopolitical tensions. Growthy end markets along with government contracts has allows the Company to continue expanding while also establishing a defensive stance against the broader economy.
- Broad diversification makes it difficult to pinpoint one particular area of growth for TDY, but the Company's strong positioning within the market will allow it to continue expanding and growing through strategic bolt-on acquisitions. Through our NTM P/E historical analysis, we see shares of TDY reaching $438.00 and generating a 15.7% return for the Fund.

COMPANY OVERVIEW

Teledyne Technologies Incorporated (TDY or "Teledyne") is a diversified provider of technological equipment within industrial growth markets. The Company has an extensive suite of products, including digital imaging sensors, cameras, infrared and X-ray devices, electronic test and measurement equipment, and other niche offerings. TDY's end markets consist of factory automation, aerospace & defense, electronics design, medical imaging and pharmaceutical research, oceanographic research, deepwater oil & gas exploration, and more. With customers in over 100 countries around the world, TDY looks to continue expanding through two main growth strategies: internal research & development (R&D) and acquisitions of companies in opportunistic markets. The Company recently reported its 3Q'23 earnings on October 25th, 2023.

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INVESTMENT SUMMARY

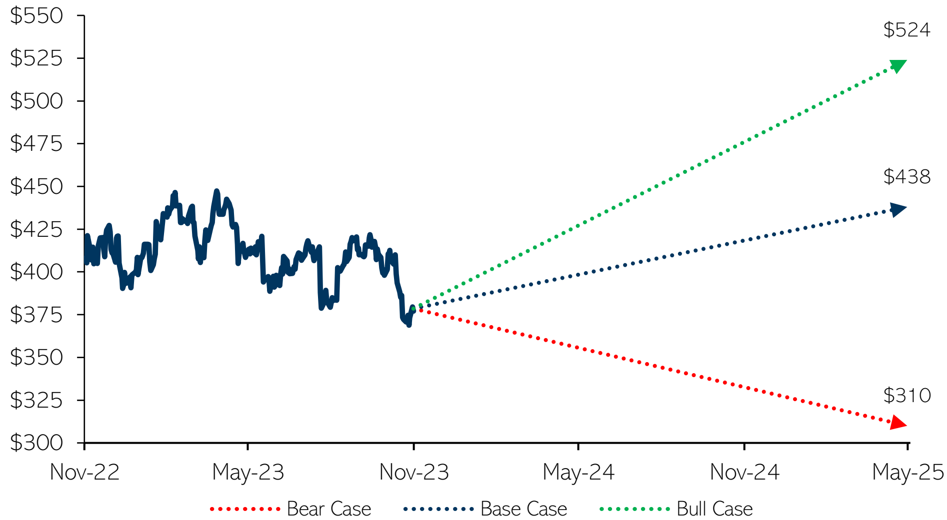
Headquarters
Thousand Oaks, CA

Chief Executive Officer
Robert Mehrabian

Number of Employees
14,700 (As of FY'22)

GICS Classification
Information Technology

GICS Sub-Industry
Technology Hardware & Equipment



PRICE TARGET SCENARIOS

Bull Case Price Target: $524.00

12-18 Month Target Return: +39%

Revenue grows at a 6.2% CAGR from FY'24 to FY'28 as TDY capitalizes on key end markets that allow the Company to see increased demand for its parts and equipment, along with a quicker than expected rebound in areas of the market that have been struggling over the last couple of quarters. Both the Russo-Ukrainian and Israel-Hamas wars rage on with no end in sight for either, leading to more and more defense spending and creation of programs by the Department of Defense. TDY takes full advantage of this demand and wins many of the domestic and international programs that demand its intricate defense products. Teledyne generates FCF far greater than the Street's projections, allowing the Company to make more deals than what was guided. Investors greatly appreciate TDY for the FLIR acquisition, as they see defense spending pick up and TDY's margins substantially expand.

Base Case Price Target: $438.00

12-18 Month Target Return: +16%

Revenue grows at a 4.3% CAGR from FY'24 to FY'28, as the Company's key end markets continue to outperform and withstand macro headwinds at a global scale. This resiliency through its diversified customer base will lead to lower COGS and increased margins in each of TDY's segments moving forward. Continued cost-cutting and integration of FLIR will allow for additional cost savings and enhance the Company's product offerings. increasing revenue growth. In addition to this, the ongoing wars in Europe and the Middle East continue to require defense equipment, with TDY winning some of the programs initiated by the DoD. All of this coming together will lead to ~$1.0 bn in FCF each year, allowing the Company to deleverage to its projected ratio of one by the end of FY'24.

Bear Case Price Target: $310.00

12-18 Month Target Return: (18%)

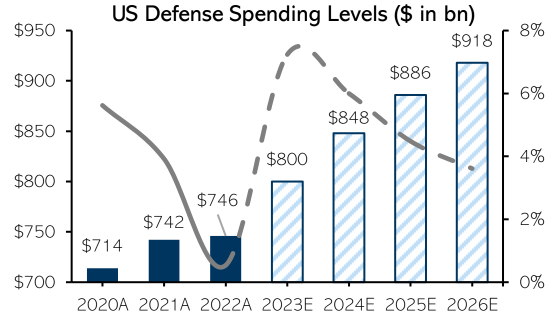
Revenue grows at a 3.3% CAGR from FY'24 to FY'28, as the Russo-Ukrainian and Israel-Hamas conflicts subside earlier than expected, leading to fewer defense programs being produced, TDY's products are overlooked and unable to win a great number of the programs available. In addition to this, the Company is not able to continue successfully integrating FLIR, which weighs down on its gross and operating margins. Due to all of this, TDY underperforms in its FCF generation causing the Company to maintain a higher leverage ratio than originally projected as it lacks the funding to continue to pay down its debt. The higher ratio, lower margins, and fewer defense program awards drives negative sentiment toward TDY leading to a sell-off in the name by investors.

INDUSTRY OVERVIEW

Holiday Season for the US Government

The US Government has faced a number of issues over the last couple of months, including the potential default on its debt in May'23 and a near government shutdown in Sep'23, but the spending budget, specifically in the defense sector, is expected to continue rising. The aforementioned obstacles led to a lag in government outlays during the first half of the year but now that most of the concerns have been settled, the outlays are actually beginning to take place and this will be reflected in companies' financials in the coming quarters. Increasing geopolitical tensions around the world, which the US has gotten itself indirectly involved in, have led to this increase in spending levels and are expected to continue without an end in sight, as there is no telling as to when these tensions will subside. Each year, the US Department of Defense (DoD) increases the forecasts that it made the previous year, with there being a clear emphasis on higher defense spending. Along with an increase in US defense spending, international defense spending is also expected to grow at a 4.9% CAGR through CY'28. As the Russo-Ukrainian and Israel-Hamas wars continue to rage on, the US and other countries around the world continue allocating capital towards defense spending. Because of this, A&D spending will be a major focus for all countries, as there is a growing need for stronger militaries.

US Defense Spending Levels ($ in bn)



Source: US Congressional Budget Office

In addition to directly buying A&D technologically advanced equipment, the US government allocates a significant amount of its budget towards research and development (R&D), as it looks to outcompete fellow countries on the world stage. The DoD itself spent $202.0 bn on R&D in CY'22 and this amount will increase every year as there is a growing need to develop the country's security and safety systems. Companies that have contracts with the US government are set to benefit and have steady, reliable revenues during a time of wavering macro conditions.

Unmanned Systems

The ongoing wars have resulted in a strong demand for advanced technology, with one side of the battle looking to have a competitive advantage over the other. Particularly in the Russo-Ukrainian war, much of the equipment is said to be designed from the 20th century and there is a clear need for more recently developed equipment. A common strategy, which has been most popular over the course of the war, is the use of drones. The Royal United Services Institute predicts that Ukraine has been losing more than 10.0k drones per month. This has led to a greater demand for drones and the companies that are involved in the process of designing, manufacturing, and providing the different components that go into them are set to benefit. The new drones being built have superior sensors that allow the user to operate in harsh conditions. In addition to the countries facing conflict, other countries around the world have also begun demanding advanced drone systems, with this industry growing popular.

