TELEDYNE TECHNOLOGIES INC
Form 10-Q
August 06, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended July 1, 2018
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission file number 1-15295

TELEDYNE TECHNOLOGIES INCORPORATED
(Exact name of registrant as specified in its charter)

Delaware	25-1843385
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
1049 Camino Dos Rios Thousand Oaks, California	91360-2362
(Address of principal executive offices)	(Zip Code)

(805) 373-4545
(Registrant’s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No ¨
Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ý No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ý	Accelerated filer ¨
Non-accelerated filer	Smaller reporting company ¨
Emerging growth company ¨	

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes ¨ No ý
There were 35,913,116 shares of common stock, $.01 par value per share, outstanding as of August 1, 2018.

Table of Contents

TELEDYNE TECHNOLOGIES INCORPORATED
TABLE OF CONTENTS

Table of Contents

PART I FINANCIAL INFORMATION

Item 1. Financial Statements

TELEDYNE TECHNOLOGIES INCORPORATED
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
FOR THE SECOND QUARTER AND SIX MONTHS ENDED JULY 1, 2018 AND JULY 2, 2017
(Unaudited - Amounts in millions, except per-share amounts)

	Second Quarter		Six Months	
	2018	2017	2018	2017
Net sales	$732.5	$671.1	$1,428.1	$1,237.2
Costs and expenses				
Cost of sales	447.0	421.2	885.2	778.2
Selling, general and administrative expenses	174.0	167.1	343.0	321.4
Total costs and expenses	621.0	588.3	1,228.2	1,099.6
Operating income	111.5	82.8	199.9	137.6
Interest and debt expense, net	(6.7)	(9.1)	(13.8)	(17.3)
Non-service retirement benefit income	3.3	3.4	6.7	6.7
Other expense, net	(3.7)	(0.7)	(6.2)	(10.0)
Income before income taxes	104.4	76.4	186.6	117.0
Provision for income taxes	18.5	16.3	34.2	26.4
Net income	$85.9	$60.1	$152.4	$90.6
Basic earnings per common share	$2.40	$1.71	$4.27	$2.57
Weighted average common shares outstanding	35.8	35.2	35.7	35.2
Diluted earnings per common share	$2.32	$1.66	$4.13	$2.50
Weighted average diluted common shares outstanding	37.0	36.2	36.9	36.2

The accompanying notes are an integral part of these condensed consolidated financial statements.

TELEDYNE TECHNOLOGIES INCORPORATED
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE SECOND QUARTER AND SIX MONTHS ENDED JULY 1, 2018 AND JULY 2, 2017
(Unaudited - Amounts in millions)

	Second Quarter		Six Months	
	2018	2017	2018	2017
Net income	$85.9	$60.1	$152.4	$90.6
Other comprehensive income (loss):				
Foreign exchange translation adjustment	(59.3)	50.8	(42.1)	54.8
Hedge activity, net of tax	(2.9)	3.1	(4.5)	2.9
Pension and postretirement benefit adjustments, net of tax	5.1	3.3	9.4	6.8
Other comprehensive income(loss)	(57.1)	57.2	(37.2)	64.5
Comprehensive income, net of tax	$28.8	$117.3	$115.2	$155.1

The accompanying notes are an integral part of these condensed consolidated financial statements.

Table of Contents

TELEDYNE TECHNOLOGIES INCORPORATED
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited - Amounts in millions, except share amounts)

	July 1, 2018	December 31, 2017
Assets		
Current Assets		
Cash	$101.4	$ 70.9
Accounts receivable, net	383.8	388.3
Unbilled receivables, net	155.3	89.8
Inventories, net	380.0	400.2
Prepaid expenses and other current assets	57.0	62.7
Total current assets	1,077.5	1,011.9
Property, plant and equipment, net of accumulated depreciation and amortization of $558.4 at July 1, 2018 and $531.6 at December 31, 2017	446.1	442.8
Goodwill	1,758.9	1,776.7
Acquired intangibles, net	368.6	398.9
Prepaid pension assets	147.8	127.2
Other assets, net	84.0	88.9
Total Assets	$3,882.9	$ 3,846.4
Liabilities and Stockholders’ Equity		
Current Liabilities		
Accounts payable	$213.0	$ 191.7
Accrued liabilities	323.8	345.3
Current portion of long-term debt, capital leases and other debt	12.2	3.6
Total current liabilities	549.0	540.6
Long-term debt and capital lease obligations	939.8	1,069.3
Other long-term liabilities	291.4	289.2
Total Liabilities	1,780.2	1,899.1
Commitments and contingencies		
Stockholders’ Equity		
Preferred stock, $0.01 par value; outstanding shares - none	—	—
Common stock, $0.01 par value; authorized 125,000,000 shares; issued shares: 37,697,865 at July 1, 2018 and December 31, 2017; outstanding shares: 35,908,645 at July 1, 2018 and 35,540,233 at December 31, 2017	0.4	0.4
Additional paid-in capital	336.6	337.3
Retained earnings	2,295.3	2,139.6
Treasury stock, 1,789,220 at July 1, 2018 and 2,157,632 at December 31, 2017	(163.1)	(200.7)
Accumulated other comprehensive loss	(366.5)	(329.3)
Total Stockholders’ Equity	2,102.7	1,947.3
Total Liabilities and Stockholders’ Equity	$3,882.9	$ 3,846.4

The accompanying notes are an integral part of these condensed consolidated financial statements.

