Teledyne Case Study of an Excellent Capital Allocator, Dr. Henry Singleton

Many students of investing know about the great investment record of Warren Buffett but few even know of the man Buffett called one the greatest capitalists and capital allocators of all-time, Dr. Henry Singleton, who built Teledyne Corporation from scratch during 1960 to 1986.

The best investors are avid history students of the market, companies, and great investors. The more you learn from others, the less expensive your own tuition will be. Not to study the Teledyne story and the managerial success of Dr. Henry Singleton and his management teams would be tragic. Dr. Singleton was both a great operator as well as capital allocator.

Excerpts are from the book, *Distant Force, A Memoir of the Teledyne Corporation and the Man who created it* by Dr. George A. Roberts (2007). Go here: http://www.amazon.com/Distant-Force-Teledyne-Corporation-Created/dp/097913630X/ref=sr_1_1?ie=UTF8&qid=1316530279&sr=8-1

Dr. Henry Singleton was more than just a great capital allocator, he was a visionary, entrepreneur, and excellent business person who believed that the key to his success was people—talented people who were creative, good managers and doers. Once he had those managers in place, he gave them complete autonomy to meet agreed upon goals and targets.

He and his co-founder and initial investor, George Kozmetsky, bootstrapped their investment of $450,000 into a company with annual sales of over $450 million, an annual profit of some $20 million, and a stock market value of about $1.15 billion.

An investor who put money into Teledyne stock in 1966 achieved an annual return of 17.9 percent over 25 years, or a 53x return on invested capital vs. 6.7x for the S&P 500, 9.0x for GE and 7.1x for other comparable conglomerates. As the single largest investor in Teledyne, Dr. Singleton chose to make money alongside his fellow investors not from them. He never granted himself options like the heavily compensated Michael Dell of Dell, Inc (DELL), for example.

There are many lessons to be learned from studying a great businessman like Dr. Henry Singleton. Unfortunately, no business school—that I know of—has done a case study on the Teledyne story. You will read several articles on Mr. Singleton and Teledyne including a case study and letter written by an investor in Teledyne, Mr. Leon Cooperman. Then you will learn more about the company from an insider, Mr. George Roberts, before pondering several questions.

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Emulate Dr. Henry Singleton from Grant's Interest Rate Observer, February 28, 2003:

Something went haywire with American capitalism in the 1990's, and we think we know what it was: There weren't enough Dr. Henry E. Singletons to go around. In truth, there was only one Dr. Henry Singleton, and he died in 1999. He could read a book a day and play chess blindfolded. He made pioneering contributions to the development of inertial navigation systems. He habitually bought low and sold high. **The study of such a protean thinker and doer is always worthwhile.** Especially is it valuable today, a time when the phrase "great capitalist" has almost become an oxymoron.

Singleton, longtime chief executive of Teledyne Inc., was one of the greatest of modern American capitalists. Warren Buffett, quoted in John Train's The Money Masters, virtually crowned him king. "Buffett," Train reported, "considers that Dr. Henry Singleton of Teledyne has the best operating and capital deployment record in American business."

A recent conversation with Leon Cooperman, the former Goldman Sachs partner turned portfolio manager, was the genesis of this essay. It happened in this fashion: Mr. Cooperman was flaying a certain corporate management for having repurchased its shares at a high price, only to reissue new shares at a low price. He said that this was exactly the kind of thing that Singleton never did, and he lamented how little is known today of Singleton's achievements as a capital deployer, value appraiser and P/E-multiple arbitrageur. Then he reached in his file and produced a reprint of a critical Business Week cover story on Teledyne. Among the alleged missteps for which Singleton was attacked was his heavy purchase of common stocks. The cover date was May 31, 1982, 10 weeks before the blastoff of the intergalactic bull market.

The wonder of Singleton's life and works is the subject under consideration-admittedly a biographical subject, as opposed to a market-moving one. We chose it because Singleton's genius encompassed the ability to make lemonade out of lemons, a skill especially valuable now that lemons are so thick underfoot.

Singleton was born in 1916 on a small farm in Haslet, Tex. He began his college education at the U.S. Naval Academy but finished it at M.I.T., earning three degrees in electrical engineering: bachelors and master's degrees in 1940, and a doctorate in 1950. In 1939, he won the William Lowell Putnam Intercollegiate Mathematics Competition Award. In World War II, he served in the Office of Strategic Services. At Litton Industries, in the early 1950's, he began his fast climb up the corporate ladder: By 1957, he was a divisional director of engineering. In 1960, with George Kozmetsky, he founded Teledyne.