About To Go On a Shopping Spree

Despite an uncertain macroeconomic environment in which the Federal Funds rate has reached two-decade highs and inflation levels remain higher than expected in countries around the world, the Industrial Technology M&A market has been resilient over the last couple of quarters and is expected to maintain this momentum in the coming quarters. The broader Industrials sector has seen an 18.2% YoY decline in M&A activity, with the Electronics subsector only down 11.8% and the A&D subsector up 27.5% YoY. Large, established companies within the sector look to expand into niche markets and diversify their product offerings through bolt-on acquisitions of companies that have grown to be experts within a niche part of the market. A "higher-for-longer" interest rate environment makes it difficult for companies to obtain the capital they need to finance deals, but the process of de-leveraging has grown to be a popular concept, as it often leads to improved credit terms. Additionally, many have begun treating the higher interest rates as the new norm and as a result, are willing to borrow at the current rates. Global M&A deal volumes rose by 16.2% during 3Q'23 and this doesn't necessarily indicate an immediate rebound, but activity is expected to return in 1H'24, with both deal size and volumes expected to begin growing here forward.

Digital Imaging

Digital imaging is simply defined as the digital representation of the visual characteristics of an object, through the use of a sensor, camera, or similar system. However, the capabilities of these technologies are quite complex and constantly advancing. This has led to an increase in demand for digital imaging equipment across a number of industries, with the medical and space end markets serving as the main growth drivers within the current environment. Overall, the global digital imaging market is expected to grow at a 7.5% CAGR through CY'30.

- *Medical:* The global medical imaging market is expected to grow at a 5.4% CAGR, driven by an aging population, increased likelihood of chronic diseases, and constant demand for advanced technologies that could potentially lead to a cure or enhanced treatment of patients. Relative to the population of people aged 25-64, the population of people aged 65 or older is expected to grow by ~34% in CY'23. The elderly, defined as individuals aged 65 or older, are more prone to medical issues and require advanced care so to keep up with this inflow of patients, care providers will look to improve the efficacy of their equipment. Evidencing the prevalence of chronic diseases, they accounted for ~50 mn of global deaths in CY'20 and that number is expected to grow to ~67 mn people by CY'30. Following a shortage of medical equipment during the COVID-19 pandemic, healthcare providers are now demanding high levels of radiology equipment to ensure they can provide patients with the best possible care. Digital imaging companies that have the parts and equipment to satisfy these needs have benefitted from this increased demand and are expected to fare well moving forward.

- *Space:* In what scientists refer to as the Fourth Industrial Revolution (4IR), there has been a strong emphasis on space exploration, which has led to increased investments in satellites and related technologies. There has been a particular focus on increasing the number of small satellites within outer space, as they are cheaper to make, faster to produce, and easier to troubleshoot when something goes wrong. This is due to the advanced sensors that are built into these satellites, as they provide stronger processing power, data storage, and camera technology. Decreasing costs and advanced technologies have led to a greater number of players within the space, with private companies increasing their investments in space infrastructure and countries setting higher civil space budgets. The US, mainly through NASA, allocated $62.0 bn towards space programs during CY'22, which was a 13.5% YoY increase. Other countries such as China, Japan, France, Russia, and Germany all committed more than $2.0 bn towards space programs during CY'22 and are expected to increase their budgets here forward. Due to higher interest rates, investments towards the space industry fell ~53% in the US during the first three months of CY'23, marking the lowest-funded quarter since CY'15. However, investments have since rebounded, totaling $8.4 bn by the end of 3Q'23 and surpassing the total $8.3 bn that was invested in CY'22. As investments continue flowing into the market during the 4IR, manufacturers of the sensors incorporated in satellites and other space equipment will continue seeing increased demand.

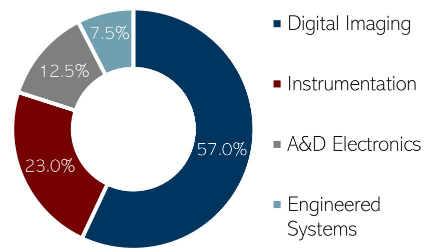
The Return of Attractive Markets

- *Commercial Aerospace:* The pandemic put a halt on commercial travel for quite some time, but recovery in the space has been a significant growth driver for companies that supply parts of an aircraft. Jefferies looks at fleets with an average age of more than six years and projects the volume of aircraft to increase by 28.6% between CY'19 and CY'24, going from 14.0k to 18.0k. Each aircraft consists of millions of parts on average and with maintenance required every five to seven years, leading to greater demand for these parts. The Street projects 5-10% growth in revenue within the industry, as there is strong pricing in the aftermarket.
- *Offshore Oil & Gas:* Following a significant decline in offshoring drilling during the pandemic, the number of oil rigs declined by 38.5%, going from 283 to 174 offshore rigs. Ever since, there has been strong demand for oil and natural gas, as operators began returning to normal operations and reopened or built new rigs. The total number of offshore rigs increased to 201 in CY'21 and 231 in CY'22, with this number expected to continue growing. Offshore drilling has been more attractive than onshore drilling, as it offers lower costs and reduced emissions per barrel. Towards the end of Sep'23, the Biden administration approved three new offshore drilling rigs to be built over the next five years, as the country looks to expand its production of wind energy. Each rig consists of complex parts that play a crucial role in the operation of the facility and industrial companies will have the opportunity to capitalize on this demand by providing the necessary components.

BUSINESS OVERVIEW

TDY designs and manufactures technological equipment that offers enhanced accuracy, efficiency, and reliability to its customers. The Company serves various end markets: factory automation and condition monitoring, aerospace & defense (A&D), air and water quality environmental monitoring, electronics design and development, medical imaging and pharmaceutical research, oceanographic research, and deepwater oil and gas (O&G) exploration and production. Offering a unique set of products to each of these markets, TDY breaks down its revenue through four main segments: Digital Imaging (57.0% of FY'22 Revenue), Instrumentation (23.0%), A&D Electronics (12.5%), and Engineered Systems (7.5%).

TDY FY'22 Segment Breakdown



Source: Company Filings

In FY'22, the US Government accounted for 24.9% of total sales and ~80% of its contracts have fixed prices. Fixed-price contracts are not negotiable following acceptance of the agreement, but the US government does have the option of terminating a contract at its convenience. Although this serves as a risk, TDY has experienced few contract terminations and there has been no material impact on its earnings. The Company has 77 operating facilities across 20 US states and 10 foreign countries, diversifying TDY's revenue generation through the following regions: United States (52.6% of FY'22 Revenue), Europe (21.2%), Asia (17.8%), and All Other Regions (8.4%).

Digital Imaging

TDY's Digital Imaging segment consists of high-performance sensors, cameras, and systems that fall within the visible, infrared, and X-ray spectrum. Along with this, the Company provides manufacturing services for micro electromechanical systems (MEMS), semiconductors, and unmanned aerial and ground systems. This segment also includes the Company's sponsored and centralized laboratories, used to conduct R&D for US Government programs and commercial businesses. Acquisitions have allowed TDY to significantly grow this segment, increasing Digital Imaging's percentage of total revenue from 32.5% in FY'20 to 52.3% and 57.0% in FY'21 and FY'22, respectively. The acquisition of FLIR Systems, Inc. (FLIR) for $8.1 bn in FY'21 is TDY's largest to date and the Company has completed three additional acquisitions within the segment over the last two years, proving this is an area of growth.

Instrumentation

TDY's Instrumentation segment includes monitoring & control instruments, electronic test & measurement equipment, and power & communications devices that have marine, environmental, and industrial applications.

- *Marine Instrumentation:* Instruments used to measure currents, formulate acoustic images, and sense geologic structures below the bottom of a body of water. TDY offers autonomous vehicles used for transport, defense, and research purposes, along with interconnect solutions in offshore O&G, naval defense, and telecom markets.
- *Environmental Instrumentation:* Instruments used to measure and monitor levels of gas, pollution, and quality of air, along with contaminants in water, food, and soil. They are also used to evaluate the safety of drugs.
- *Test & Measurement Instrumentation:* Instruments used to test the physical and electrical properties of a device. Serving the A&D, internet infrastructure, industrial, computer, semiconductor, and consumer electronics markets, TDY recently acquired Xena Networks ApS to strengthen this component of the business.

Aerospace & Defense Electronics

Avionics and ground-based systems that allow for data collection and communication, possessing both commercial and defense applications. TDY also offers aircraft, radars, aviation batteries, weapon systems, and satellite infrastructure. Each product includes data connectivity solutions, hardware systems, and software applications.

Engineered Systems

This segment includes complex manufacturing solutions for defense, space, environmental, and energy applications. The National Aeronautics and Space Administration (NASA), US Department of Defense, and US Department of Energy are the main customers within this space, with the US government accounting for 89.1% of sales in FY'22.