Table of Contents

TELEDYNE TECHNOLOGIES INCORPORATED
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED JULY 1, 2018 AND JULY 2, 2017
(Unaudited - Amounts in millions)

	Six Months	
	2018	2017
Operating Activities		
Net income	$152.4	$90.6
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	56.4	56.0
Deferred income taxes	4.0	(1.3)
Stock-based compensation	13.1	10.2
Changes in operating assets and liabilities:		
Accounts receivable	(38.5)	(15.4)
Inventories	(12.2)	(41.0)
Prepaid expenses and other assets	(1.3)	2.8
Accounts payable	25.9	25.4
Accrued liabilities	(14.2)	6.5
Income taxes receivable/payable, net	(4.9)	13.2
Long-term assets	2.8	(7.1)
Other long-term liabilities	(3.7)	3.7
Pension and postretirement benefits	(10.6)	(10.3)
Other operating, net	10.3	7.1
Net cash provided by operating activities	179.5	140.4
Investing Activities		
Purchases of property, plant and equipment	(47.2)	(24.9)
Purchase of businesses and other investments, net of cash acquired	—	(742.4)
Proceeds from the sale of assets	0.7	0.6
Net cash used in investing activities	(46.5)	(766.7)
Financing Activities		
Net proceeds from (payments on) credit facility	(115.0)	255.0
Proceeds from senior notes	—	268.0
Proceeds from term loan	—	100.0
Proceeds from (payments on) other debt	2.3	(32.5)
Proceeds from exercise of stock options	23.8	11.7
Other financing, net	(2.0)	(2.6)
Net cash provided by (used in) financing activities	(90.9)	599.6
Effect of exchange rate changes on cash	(11.6)	9.8
Change in cash	30.5	(16.9)
Cash—beginning of period	70.9	98.6
Cash—end of period	$101.4	$81.7

The accompanying notes are an integral part of these condensed consolidated financial statements.

TELEDYNE TECHNOLOGIES INCORPORATED
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
July 1, 2018

Note 1. General
Basis of Presentation
The accompanying unaudited condensed consolidated financial statements have been prepared by Teledyne Technologies Incorporated ("Teledyne" or the "Company") pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and disclosures normally included in notes to consolidated financial statements have been condensed or omitted pursuant to such rules and regulations, but resultant disclosures are in accordance with accounting principles generally accepted in the United States ("GAAP") as they apply to interim reporting. The condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and the related notes in Teledyne's Annual Report on Form 10-K for the fiscal year ended December 31, 2017 ("2017 Form 10-K").
In the opinion of Teledyne's management, the accompanying unaudited condensed consolidated financial statements contain all adjustments (consisting of normal recurring adjustments) necessary to present fairly, in all material respects, Teledyne's consolidated financial position as of July 1, 2018 and the consolidated results of operations, consolidated comprehensive income or the three and six months then ended and cash flows for the six months then ended. The results of operations and cash flows for the period ended July 1, 2018 are not necessarily indicative of the results of operations or cash flows to be expected for any subsequent quarter or the full fiscal year. Certain prior year amounts have been reclassified to conform to the current period presentation.
In the second quarter of 2018, we realigned the reporting structure for certain of our microwave product groupings. These products, acquired with the acquisition of e2v were formerly reported as part of the Aerospace and Defense Electronics segment and are now reported as part of the Digital Imaging segment. Previously reported segment data has been adjusted to reflect this change. Total sales for these products were $24.2 million for fiscal year 2017.
Recent Accounting Pronouncements
In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842). The new guidance will require lessees to recognize most leases on their balance sheet as a right-of-use asset and a lease liability, other than leases that meet the definition of a short-term lease. For income statement purposes, the FASB retained a dual model, requiring leases to be classified as either operating or finance. The new guidance is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years, with early adoption permitted. The new guidance can be adopted using either a modified retrospective transition, requiring application at the beginning of the earliest comparative period presented or a transition method whereby companies could continue to apply existing lease guidance during the comparative periods and apply the new lease requirements through a cumulative-effect adjustment in the period of adoption rather than in the earliest period presented without adjusting historical financial statements. We plan to adopt the new standard on December 31, 2018, the beginning of our 2019 fiscal year, and are currently evaluating the impact this guidance will have on the consolidated financial statements, including the selection of a transition method, and footnote disclosures. Please refer to Note 13 of the Notes to Consolidated Financial Statements included in our 2017 Form 10-K for additional information about the Company's leases, including the future minimum lease payments of the Company's operating leases at December 31, 2017.
In February 2018, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2018-02, "Income Statement-Reporting Comprehensive Income (Topic 220) Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income", to address a specific consequence of the Tax Cuts and Jobs Act ("Tax Act") by allowing a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Act reduction of the U.S. federal corporate income tax rate. The guidance is effective for all entities for annual periods beginning after December 15, 2018, with early adoption permitted, and is to be applied either in the period of adoption or retrospectively to each period in which the effect of the change in the U.S. federal corporate income tax rate in the Tax Act is recognized. Teledyne is currently evaluating the impact this guidance will have on the consolidated financial statements and footnote disclosures.