Anyone who was not reading *The Wall Street Journal* in the 1960's and 1970's missed the most instructive phase of Singleton's career. **When the *Teledyne* share price was flying, as it was in the 1960's, the master used it as a currency with which to make acquisitions. He made about 130.** Many managements have performed this trick; Singleton, however, had another: When the cycle turned and **Teledyne shares were sinking, he repurchased them.** Between 1972 and 1984, he tendered eight times, reducing the share count (from high to low) by some 90 percent. Many managements have subsequently performed the share-repurchase trick, too, but few have matched the Singleton record, either in terms of market timing or fair play. Singleton repurchased stock when the price was down, not when it was up (in the 1990's, such icons as G.E., I.B.M., AOL Time Warner, Cendant and, of course,

Tyco paid up-and up). He took no options awards, according to Mr. Cooperman, and he sold not one of his own shares. Most pertinently to the current discussion of "corporate governance," he didn't sell when the company was buying (another popular form of managerial self-enrichment in the 1990's).

The press called him "enigmatic" because he pursued policies that, until the mists of the market lifted appeared inexplicable. For example, at the end of the titanic 1968-74 bear market, he identified bonds as the "high-risk asset" and stocks as the low-risk asset. Accordingly, he directed the *Teledyne* insurance companies to avoid the former and accumulate the latter. To most people, stocks were riskier, the proof of which was the havoc they had wreaked on their unlucky holders during the long liquidation.

Some were vexed that, for years on end, Teledyne paid no dividend. The master reasoned that the marginal dollar of corporate cash was more productive on the company's books than in the shareholders' pockets, and he was surely correct in that judgment. Teledyne's stable of companies (many in defense-related lines, others in specialty metals, offshore drilling, insurance and finance, electronics and consumer products, including Water-Pik) generated consistently high margins and high returns on equity and on assets.

Singleton made his mistakes, and Teledyne's portfolio companies made theirs. A catalog of some of these errors, as well as not a few triumphs misclassified as errors, appeared in the Business Week story. **We linger over this 21-year-old piece of journalism because it illustrates an eternal truth of markets, especially of markets stretched to extreme valuations. The truth is that, at such cyclical junctures, doing the wrong thing looks like the right thing, and vice versa.** In the spring of 1982, few business strategies appeared more wrongheaded to the majority of onlookers than buying the ears off the stock market.

On the *BW* cover, the handsome Singleton was portrayed as Icarus in a business suit, flying on frail wings of share certificates and dollar bills. The article conceded that the master had done a pretty fair job for the shareholders, and it acknowledged that the share repurchases had worked out satisfactorily-to date. They had, in fact, boosted per-share earnings, "and also enabled Singleton, who held on to his own Teledyne shares, to amass 7.8 percent of the company's stock." He was the company's largest shareholder and its founding and indispensable brain.

Yet the magazine was not quite satisfied, for it perceived that Singleton had lost his way. For starters, it accused him of having no business plan. And he seemed not to have one. He believed, as he later explained at a Teledyne annual meeting, in engaging an uncertain world with a flexible mind: "I know a lot of people have very strong and definite plans that they've worked out on all kinds of things, but we're subject to a tremendous number of outside influences and the vast majority of them cannot be predicted. So my idea is to stay flexible." To the *BW* reporter, he explained himself more simply: "My only plan is to keep coming to work every day" and "I like to steer the boat each day rather than plan ahead way into the future." *(Editor: Note that like Buffett Singleton had no grand strategic plan. He remained flexible).*

This improvisational grand design the magazine saw as the "milking" of tried-and-true operating businesses and the diverting of funds to allow the chairman to "play" the stock market. A *BW* reader could imagine Singleton as a kind of Nero watching Rome burn while talking on the phone with his broker. He didn't invest in businesses, the magazine suggested, only in pieces of paper. He either managed too little (as with the supposedly aging and outmoded operating companies) or too much (as

with the insurance businesses, where, according to BW, he managed to no great effect). His reserve was "icy."