UNDERVALUATION & THESIS

TDY trades at a 19.6x NTM P/E multiple, representing a 9.3% discount to its one-year median of 21.6x. The Company has seen multiple contractions of its multiple over the past year. The first one took place when TDY's multiple fell 14.8% from the beginning of Apr'23 to the end of May'23. This was caused by a supply chain update from an industrial technology peer and uncertainty around the US debt ceiling. The next couple were caused by TDY's 2Q'23 and 3Q'23 earnings reports, leading to a 9.5% and 8.0% contraction in the multiple, respectively.

No Inventory Means No Sales

On March 24th, 2023, Rockwell Automation, Inc. (ROK), an industrial automation company, released a supply chain update, which consisted of a weak improvement in its supply chain relative to the Street's expectations. Following a time when the industry has faced ongoing supply chain constraints, ROK reported that 10 of its products experienced an increase in lead times. Although the Company saw shortened lead times for some of its other products, the Street used this as a reference point for TDY prior to the Company's release of its quarterly results. Considering ROK operates within the industrial automation space, other companies within the space, such as TDY, were negatively impacted as well. With TDY set to release earnings soon after this announcement, investors worried the Company's supply chain would not improve as much as initially thought and the multiple continued to contract.

- Following the release of its 1Q'23 earnings, the Company's multiple expanded as it was actually able to improve its supply chain. Management noted that TDY was getting its goods for half the price it was in 1Q'22. Additionally, the Company's revenue visibility improved as it has the necessary equipment and inventory to fulfill all customer orders. However, the multiple expansion was short-lived as the debt ceiling issue quickly arose.

Do These Guys Ever Agree?

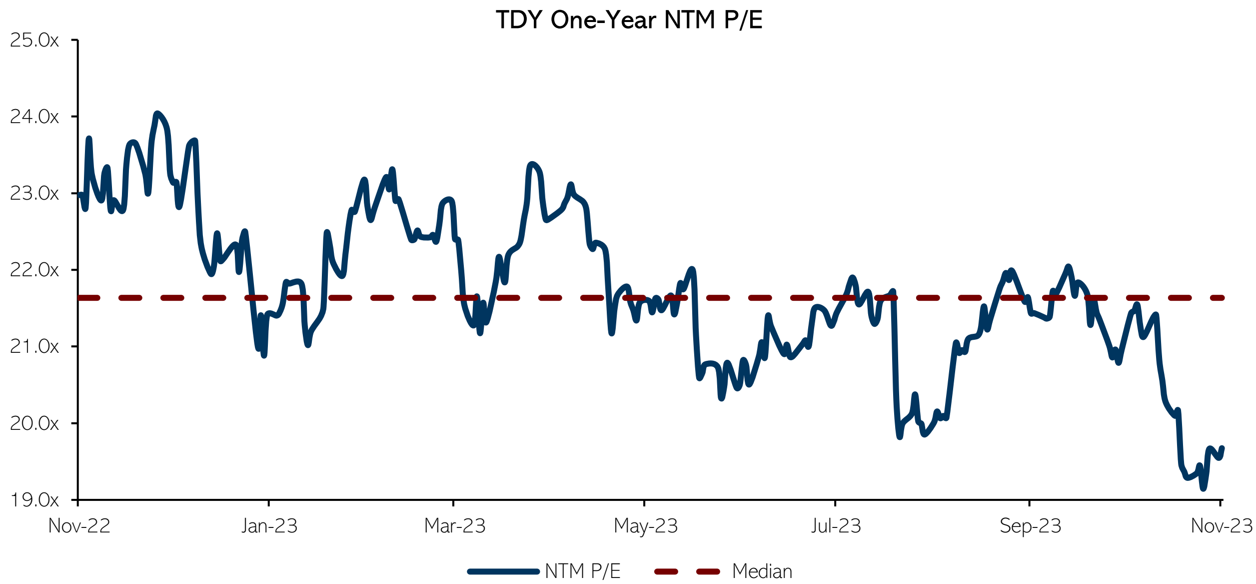
At the end of May'23, all investors were awaiting news on the new debt ceiling deal, or lack thereof. With a due date of June 1st, the deep partisan disagreement in Congress worried investors. Republicans demanded spending cuts as a condition for raising the limit, whereas Democrats wanted to raise the limit with no strings attached. TDY, similar to other companies within the defense space, was particularly impacted by this news, as the Company derives 24.9% of its revenue from the US government. Lack of agreement on a new deal would have meant severe revenue losses for TDY, but that issue was quickly solved on May 28th, when the Biden Administration signed a new bill. The debt ceiling had been raised and it re-established government spending, which was positive news for TDY.

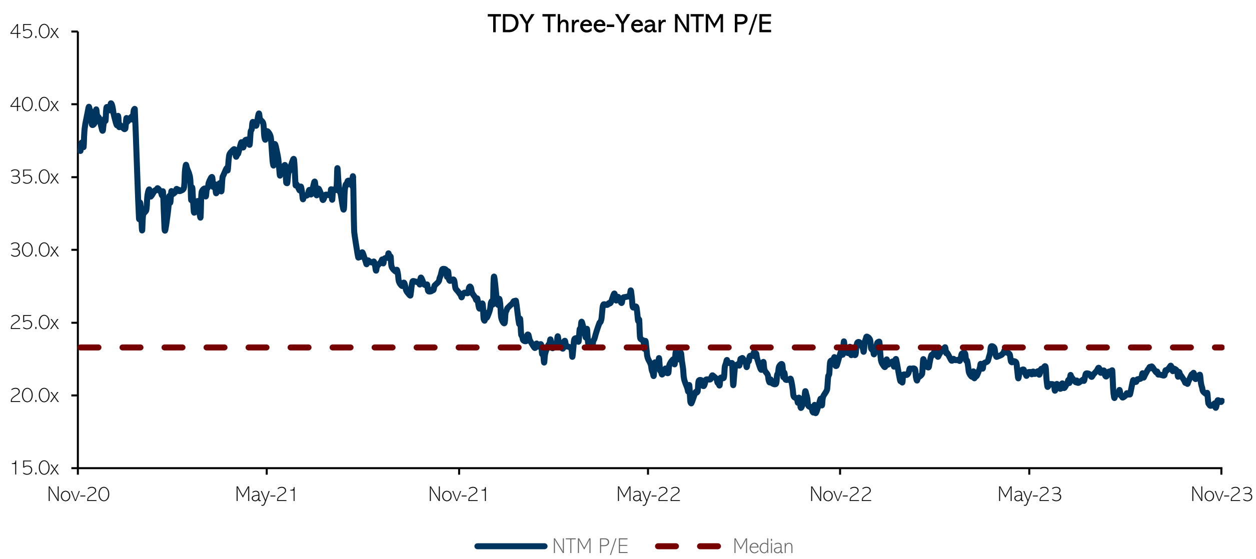
20/200 Vision

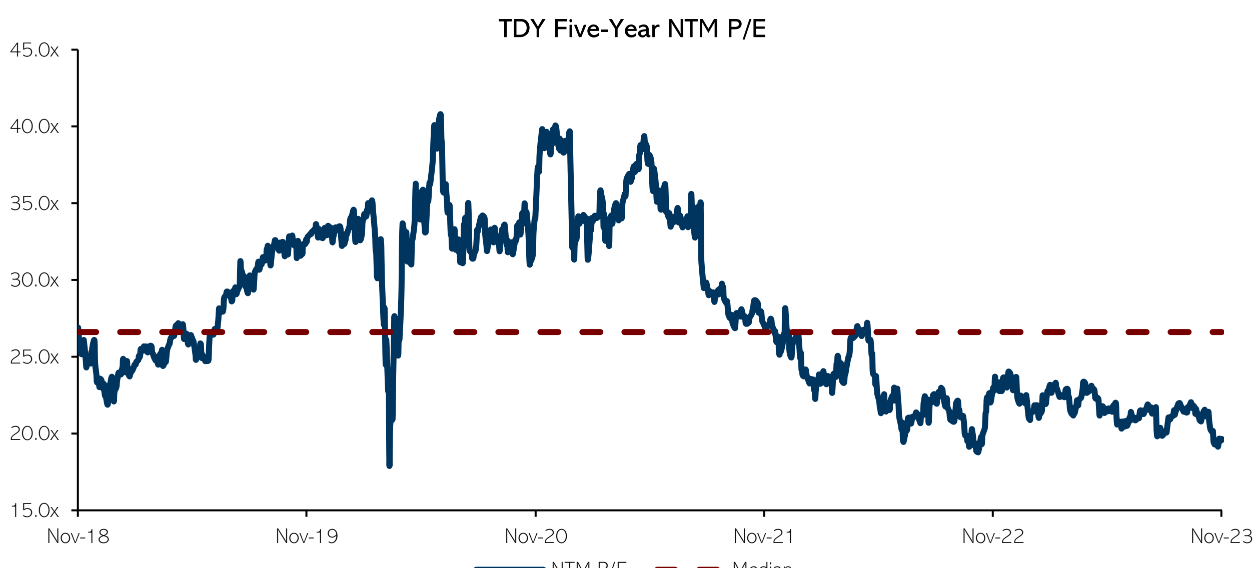
TDY significantly sold off following the release of its two recent earnings calls. Despite beating the Street's estimates of revenue, gross margins, and EPS, the Company's multiple contracted. During the earnings call, TDY's management team noted a shortcoming in the Company's Digital Imaging segment, with operating margin expectations disappointing investors and the team providing poor guidance moving forward. TDY's 3Q'23 earnings call was the exact opposite, with a miss on revenue, but promising margins far exceeding the Street's projections.

