

Digital Imaging Strengthened the Compounding Thesis, Not the Case for an Unrestricted Premium

1 KEY RESULTS VS. CONSENSUS			
Metric	Reported	Consensus	vs. Cons.
Revenue	\$1,684.9M	\$1,650M	+2.1%
Diluted EPS (adjusted)	\$6.72	\$6.17	+8.9%
SEGMENT REVENUE			
Digital Imaging revenue	\$903.0M	\$850.7M	+6.1%
Instrumentation revenue	\$370.5M	\$386.7M	-4.2%
Aerospace and Defense Electronics revenue	\$287.4M	\$290.3M	-1.0%
Engineered Systems revenue	\$124.0M	\$124.2M	-0.2%

2 | GUIDANCE AND OUTLOOK

Teledyne guided fourth-quarter adjusted EPS to \$6.60-\$6.70, above the \$6.50 consensus, and raised full-year adjusted EPS guidance to \$25.40-\$25.50 from \$24.45-\$24.65. The full-year revenue outlook rose to \$6.625 billion, GAAP EPS guidance to \$21.71-\$21.87, and Digital Imaging's full-year growth outlook to approximately 10.6%. Full-year margin expansion is now expected closer to 90 basis points; Instrumentation margins are not expected to fully recover to 2025 levels in the fourth quarter. Management's preliminary 2027 commentary was favorable but not formally quantified: growth above historical experience, generally described as approximately 5%-8%.

3 | EARNINGS ANALYSIS

IMAGING DROVE THE BEAT. Revenue rose 9.4% to \$1,684.9 million and adjusted EPS rose 20.6% to \$6.72. Adjusted operating income increased 18.4% to \$402.6 million, with margin expanding approximately 180 basis points to 23.9%. The breadth was narrower than the headlines: Digital Imaging generated approximately 81% of incremental revenue and 95% of the increase in adjusted operating income, Instrumentation was essentially flat organically, commercial aerospace revenue declined, and consolidated revenue growth moderated slightly from the second quarter.

IMAGING STRENGTH WAS BROAD. Digital Imaging revenue increased 15.0% to \$903.0 million, including 14.3% organic growth, against 11.9% organic growth in the second quarter. Infrared detectors for space-based imaging and infrared subsystems and cameras for unmanned aircraft and maritime surface vehicles each grew more than 25%. Adjusted segment operating income rose 34.9% to \$229.6 million and margin expanded approximately 376 basis points to 25.4%, an incremental margin of approximately 50.5%, achieved without the tariff refunds that benefited the second quarter.

EARNINGS QUALITY NEEDS ADJUSTMENT. Reported adjusted earnings included a \$10.6 million pretax mark-to-market gain on Teledyne's Vares shares, contributing approximately \$0.18 per share; excluding it, adjusted EPS would have been approximately \$6.54, still growth of approximately 17.5%. GAAP EPS rose 25.2% to \$5.82, with the \$0.90 gap to adjusted EPS almost entirely acquired-intangible amortization. Free cash flow of \$319.5 million converted at approximately 101% of adjusted net income, down from approximately 119%, while inventory rose approximately 17% from year-end.

VISIBILITY SUPPORTS THE COMPOUNDER CASE. Funded backlog reached approximately \$5.3 billion, up about 6% sequentially, and orders have exceeded revenue for 12 consecutive quarters. Net debt fell to \$1.465 billion and reported leverage was 0.9x, and the company repurchased \$224.6 million of stock from September through October 19. The conclusion is constructive but valuation-sensitive: an earnings-compounding thesis with catalysts, not an extrapolation of imaging growth or an unrestricted premium.

4 | KEY READ-THROUGHS

COMMERCIAL MACHINE VISION RECOVERY IS CONTINUING
Cognex (CGNX), Basler (BSL) | Positive | Moderate business-level benefit
Teledyne reported growth across industrial and scientific vision sensors and cameras, MEMS, and other commercial imaging categories, broader than defense alone. Digital Imaging organic growth accelerated to 14.3% and margin reached 25.4% without Q2's tariff refunds. For Cognex, the mechanism is wider machine-vision deployment in inspection and automation; for Basler, direct overlap through industrial cameras.

INFRARED DEMAND VALIDATES MISSILE-TRACKING PROGRAMS
L3Harris (LHX), Rocket Lab (RKLB) | Positive | Moderate to substantial
Teledyne's infrared detector sales for space-based imaging grew more than 25%, with missile warning and tracking an important growth domain, funded backlog at approximately \$5.3 billion, and confidence stated for 2027. L3Harris holds an established infrared missile-tracking franchise; Rocket Lab holds an approximately \$816 million contract for 18 Tranche 3 tracking satellites.

THERMAL SUBSYSTEM GROWTH SUPPORTS DRONE PLATFORMS
Red Cat Holdings (RCAT) | Positive | Moderate, high relevance
Infrared subsystems and cameras for unmanned aircraft and maritime vehicles grew more than 25%, against approximately 10% for complete defense systems. The relationship is direct: Teledyne FLIR supplies the Hadron 640R+ module and Prism software for Red Cat's Black Widow platform. Payload availability supports assembly and deliveries, though Red Cat's own order growth is unproven.

INTEGRATED TELEDYNE-VAREX OFFERING RAISES COMPETITIVE PRESSURE ON DETECTOR SPECIALISTS
Detection Technology (DETEC) | Negative | Small now, moderate strategic
Teledyne reported growth in healthcare X-ray products, with Vares adding complementary detectors, including photon-counting technology, under one approach: the business will not be separate and will sell different products to shared customers. A broader combined offering addresses more of an OEM's imaging requirements and funds qualification programs, pressuring independent specialists' design wins after the early-2027 close.