Singleton's disdain for the press was complete and thoroughgoing: The *BW* article just rolled off his back. **It puzzled him that his friend Cooperman would bother to draft a nine-page rebuttal, complete with statistical exhibits.** Why go to the trouble? Mr. Cooperman, who has fire where Singleton had ice, wanted the magazine to know that, during the acquisitive 1960's, Teledyne's sales and net income had climbed to about $1.3 billion and $58.1 million, respectively, from "essentially zero," and that during the non-acquisitive 1970's, profit growth had actually accelerated (with net income of the 100-percent-owned operating businesses rising six-fold).

As for those share repurchases, Mr. Cooperman underscored an achievement that appears even more laudable from the post-bubble perspective than it did at the time. "Just as Dr. Singleton recognized [that] he had an unusually attractive stock to trade with in the 1960's," wrote Mr. Cooperman, "he developed the belief that the company's shares were undervalued in the 1970's. In the period 1971-1980, you correctly point out that the company repurchased approximately 75 percent of its shares. What you did not point out is that despite the stock's 32 percent drop from its all-time high reached in mid-1981 to the time of your article, the stock price remains well above the highest price paid by the company (and multiples above the average price paid) in this ten-year period." And what Mr. Cooperman did not point out was that none of these repurchases was earmarked for the mopping up of shares issued to management. He did not point that out, probably, because the infamous abuses of options issuance still lay in the future.

Business Week ("BW"), however, was right when it observed that nothing lasts forever and that Singleton couldn't manage indefinitely. In 1989, he formally relinquished operating control of the company he founded (and, by then, owned 13.2 percent of). Even then, it was obvious that the 1990's were not going to be Teledyne's decade. Appended to *The Wall Street Journal's* report on Singleton's withdrawal from operations was this disapproving note: "The company hasn't said in the past what it plans to do. It doesn't address analyst groups or grant many interviews." Teledyne's news releases and stockholder reports are models of brevity. Some **securities analysts have given up following the company because they can't get enough information."** Imagination cannot conjure a picture of Singleton on CNBC.

The dismantling of Teledyne began in 1990 with the spin-off of the Unitrin insurance unit (later came the sale of Argonaut, another insurance subsidiary). Singleton resigned the chairmanship in 1991, at the age of 74. Presently, the financial results slipped, the defense businesses were enveloped in scandal, and Teledyne itself was stalked as a takeover candidate. Surveying the troubles that came crowding in on the company after the master's departure (and-unhappily for the defense industry-after the fall of the Berlin Wall), *Forbes* magazine remarked: "For many years Dr. Henry Singleton disproved the argument that conglomerates don't work. But it turns out Teledyne was more of a tribute to Singleton than to the concept."

In retirement, Singleton raised cattle and became one of the country's biggest landowners. He played tournament chess. "Most recently," according to a tribute published shortly after his death (of brain cancer, at age 82), "he devoted much time to computers, programming algorithms and creating a fine computer game of backgammon …. "

To those not attuned to the nuances of corporate finance, Singleton's contribution appeared mainly to concern the technique of share repurchases. Thus (as an obituary in the *Los Angeles Times* had it), Teledyne was the forerunner to the white-hot growth stocks of the Clinton bubble, including Tyco International and Cendant. Singleton knew better. To Leon Cooperman, just before he died, the old conglomerateur confided his apprehension. Too many companies were doing these stock buybacks, he said. There must be something wrong with them. © Grant's Interest Rate Observer, 2003
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Singleton's Secret published on January 22, 2009 by **Christopher Mayer** is the editor of Capital and Crisis (formerly the Fleet Street Letter) 2008 Christopher Mayer

"Buy low. Sell high," is not just an ancient Wall Street saying, it is also the formula that made Henry E. Singleton a fabulously wealthy individual.

Henry Singleton was the co-founder of Teledyne. It was, like Buffett's Berkshire Hathaway, a conglomerate of many kinds of businesses. Singleton ran the company for many years, from its founding in 1960 through 1986. His story is rich in wisdom on markets and how to beat them.

Warren Buffett says Harry E. Singleton had the best track record of any industrialist in the history of American business. That's very high praise from a guy who may be the greatest investor of all time.