- Despite increasing its operating margins from 21.4% in 2Q'23 to 22.8% in 3Q'23 and Digital Imagining margins reaching record levels, there was little investor appreciation for what the Company has done. Additionally, having a healthy backlog of over $3.0 bn and a 'slew' of new products coming to market, the softer book-to-bill of 0.90 does not worry management and should not worry us either. The Company plans to stick to its strengths of acquiring, integrating, and increasing EPS now that its leverage ratio has decreased to a more ideal level. This will lead to extensive product offerings and help drive top-line growth for the Company.

TDY is an attractive investment for the Fund as the Company has been unjustly sold off by investors due to supply chain and political worries, along with near-term headwinds hindering revenue generation capabilities. **TDY is bound to see investor appreciation over the next 12-18 months, as the Company maintains a diversified business with many favorable end markets.** Furthermore, as TDY continues to deleverage following the significant add-on of debt through its acquisition of FLIR in CY'21, M&A activity will begin to pick up. **TDY is targeting one to two deals of several hundreds of millions of dollars in value by the end of FY'24**. Current valuations and TDY's reduced leverage ratio prove that now is the time to invest in the name and reap the soon-to-be-realized gains.







Source: Bloomberg

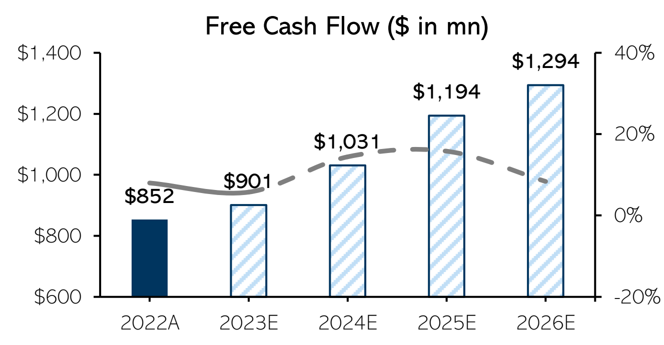
CATALYSTS & DRIVERS

King of M&A

TDY has historically stood out amongst its industrial technology peers in terms of its FCF generation capabilities. Over the past ten years, TDY's FCF per share has grown at a CAGR of 15.9%, compared to its peer group's average of a 9.8% CAGR. Additionally, our model is projecting the Company to generate more than $1.0 bn in FCF during FY'24, which would be a record high for TDY. Teledyne has previously made good use of the FCF by pursuing strategic acquisitions, and we believe this influx of cash will allow it to continue engaging in M&A activity. In the last five years, TDY has acquired 10 different companies, amounting to more than $8.8 bn in total deal volume. Over this same five-year period, TDY has grown its EPS at a CAGR of 23.8%, proving its acquisitive business strategy has been beneficial. Our team believes that its history of consistent and accretive M&A activity, coupled with the Company's strong FCF generation, will allow for value-add acquisitions and drive inorganic growth.

- *The Biggest Buy:* In CY'21, TDY purchased FLIR Systems Inc, a defense company that specializes in the design and production of thermal imaging cameras and sensors. Since the closing of the deal, TDY's revenue and EBITDA have increased by ~80% and ~120%, respectively. Furthermore, the Company's EBITDA margin and diluted EPS increased ~5% and ~56% from FY'20 to FY'22, respectively. This is a testament to TDY's ability to make company-aligned acquisitions that end up being accretive as well. Despite the growth of its financials, investors have not rewarded TDY, as its NTM P/E multiple has contracted ~30% since the close of the FLIR acquisition. Investors have been skeptical of TDY's highly leveraged balance sheet following the deal and the Company's increased exposure to defense. In a rising interest rate environment, TDY leveraging up from a net leverage ratio of ~0.0x to ~4.0x after the deal concerned investors. Since then, the Company has cut its net leverage ratio in half as it currently sits just under 2.0x. At the time of the deal, the defense market was not favorable, as investors worried the Biden Administration would make cuts to the defense budget. With the start of the Israel-Hamas War and the Russo-Ukrainian War raging on, the defense sector will benefit from the increased spending towards A&D, directly benefiting the FLIR defense segment and TDY overall. Investors will begin to appreciate the acquisition once margins improve and the whole story ties together.

- *What's Next?:* After what is expected to be a slow year in FY'23 in regards to FCF generation for Teledyne, the Company will see a significant increase in FCF during FY'24 and beyond. **Our model projects TDY to hit a record high of ~$1 bn in FCF generation during FY'24 and continue to grow beyond this.** Historically, Teledyne has used its FCF to make strategic acquisitions that have increased its EPS and product offerings. Just to give a recent example, last month, TDY announced its purchase of Xena Networks ApS, a provider of high-speed Terabit Ethernet test solutions. This acquisition will strengthen TDY's portfolio of test solutions and increase its Instrumentation revenues. Not only does this display the Company's willingness and ability to deploy capital, but also shows that the Company is targeting niche markets where it can become an industry leader. Given the unprecedented level of FCF the Company is projected to see, more acquisitions are set to take place. In Teledyne's most recent earnings call, **CEO Robert Mehrabian stated that he sees one or two mid-sized (several hundred million dollars) deals in the Company's potential pipeline**. In addition to the FCF generation, the Company has lowered its leverage ratio within a range that is prime for M&A. This furthers our team's conviction that Teledyne will pursue target companies within our investment horizon, driving inorganic growth, and leading to more appreciation from investors.

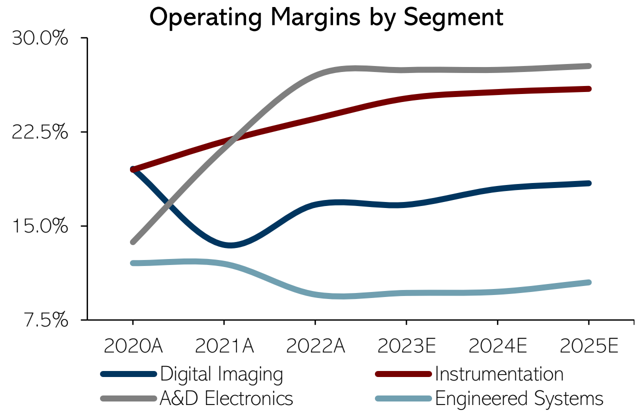


Source: Model

If for one reason or another Teledyne decides not to pursue any more acquisitions within our investment horizon, the Company has stated that it will continue deploying FCF to deleverage. In TDY's 3Q'23 earnings call, management stated that the absence of M&A activity would result in a leverage ratio of 1.00x by the end of FY'24.

Diversity is Key

During a time of economic uncertainty where interest rates have reached multi-decade highs in many countries around the world, TDY's diversified business portfolio allows it to withstand such macro headwinds. A weak macroeconomic environment does not necessarily mean a recession, but rather just refers to weaker spending levels where companies are holding on to their cash. Teledyne caters to high-growth end markets that maintain strong spending levels despite macro conditions and pressures that would typically result in more savings. Specifically, the offshore O&G, commercial aerospace, marine, medical, and space subsegments seem to be driving the most growth for TDY and industry-wide tailwinds in these niche markets indicate this will continue regardless of external factors.