In August 2017, the FASB issued ASU No. 2017-12, “Derivatives and Hedging (Topic 815) Targeted Improvements to Accounting for Hedging Activities.” This ASU better aligns an entity’s risk management activities and financial reporting for hedging relationships. This ASU expands and refines hedge accounting for both nonfinancial and financial risk components, and this ASU simplifies and aligns the recognition and presentation of the effects of the hedging instrument and the hedged item in the financial statements. This ASU is effective for fiscal years beginning after December 15, 2018 and for interim periods therein, with early adoption permitted. Teledyne is currently evaluating the impact this guidance will have on the consolidated financial statements and footnote disclosures.

Table of Contents

In January 2017, the FASB issued ASU 2017-04, Simplifying the Test for Goodwill Impairment, which eliminates the computation of the implied fair value of goodwill to measure a goodwill impairment charge. Instead, entities will record a goodwill impairment charge based on the excess of a reporting unit's carrying amount over its fair value. The new standard is effective for interim and annual reporting periods beginning after December 15, 2019, with early adoption permitted. We expect the adoption of this standard will reduce the complexity surrounding the evaluation of goodwill for impairment. The impact of this new standard for the Company will depend on the outcomes of future goodwill impairment tests.

In May 2014, the FASB issued ASU No. 2014-09 (Topic 606), Revenue from Contracts with Customers, which provides a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and superseded most current revenue recognition guidance under Topic 605, Revenue Recognition. Under the new standard, an entity recognizes revenue when or as it satisfies a performance obligation by transferring control of a good or service to the customer, either at a point in time or over time. The new standard requires expanded disclosures, including how and when we satisfy performance obligations as well as additional disaggregated revenue information to be provided more frequently in the reporting process.

In March 2017, the FASB issued ASU No. 2017-07, "Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost." This ASU requires the service cost component of net benefit costs to be disaggregated from all other components and be reported in the same line item or items as other compensation costs and allow only the service cost component to be eligible for capitalization when applicable. The other components of net benefit cost are required to be presented in the income statement separately from the service cost component and before income from operations. The Company adopted the requirements of this ASU as of January 1, 2018 on a retrospective basis. As such, the Company reclassified $2.9 million and $0.5 million from cost of sales and selling, general and administrative expenses, respectively to non-service retirement benefit income for the three months ended July 2, 2017 and reclassified $5.7 million and $1.0 million from cost of sales and selling, general and administrative expenses, respectively to non-service retirement benefit income for the six months ended July 2, 2017 to conform to current period presentation.

The Company adopted the requirements of Topic 606 as of January 1, 2018, using the modified retrospective transition method which required a cumulative-effect adjustment as of the date of adoption. Adoption of Topic 606 primarily impacted contracts for which revenue prior to fiscal year 2018 was recognized using the percentage of completion ("POC"), units-of-delivery or milestone methods, as these contracts are now recognized primarily using the POC cost-to-cost method to depict the transfer of control of the good or service to the customer as the work on the contract is performed. Also, to a much lesser extent, certain contracts for customized goods and services, certain products sold to the U.S. Government, and product repair contracts are now recognized over time, as control of the good or service produced transfers to the customer over time in accordance with the guidance in Topic 606. For impacted contracts that were in process at December 31, 2017, we calculated the difference in the life to date revenue (and related costs and expenses) between legacy accounting standards and Topic 606, with the cumulative effect of initially applying Topic 606 as an adjustment to the opening balance of retained earnings, as shown below. The prior year comparative information has not been restated and continues to be reported under the accounting standards in effect for those periods. While Topic 606 includes additional disclosures, as discussed within these Notes to the Condensed Consolidated Financial Statements, comparative disclosures with prior periods are not required in the year of adoption due to our use of the modified retrospective transition method.

The cumulative effect of the changes made to our consolidated January 1, 2018 balance sheet for the adoption of Topic 606 were as follows (in millions):

	Balance at December 31, 2017	Topic ASC 606 Adjustments	Balance at January 1, 2018
Assets			
Accounts receivable, net	$ 388.3	1.0	$ 389.3
Unbilled receivables, net	89.8	29.0	118.8

Inventories, net	400.2	(24.8	) 375.4
Liabilities			