In his book The Money Masters, John Train writes: **"The failure of business schools to study men like Singleton is a crime, [Buffett] says. Instead, they hold up as models executives cut from a McKinsey & Co. cookie cutter."**

First, let's take a quick look at that track record, and then we'll look at one of the keys to his success - what I call "Singleton's secret" - and how we can use that insight in our own investing. Teledyne went from $100,000 in profits in 1960 to $238 million in 1986. Shareholders' equity grew from $2.5 million to over $1.6 billion. Those returns, needless to say, crushed the market over time - by a multiple of nearly four.

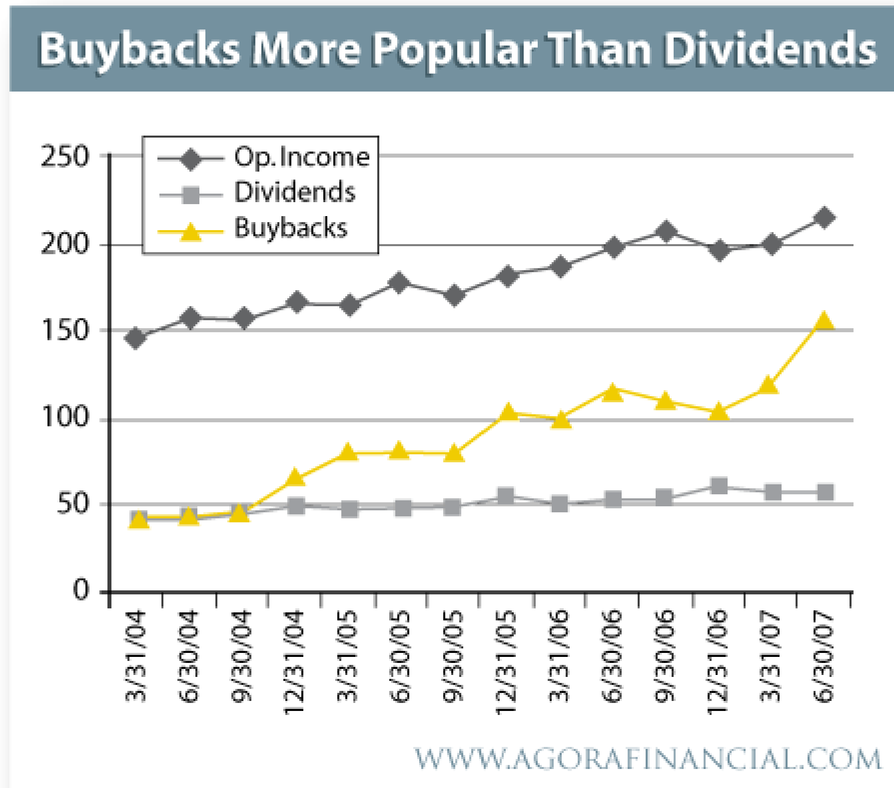
But what became Singleton's signature mark was his pioneering use of the stock buyback. A stock buyback is when a company buys back its own shares.

The wisdom of buybacks is pretty simple…assuming the stock is cheap. As Warren Buffett wrote in his 1980 annual letter, "If a fine business is selling in the marketplace for far less than its intrinsic value, what more certain or more profitable utilization of capital can there be than significant enlargement of the interest of all owners at that bargain price?" Singleton did this more than anybody. When his stock was high, he used it to buy other businesses. In fact, he bought hundreds of businesses over the years. When his stock was low, he bought stock back.

Today's CEOs don't always get the playbook, though. They think regularly buying back stock is a good thing, like paying a regular dividend. They don't seem to get that it works only if you buy back the stock at cheap prices. Otherwise, you're just throwing money away. Better to just pay your shareholders a dividend.

During the binge of buybacks we've seen in the past few years, companies have often made that mistake. First, look at

the chart below and you'll see the surge in buybacks. It's pretty clear that corporate chiefs preferred buybacks to dividends in recent years:



As profits have grown, buybacks have too. Meanwhile, dividend payouts haven't changed much at all.

Leon Cooperman, an exceptional investor and founder of Omega Advisors, delivered a presentation on Singleton and buybacks at the Value Investing Congress in New York. Cooperman is a real enthusiast of Singleton's career - a "Singleton junkie," in his own words. He's spent a lot of time studying the man and his methods.

Cooperman cited many examples of companies that routinely spend billions buying back their own stock. Unfortunately for those shareholders, the stock prices have subsequently gone down, flushing billions down the proverbial toilet bowl.