Source: Bloomberg

TDY has established a resilient business model through its 68 acquisitions in the last two decades, allowing the Company to effectively increase its operating margins in any given environment. Although margin expansion is not the core focus of the Company, it indicates TDY's management team's ability to cut costs and ensure there is a greater return on sales. This led to a record operating margin of 22.8% during 3Q'23, along with record-high EPS of $5.05. Breaking it down by segment, the acquisition of FLIR did cause operating margins within Digital Imaging to fall significantly, but the Company's cost-cutting initiatives and consolidation of FLIR facilities have led to a quick rebound, with management guiding a ~23% operating margin in FY'24. Looking at the other segments, Teledyne's Instrumentation operating margin was up 277 bps to 26.0% during 3Q'23 and the A&D Electronics segment had a 26.9% operating margin. With continued cost-cutting and focus on quality of products, operating margins will rise.

TDY's management team has been conservative in the guidance that it provides each quarter, essentially leading to a beat and increase in guidance during each earnings call. Tracking the Company's book-to-bill ratio has been a good indicator of the Company's product demand while almost measuring the ability to fulfill delivery on the orders that are received from customers. Management recently mentioned in its 3Q'23 earnings call that TDY's book-to-bill ratio was 0.90x during the quarter, indicating poor demand. However, the Company has experienced an uptick from the industries mentioned above and will begin to see those numbers within its financials in the next couple of quarters. Looking at more specific parts of the business, FLIR Defense has a book-to-bill ratio of about 1.00x, so it is crucial that TDY focuses on growing its presence in growing markets and leading to greater sales volume.

Organic Growth

In addition to the Company's well-established M&A strategy that it plans to continue executing in the coming quarters, management has noted that each of the segments, excluding Digital Imaging, is expected to see mid to high-single-digit growth during FY'24. The Instrumentation, A&D Electronics, and Engineered Systems segments are expected to grow ~6%, ~6%, and ~8% YoY, respectively, while the Digital Imaging segment is expected to remain flat or maybe even be down ~1% due to FLIR still having costly, unprofitable components in its business.

The Company has an extensive suite of products that offer parts to each of the different end markets it serves. it is common for these niche markets to only have one or two producers, allowing TDY to capitalize on the sale of certain products within subsegments where it seems as though there may be no competitors selling the same product. The Company has ~$3.0 bn in backlog at the end of 3Q'23, with plans of also bringing many new products to market. Specifically in the A&D space, TDY recently launched a new drone, the Black Hornet 4, which is a nano drone providing double the capabilities of TDY's previous drone offerings. Along with this, management has noted that not only is the Company manufacturing its own unmanned systems, but it has also been supplying the sensors to other manufacturers of unmanned systems. Another area of focus, one that allows the Company to differentiate itself from many of the other industrial conglomerates, is the fact that TDY is a technology-first company. All of its products are designed to capture data and with the surge in AI as of late, this is a big focus for many customers.

RISKS TO INVESTMENT THESIS

Things Don't Always Go To Plan

With M&A being the core focus of TDY's expansion strategy, there are several risks associated with the process of finding a company to acquire, actually completing the deal, and then integrating the acquired business. TDY has engaged in 68 acquisitions over the past two decades, amounting to ~$11.7 bn in consideration, each serving a different purpose for the Company. Despite this extensive experience within the M&A space, there is a chance that TDY is unable to locate an attractive company, and this may hinder the Company's ability to continue expanding into niche markets. Even when Teledyne is able to locate a company it wants to pursue, there is a chance the Company poorly times its acquisition and pays an unfavorable premium for the target company.

When going through the actual acquisition process, TDY may end up taking on an excess amount of debt, similar to the way it did when it acquired FLIR in FY'21. Following a period of deleveraging where it was able to lower its net leverage to 0.2x, TDY's acquisition of FLIR significantly increased the net leverage to 4.3x. Following this acquisition, the Company has completed three bolt-on acquisitions, but has more so had to focus on de-leveraging and improving FLIR's operations, limiting its ability to expand other parts of the business. In a high-interest rate environment that is expected to stick for the coming quarters, taking out debt to finance new deals will hurt the Company's credit profile and require TDY to go through another period of deleveraging.

- *Mitigant:* TDY has established a strategic plan for acquiring companies that it feels will be a value-add to its Company's operations. Teledyne identifies several companies that it can potentially acquire years before it actually makes the acquisition, allowing it to conduct a thorough due diligence process and engage in the acquisition of a given company when it feels the time is right. Giving an example of this, TDY was eyeing FLIR since CY'11 but was not interested in the company due to its corporate strategy, as it did not align with TDY's expansion strategy until FLIR sold off its commodity-based businesses in CY'18. Since then, TDY has been eyeing the Company and completed the acquisition when interest rates were sub-two percent.
- *Mitigant:* The Company has repeatedly mentioned that it will not overpay for any company that it wants to acquire. In addition to this, the Company makes sure to deleverage before engaging in any material acquisitions. Furthermore, none of its recent acquisitions have required any goodwill impairment, proving they are well thought out and just purchase prices. Even if Teledyne is unable to identify an attractive acquisition, holding its cash will allow the Company to near a 1.0x leverage ratio by the end of FY'24 and cash will help earnings.

In our bear case, we modeled $40-50 mn of annual goodwill impairment and 42.0% gross margin, to reflect a potential overpayment for an acquisition and the acquired company requiring additional costs.

Going International Has Its Cons

With TDY generating ~47.4% of its revenues from international markets, FX headwinds remain a significant concern to the Company's earnings potential. Teledyne's management team forecasted little to no impact of currency translation during 3Q'23, but its revenue during the quarter ended up being ~1.0% lower than it should have been as a result of headwinds in FX currency translations. This headwind was most attributed to the Digital Imaging and Instrumentation segments, which is a result of TDY's long-term strategy of expanding into international markets. Along with this, the Company has historically experienced supply chain issues and weaker spending levels in certain regions of the world that may be facing macro headwinds, as ~75% of its business includes commercial customers.

- *Mitigant:* TDY plans to maintain its international expansion strategy and uses foreign currency forward contracts and fixed currency swaps as a way to reduce its risk to volatility in the FX markets and maximize earnings.
- *Mitigant:* The Company believes the diversification of its business allows it to offset any decline in its end markets through increased demand in an emerging market. TDY also faced higher costs to acquire the parts it needed during the COVID-19 pandemic and a couple of quarters after, but has improved its inventory visibility to avoid having to pay a premium again in the future. This has led to lower lead times and increased margins.

In our bear case, we modeled 42.0% gross margin to account for higher input costs and days inventory outstand of 115 days of days inventory outstanding, demand visibility always remains a concern for TDY.

PEER GROUP ANALYSIS

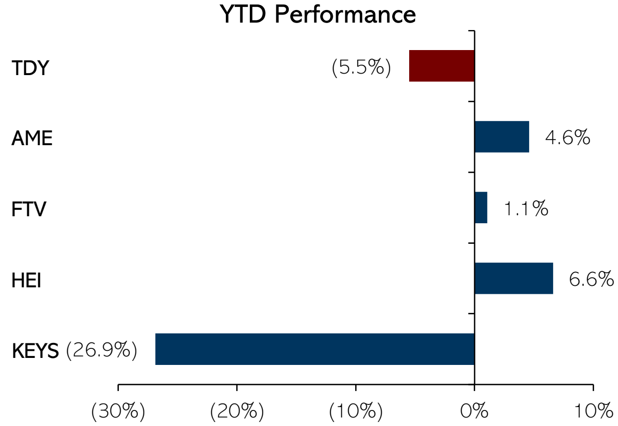
AMETEK, Inc. (AME): AME is a global manufacturer of electronic instruments and electromechanical devices, reporting its revenue through two main segments: Electronic Instruments (68.7% of FY'22 Revenue) and Electromechanical (31.3%). These segments consist of instruments, motion control solutions, thermal management systems, and electrical interconnects sold to the A&D, medical, and automation industries. With global operations, AME breaks down its revenues as such: United States (51.3% of FY'22 Revenue), United Kingdom (3.4%), European Union Countries (15.1%), Asia (21.4%), and Other Foreign Countries (8.7%).

Fortive Corporation (FTV): FTV designs and manufactures professional and engineered products and provides software and services on a global scale. The Company generates its revenues through three main segments: Intelligent Operating Solutions (42.3% of FY'22 Revenue), Precision Technologies (35.0%), and Advanced Healthcare Solutions (22.7%). FTV's end markets include A&D, manufacturing, healthcare, utilities & power, communications & electronics, and more. The Company breaks down its revenue generation through three main regions: United States (53.8% of FY'22 Revenue), China (12.1%), and Other (34.1%).