The offenders make up a roll call of blue-chip companies: Microsoft, Intel, Lexmark, Masco, Pulte Homes, Circuit City, Chico's and many more. Countrywide is one of the most egregious recent examples. It spent nearly $2 billion on stock buybacks in the last two years. Countrywide's stock price has since lost 75% of its value.

James Grant, writing in his newsletter Grant's Interest Rate Observer, recently wrote about boneheaded buybacks in today's marketplace. Grant then paid tribute to Singleton when he wrote: "Henry E. Singleton, visionary builder of Teledyne Corp., set establishment tongues wagging by issuing stock at high prices and repurchasing it at low prices. People wondered what he was thinking about. Our postmillennial captains of industry seem not to understand, either."

But just because most everyone seems to act like they don't know what they're doing, it doesn't mean that there aren't some companies who get it and wisely buy back stock.

Indeed, Cooperman mentioned one: **Loews Corp. (NYSE: L)**. It's a company cut from the same cloth as Teledyne. Over the years, Loews has bought back a lot of stock. But Loews has been opportunistic about how the company does it. In this respect, CEO James Tisch has been following in the footsteps of his legendary investor father, Larry Tisch. The nearby chart shows the average prices Loews has paid for its own stock over the last 40- plus years.

This Is What "Smart" Looks Like

Share Repurchases by Decade

(in millions except for per share figures and adjusted for all stock splits)

	Shares Repurchased	Total Cost	Average Cost/Share	% of Beginning Shares
1970s	344	$144	$0.42	26.5%
1980s	396	824	2.08	37.0%
1990s	274	2,569	9.38	30.4%
2000s*	92	1,755	19.12	14.6%
Total	**1,106**	**$5,292**	**$4.78**	

*Through March 31, 2007

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Today, the stock price $44.00 – or about 9 times the average price Loews has paid for the shares it has purchased. Shareholders who have held onto Loews over the years have also done very well. Over the last 25 years, the average annual return on Loews stock is 17%, versus only 11% for the S&P 500.

Today, James Tisch is at it again. Loews' stock is cheap, and he's been buying back stock. In the third quarter, Loews bought $287 million worth of its own stock. That brings the total up to 14.8 million shares so far this year.

Loews might not deliver investment returns as impressive as Singleton's, but it might be the best way for you to take advantage of Singleton's secret.

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Article from Business Week May 31, 1982

Henry Singleton of Teledyne: A Strategy Hooked to Cash Is Faltering *(Cover Story with a sketch of Dr. Singleton flying like Icarus with paper stock certificates as ailerons).*

Led by its reclusive founder, Dr. Henry E. Singleton, Teledyne Inc. pursued two different strategies over two decades, flourishing as other conglomerates foundered. In the 1960s it devoted itself to straight acquisition, putting together 150 companies as a base for the second, 1970s phase of its plan—siphoning off these companies' earnings to build a huge portfolio of stocks. But today a double whammy is hitting Teledyne: Many of its largest stock investments are crumbling in value, and its cash squeezed manufacturing and service companies are taking a drubbing in several of their most important markets.

For years, Singleton has wrung cash from Teledyne's wholly-owned manufacturing units by reinvesting only a small portion of their earnings in research and developments and plant and equipment. (An inserted charts shows that Teledyne allocates approximately 55% less to capital spending and 30% less to R&D spending than competitors.) In his drive to build Teledyne's stock portfolio, Singleton made little distinction between the company's mature operations and its growth businesses, demanding almost equal returns from both. Now Teledyne the cash cow is drying up, and Teledyne the portfolio manager seems to have lost its investment wizardry.

That may be why the company appears to have reversed course again this year, heading back to the acquisition trail. It tried unsuccessfully to buy Chrysler Corp's tank business--Singleton's first big acquisition bid in 12 years. Although he denies it, Singleton may be tacitly conceding that a strategy based on milking operations to play the stock market can not go on forever.

To be sure, Singleton has given Teledyne a $1.29 billion stock portfolio that includes a 26% when Teledyne had operating profits of $734.3 million, fully $326 million was investment income from stock dividends, interest payments, and Teledyne's equity in profits earned by companies of which it owned more than 20%. The equity

earnings--$109.2 million pretax last year—were a balance sheet entry, of course, for which Teledyne received no actual cash viewed as a financial genius when he made smart stock picks, Singleton built investment income into a sizable part of Teledyne's total earnings.