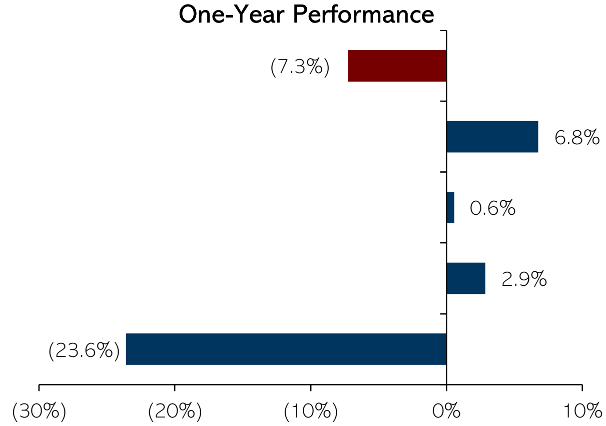
Heico Corporation (HEI): HEI is the world's largest manufacturer of jet engine and aircraft component replacement parts. The Company generates its revenue through two main segments: Flight Support Group (56.3% of FY'22 Revenue) and Electronic Technologies Group (43.7%). Through its 96 acquisitions since CY'90, HEI has established a sound acquisition strategy that allows it to expand into niche areas of the aviation, defense, space, medical, and telecom markets. With operating facilities in 12 different countries, HEI reports its revenue through two regions: United States (65.4% of FY'22 Revenue) and Other (34.6%).

Keysight Technologies (KEYS): KEYS provides electronic design and test solutions to its customers and reports its revenue through two main segments: Communications Solutions Group (85.0% of FY'22 Revenue) and Electronic Industrial Solutions Group (15.0%). KEYS' supports customers within the commercial communications and aerospace, defense, and government end markets all around the world, breaking down its geographical revenue through three main regions: Asia Pacific (43.1% of FY'22 Revenue), Americas (40.6%), and Europe (16.3%).

YTD Performance



One-Year Performance



PEER GROUP ANALYSIS

Primary Peer Group

	Ticker	Market Cap	Enterprise Value	Sales LTM	Sales 2023E	EPS LTM	EPS 2023E	EBITDA Margin LTM	EBITDA Margin 2023E	Profit Margin LTM	Profit Margin 2023E	Enterprise Value / EBITDA LTM	Enterprise Value / EBITDA 2023E	Enterprise Value / Sales LTM	Enterprise Value / Sales 2023E	Price / Earnings LTM	Price / Earnings 2023E
Teledyne Technologies Incorporated	TDY	$17,797	$20,537	3.9%	3.8%	8.7%	(3.7)%	24.4%	24.3%	14.0%	16.3%	14.9x	14.9x	3.6x	3.6x	22.9x	19.3x
AMETEK, Inc.	AME	33,110	34,598	7.7%	7.2%	12.9%	26.4%	30.5%	30.5%	19.7%	22.2%	16.9x	17.2x	5.3x	5.2x	26.0x	22.6x
Fortive Corporation	FTV	23,051	25,239	6.0%	3.9%	20.5%	61.6%	26.5%	27.1%	13.8%	19.9%	15.4x	15.4x	4.2x	4.2x	28.2x	19.1x
HEICO Corporation	HEI	19,784	20,694	25.3%	33.6%	15.7%	10.6%	26.1%	24.9%	15.0%	13.5%	29.1x	28.2x	7.8x	7.0x	56.7x	49.5x
Keysight Technologies, Inc.	KEYS	22,023	21,473	6.2%	0.6%	4.3%	32.9%	29.6%	32.1%	20.2%	27.0%	12.4x	12.2x	3.8x	3.9x	19.7x	15.0x
High		$33,110	$34,598	25.3%	33.6%	20.5%	61.6%	30.5%	32.1%	20.2%	27.0%	29.1x	28.2x	7.8x	7.0x	56.7x	49.5x
Mean		23,153	24,508	9.8%	9.8%	12.4%	25.5%	27.4%	27.8%	16.5%	19.8%	17.7x	17.6x	5.0x	4.8x	30.7x	25.1x
Median		22,023	21,473	6.2%	3.9%	12.9%	26.4%	26.5%	27.1%	15.0%	19.9%	15.4x	15.4x	4.2x	4.2x	26.0x	19.3x
Low		17,797	20,537	3.9%	0.6%	4.3%	(3.7)%	24.4%	24.3%	13.8%	13.5%	12.4x	12.2x	3.6x	3.6x	19.7x	15.0x

Company	Ticker	General Statistics: Tax Rate	General Statistics: Beta	General Statistics: Dividend Yield	Returns Analysis: ROIC	Returns Analysis: ROE	Returns Analysis: ROA	2022A Leverage Analysis: Total Debt / Cap	2022A Leverage Analysis: Total Debt / EBITDA	2022A Leverage Analysis: Total Debt / Equity	2022A Coverage Analysis: EBITDA / Int. Exp.	2022A Coverage Analysis: (EBITDA - Capex)/Int.	2022A Coverage Analysis: EBIT / Int. Exp.	Liquidity Profile: Quick Ratio	Liquidity Profile: Current Ratio	Credit Profile: S&P	Credit Profile: Outlook
Teledyne Technologies Incorporated	TDY	13.1%	1.02	0.0%	8.0%	9.6%	4.7%	0.3x	3.0x	0.5x	0.0x	0.0x	0.0x	1.18	1.85	BBB	Stable
AMETEK, Inc.	AME	39.6%	1.20	0.0%	23.6%	16.5%	8.2%	0.3x	1.4x	0.3x	22.7x	21.1x	18.0x	0.89	1.62	BBB+	Stable
Fortive Corporation	FTV	13.5%	1.19	0.0%	8.0%	8.5%	4.5%	0.3x	2.2x	0.4x	15.7x	14.8x	10.4x	0.61	0.91	BBB	Stable
HEICO Corporation	HEI	20.4%	1.17	0.0%	12.0%	14.5%	7.8%	0.1x	0.6x	0.1x	95.4x	90.4x	76.6x	1.26	2.74	NR	NR
Keysight Technologies, Inc.	KEYS	12.5%	1.03	0.0%	28.9%	25.6%	10.8%	0.3x	1.2x	0.5x	21.2x	18.8x	17.5x	2.09	3.01	BBB	Stable
High		39.6%	1.20	0.0%	28.9%	25.6%	10.8%	0.3x	3.0x	0.5x	95.4x	90.4x	76.6x	2.09	3.01		
Mean		19.8%	1.12	0.0%	16.1%	14.9%	7.2%	0.3x	1.7x	0.4x	31.0x	29.0x	24.5x	1.21	2.02		
Median		13.5%	1.17	0.0%	12.0%	14.5%	7.8%	0.3x	1.4x	0.4x	21.2x	18.8x	17.5x	1.18	1.85		
Low		12.5%	1.02	0.0%	8.0%	8.5%	4.5%	0.1x	0.6x	0.1x	0.0x	0.0x	0.0x	0.61	0.91		

VALUATION ANALYSIS

Historical Multiple Assumptions

In our base case, we assume that revenue will increase consistently by ~4.0% from FY'23 through FY'27. TDY's exposure to a diverse set of favorable end markets will drive growth for the Company throughout our projection period. In particular, the defense segment will benefit from the ongoing Russo-Ukrainian and Hamas-Israel wars as these events will continue to drive defense spending and lead to an uptick in new programs. Furthermore, with FCF projected to grow at a CAGR of 9.7% through our projection period, Teledyne will deploy its capital by deleveraging its ratio down to 1.00x by the end of FY'24. TDY's gross profit is projected to expand at a CAGR of 7.1% as the Company continues to cut costs and integrate the high-margin business of FLIR. Taking all this into account, TDY will be able to grow its EPS at an 11.4% CAGR from FY'23 to FY'27.

Price/Earnings	
Current Multiple	19.5x
Historical Average	22.1x
Premium/(Discount)	*(11.7%)*
Premium Applied to Historical	*0.0%*
Implied Multiple	22.1x
NTM EPS	$19.78
Implied Price Target	$438
% Return	*15.7%*

Implied Share Price

		NTM P/E				
		20.1x	21.1x	22.1x	23.1x	24.1x
EPS	$15.82	$318.72	$334.54	$350.37	$366.19	$382.01
	$17.80	$358.56	$376.36	$394.16	$411.96	$429.76
	$19.78	$398.40	$418.18	$437.96	$457.74	$477.52
	$21.76	$438.24	$460.00	$481.75	$503.51	$525.27
	$23.74	$478.08	$501.81	$525.55	$549.28	$573.02

Implied % Return

		NTM P/E				
		20.1x	21.1x	22.1x	23.1x	24.1x
EPS	$15.82	(15.8%)	(11.6%)	(7.4%)	(3.3%)	0.9%
	$17.80	(5.3%)	(0.6%)	4.1%	8.8%	13.5%
	$19.78	5.2%	10.5%	15.7%	20.9%	26.1%
	$21.76	15.8%	21.5%	27.3%	33.0%	38.8%
	$23.74	26.3%	32.6%	38.8%	45.1%	51.4%

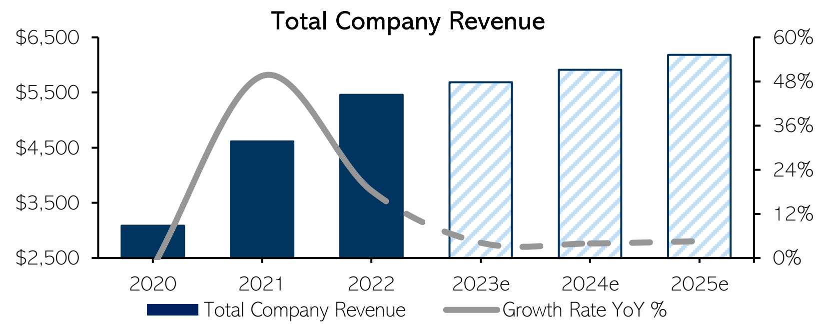
Returns Profile

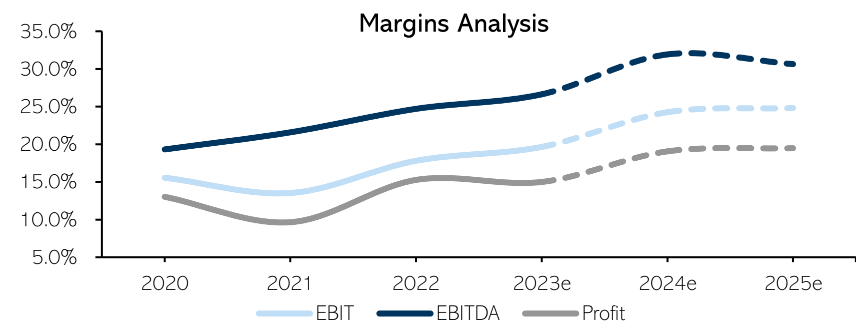
	Methodology	Implied PT	Implied Return
	Historical Multiples		
100.0%	*NTM P/E*	*$438*	*15.7%*
0.0%	*NTM EV/EBITDA*	*$508*	*34.1%*
	Weighted Average	*$438*	*15.7%*

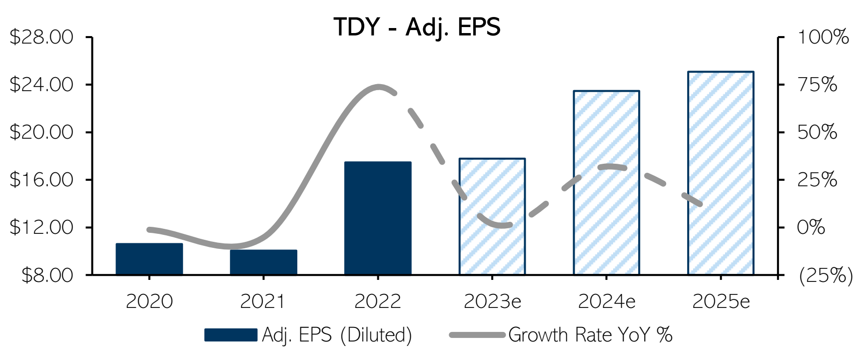
FINANCIAL ANALYSIS

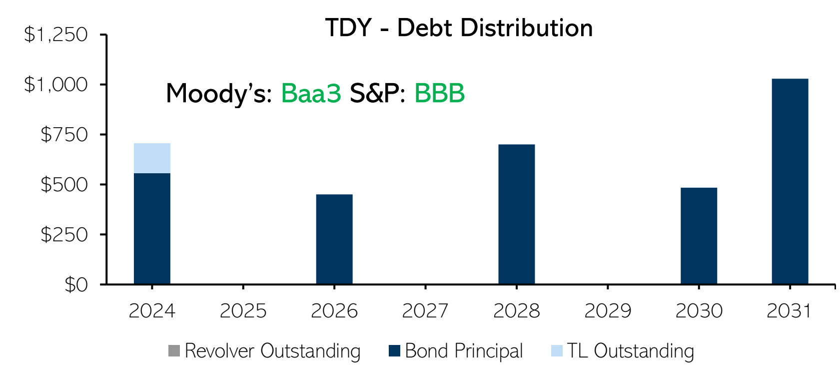
Revenue Build

Summary	2020	2021	2022	2023e	2024e	2025e	2026e	2027e
Total Company Revenue	$3,086.2	$4,614.3	$5,458.6	$5,686.5	$5,912.0	$6,182.8	$6,458.1	$6,746.0
% Growth YoY		*49.5%*	*18.3%*	*4.2%*	*4.0%*	*4.6%*	*4.5%*	*4.5%*
Digital Imaging Revenue	$986.0	$2,412.9	$3,110.9	$3,180.6	$3,308.7	$3,474.2	$3,647.9	$3,830.3
% Growth YoY		*144.7%*	*28.9%*	*2.2%*	*4.0%*	*5.0%*	*5.0%*	*5.0%*
% of Total Revenue	*31.9%*	*52.3%*	*57.0%*	*55.9%*	*56.0%*	*56.2%*	*56.5%*	*56.8%*
Instrumentation Revenue	$1,094.5	$1,166.9	$1,254.0	$1,333.5	$1,373.5	$1,424.4	$1,477.1	$1,531.7
% Growth		*6.6%*	*7.5%*	*6.3%*	*3.0%*	*3.7%*	*3.7%*	*3.7%*
% of Total Revenue	*35.5%*	*25.3%*	*23.0%*	*23.5%*	*23.2%*	*23.0%*	*22.9%*	*22.7%*
Aerospace & Defense Electronics Revenue	$589.4	$628.7	$682.4	$727.5	$767.6	$806.0	$838.2	$871.8
% Growth		*6.7%*	*8.5%*	*6.6%*	*5.5%*	*5.0%*	*4.0%*	*4.0%*
% of Total Revenue	*19.1%*	*13.6%*	*12.5%*	*12.8%*	*13.0%*	*13.0%*	*13.0%*	*12.9%*
Engineered Systems Revenue	$416.3	$405.8	$411.3	$444.9	$462.1	$478.2	$495.0	$512.3
% Growth		*(2.5%)*	*1.4%*	*8.2%*	*3.8%*	*3.5%*	*3.5%*	*3.5%*
% of Total Revenue	*13.5%*	*8.8%*	*7.5%*	*7.8%*	*7.8%*	*7.7%*	*7.7%*	*7.6%*









APPENDIX

Exhibit I: Sell Side Discussion Summary

Analyst: Kyle Wenclawiak | $490.00 PT | Rating: Buy

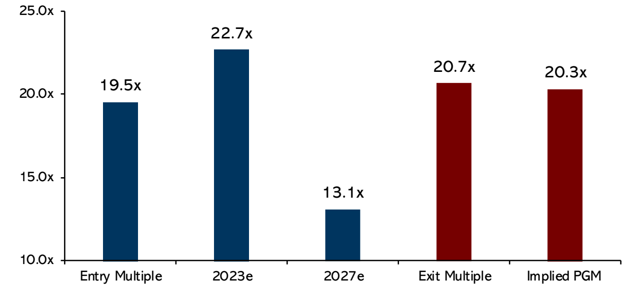
- **What Should we be Focusing On?** With TDY being such a diverse business, Kyle's team believes that the best indicator of TDY's growth on a QoQ basis is to take a look at the Company's book-to-bill ratio. Teledyne does not directly report this metric via its earnings report, but sometimes mentions it in its earnings call and sends Jefferies its book-to-bill ratio at the end of each quarter. In addition to its book-to-bill ratio, identifying key end markets and whether tailwinds within those industries will lead to increased revenue for TDY. In contrast to an industrial conglomerate like Honeywell International Inc. (HON) which has cyclical end markets, TDY operates in a lot of high growth markets. Teledyne possesses favorable positioning within the market, as its data capture capabilities outweigh those of its peers. Being a technology name within industrial end markets is what makes TDY special.
- **What Happens in a Downturn?** TDY has relatively outperformed its peers during economic downturns, as its diversified business model and extensive customer base allow it to experience growth regardless of the macroeconomic conditions. Providing additional benefits, a downturn within the economy leads to attractive valuations within the sector, providing the Company with an opportunity to identify and complete a value-add acquisition. Companies generally face higher costs in times of uncertainty, but TDY's management team has been proactive in ensuring it cuts all excessive costs and maintains margins within all operating segments.
- **What Happens in the Event of no M&A Deals?** While M&A has been a super important part of the story, TDY has not placed as much of an emphasis on it relative to bigger players within the space such as Booz Allen Hamilton Holding Corporation (BAH) or HON. These companies have set aside a portion of their cash balance and clearly stated that they are exploring M&A opportunities, whereas TDY has just mentioned that it plans to do so but has not actually provided any specific details indicating that a deal will actually take place.

Analyst: Michael Anastasiou | $475.00 PT | Rating: Outperform

- **Growth Drivers Moving Forward?** It is difficult to pinpoint one or two specific things considering TDY's vast business portfolio, but some important things to monitor include the macro environment on a global scale and segments that have performed poorly over the past couple of quarters but are set to rebound. For example, the Company's machine vision subsegment has struggled due to destocking in factory automation fields, but is an area that will experience high single-digit growth in FY'24. TDY's space subsegment is one of the fastest growing end markets as well, making up 4-5% of total sales. Overall, the Company remains a black box, meaning we just have to break out each subsegment and try to figure out what end markets will drive growth, compared to the ones that will decline.
- **Model:** Although Michael was unable to share his team's model, he mentioned that their price target was calculated using conservative growth assumptions. When asking if his team modeled any potential acquisitions or the issuance of debt for these acquisitions, he mentioned they do not, simply because they want all of their estimates to be official. By that, he means that each estimate should have rationale rather than being based on speculation. TDY may issue debt to fund acquisitions, but it is likely that the Company would use its significant FCF generation to fund those acquisitions, also removing the need to model debt issuance.
- **Thoughts on the FLIR Acquistion?** Michael mentioned that FLIR was a "very poorly run company that had very good products." Proving this, he provided a few stats that indicated attractive unit economics, such as 50% higher sales per employee than TDY and gross margins hovering around 50%, compared to TDY's 40%. Knowing TDY had been eyeing FLIR for a long time, there was a clear understanding that FLIR's management team was "pretty terrible" and this led to poor sentiment for a long time. But following the acquisition, TDY has been ahead of schedule in terms of cost-cutting, with $100 mn savings thus far and more to come.

Exhibit II: Model Output

Multiples Analysis (P/E)



Return Summary

Exit Multiple Method	
Implied Enterprise Value:	$30,845
Implied Equity Value:	28,106
Implied Share Price:	$587
% Return:	55.0%
Perpetuity Growth Method	
Implied Enterprise Value:	$30,391
Implied Equity Value:	27,651
Implied Share Price:	$577
% Return:	52.5%

Consolidated Financials	2021	2022	2023e	2024e	2025e	2026e	2027e	CAGR Historical	CAGR Projected
Revenue	$4,614	$5,459	$5,687	$5,912	$6,183	$6,458	$6,746	*33.0%*	*4.3%*
YoY % Growth	*49.5%*	*18.3%*	*4.2%*	*4.0%*	*4.6%*	*4.5%*	*4.5%*		
Gross Profit	$1,841	$2,330	$2,481	$2,675	$2,832	$3,126	$3,285	*40.5%*	*7.1%*
% Margin	*39.9%*	*42.7%*	*43.6%*	*45.3%*	*45.8%*	*48.4%*	*48.7%*		
YoY % Growth	*55.9%*	*26.6%*	*6.4%*	*7.9%*	*5.8%*	*10.4%*	*5.1%*		
EBITDA	$996	$1,304	$1,432	$1,694	$1,757	$1,948	$2,023	*42.3%*	*14.0%*
Margin	*21.6%*	*23.9%*	*25.2%*	*28.7%*	*28.4%*	*30.2%*	*30.0%*		
YoY % Growth	*30.0%*	*55.7%*	*14.9%*	*28.4%*	*6.9%*	*15.4%*	*5.6%*		
Net Income (Loss)	$445	$789	$784	$976	$1,097	$1,282	$1,360	*40.1%*	*11.5%*
% Margin	*9.7%*	*14.5%*	*13.8%*	*16.5%*	*17.8%*	*19.8%*	*20.2%*		
YoY % Growth	*10.8%*	*77.2%*	*(0.6%)*	*24.4%*	*12.5%*	*16.8%*	*6.1%*		
Adj. EPS (Diluted)	$10.05	$16.53	$16.36	$20.33	$22.86	$26.71	$28.32	*24.9%*	*11.4%*
YoY % Growth	*(5.2%)*	*64.5%*	*(1.1%)*	*24.3%*	*12.5%*	*16.8%*	*6.1%*		
Free Cash Flow	$91	$852	$901	$1,031	$1,194	$1,294	$1,304	*49.1%*	*9.7%*
YoY % Growth	*(76.4%)*	*840.7%*	*5.8%*	*14.3%*	*15.9%*	*8.3%*	*0.8%*		

Source: Standard & Poor's

Capitalization and Key Ratios	2021	2022	2023e	2024e	2025e	2026e	2027e	Average Historical	Average Projected
Leverage									
Total Debt / EBITDA	4.1x	3.0x	2.2x	1.0x	1.0x	0.9x	0.8x	*2.8x*	*1.2x*
Total Debt / Equity	0.5x	0.5x	0.3x	0.2x	0.1x	0.1x	0.1x	*0.4x*	*0.2x*
Total Debt / Total Assets	0.3x	0.3x	0.2x	0.1x	0.1x	0.1x	0.1x	*0.2x*	*0.1x*
Liquidity									
Current Ratio	1.6x	2.3x	2.5x	2.4x	3.6x	4.9x	6.0x	*2.2x*	*3.8x*
Quick Ratio	1.0x	1.5x	1.6x	1.5x	2.7x	4.0x	5.1x	*1.5x*	*3.0x*
Cash Ratio	0.3x	0.5x	0.6x	0.5x	1.7x	2.9x	4.0x	*0.6x*	*2.0x*
Profitability									
Return on Assets (ROA)	3.1%	5.5%	5.5%	6.8%	7.0%	7.4%	7.1%	*5.5%*	*6.8%*
Return on Equity (ROE)	5.8%	9.7%	8.7%	9.5%	9.4%	9.6%	9.1%	*9.3%*	*9.2%*
Return on Inv. Capital (ROIC)	3.8%	6.5%	6.5%	8.1%	8.2%	8.5%	8.1%	*6.8%*	*7.9%*
Coverage									
Interest Expense	$91	$89	$126	$193	$137	$137	$137	*$65*	*$146*
Capital Expenditures	102	93	103	107	112	118	122	*89*	*112*
EBIT / Interest	6.9x	10.9x	8.9x	7.4x	11.2x	12.9x	13.7x	*16.4x*	*10.8x*
EBITDA / Interest	11.0x	14.6x	11.4x	8.8x	12.8x	14.2x	14.8x	*21.5x*	*12.4x*
(EBITDA - CapEx) / Interest	9.8x	13.6x	10.6x	8.2x	12.0x	13.4x	13.9x	*19.2x*	*11.6x*
Efficiency									
Asset Turnover	0.3x	0.4x	0.4x	0.4x	0.4x	0.4x	0.4x	*0.4x*	*0.4x*
Days Sales Outstanding	67.5	75.0	75.4	76.0	75.5	75.2	75.6	*73.2*	*75.6*
Days Inventory Outstanding	72.4	95.9	103.9	108.3	107.1	107.0	107.4	*80.2*	*106.8*
Days Payables Outstanding	46.0	56.9	56.6	56.4	55.5	55.6	55.6	*49.6*	*55.9*
Cash Conversion Cycle	94.0	114.0	122.8	128.0	127.1	126.7	127.4	*103.8*	*126.4*

TFA STATEMENT

Established in honor of Professor William C. Dunkelberg, former Dean of the Fox School of Business, for his tireless dedication to educating students in "real-world" principles of economics and business, the William C. Dunkelberg (WCD) Owl Fund will ensure that future generations of students have exposure to a challenging, practical learning experience. Managed by Fox School of Business graduate and undergraduate students with oversight from its Board of Directors, the WCD Owl Fund's goals are threefold:

- Provide students with hands-on investment management experience
- Enable students to work in a team-based setting in consultation with investment professionals.
- Connect student participants with nationally recognized money managers and financial institutions

Earnings from the fund will be reinvested net of fund expenses, which are primarily trading and auditing costs and partial scholarships for student participants.

DISCLAIMER