Now many of Teledyne's investments look weak. One of them—16% of ill-starred International stock in Litton Industries Inc. purchased mainly during the past 18 months—recently showed a paper loss of $100 million. Overall, Teledyne's common stock portfolio lost some $380 million last year; this unreported loss almost matched the company's reported net income in the same period: $412 million, on revenues of $4.3 billion.

Far more serious, Teledyne's manufacturing operations, starved of corporate resources, are starting to lose competitiveness. In a wide range of businesses--including defense, consumer products, oil services, and metals—Teledyne has either missed opportunities or is losing market share, new contracts, or its technological edge. Decay is even more advanced in the company's insurance operations, which contribute 25% of total revenues. Insurance lost $79.2 million before taxes and interest in 1981, and the units are slipping in rank in their industry.

Singleton, however, seems unperturbed about the operating problems. Nor does he view his abortive Chrysler bid, which he calls an "isolated instance," as a change in strategy. In a rate interview with BUSINESS WEEK, the he disclaims ever having a business plan for Teledyne. "My only plan, "he says nonchalantly, "is to keep going to work every day."

Yet Singleton has clearly steered his company in two different directions during the past, and new he will probably have to change course again. In the 1960s, when conglomerates were kings, Singleton ensured steady earnings increased by trading Teledyne stock to make a torrent of small acquisitions. In the 1970s, when diversification fell out of fashion, he stopped acquiring and started using corporate money to build a stock portfolio.

The second strategy worked in on respect. Although Teledyne never paid dividends, it became one of the top U.S. companies in terms of total rewards for its stockholders. Singleton managed this by making a lot of good decisions in the stock market and by using Teledyne's cash to repurchase 75% of its own outstanding shares. The repurchases boosted per share earnings fast, along with the market price of Teledyne's stock. They also enabled Singleton, who held on to his own Teledyne shares, to amass 7.8% of the company's stock. As Teledyne's founder, sole leader, and largest private shareholder, Singleton does admit to one plan: to stay on the job beyond normal retirement age. He is 65.

Observers suspect he can easily do so. But Singleton will have to spend these latter years paying more attention to the base businesses. Although the company's manufacturing units showed an operating earnings increase of 21% in 1981, danger signals are beginning to emanate from all over Teledyne's empire. Ominously, first-quarter operating profits in manufacturing slumped 12%, and a more precipitous decline is expected for the second quarter.

Singleton dismisses the current downturn as a typical result of a company's heavy mix of capital goods businesses, which tend to suffer late in any general recession. "We are a lagging indicator," he says. But Teledyne watchers, including competitors, argue that the problems run deeper than Singleton lets on.

In offshore drilling a profit gusher for the company in recent years, Teledyne's timing has been off. It failed to expand its six-rig fleet during the boom years. "Teledyne has made such a lot of money out of offshore drilling and not put much back in," says Loran R. Sheffer, president of Offshore Rig Data Services Inc. in Houston. What is worse, Teledyne will finally take delivery of a new, $45 million unit later this year-just as the oil glut is torpedoing the rates commended by drilling rigs. Industry observers estimate the company will need a $45,000

per day contract on the new unit to make its investment pay off but predict that it will be lucky to settle for two-thirds of that amount.

Outsiders see the Chrysler bid as an attempt to shore up another Teledyne unit, its sagging Continental Motors tank-engine operation in Muskegon, Mich. The Chrysler unit, prime contractor for the new M-1 tank, was captured by General Dynamics corp. for $336 million. Teledyne had offered $300 million.

Until the turbine-powered M-1 was introduced in 1980, Continental supplied diesel engines for all U.S. tanks. Defense experts expect future generations of U.S. tanks to be turbine-powered, so that Continental will be relegated to the replacement engine market for existing tanks. In fact, Pentagon officials sighed with relief when Teledyne lost the Chrysler contest. “Continental is stagnating, “says a Washington source. “The Pentagon wanted a live-wire company building the tanks.”

The decline at Continental may be the best example of the operating problems facing Singleton. Last year he watched the unit make an embarrassing attempt to persuade the Army to use one of its diesel engines for the M-1. Army sources say that a scheduled 1,000 hour lab test of Teledyne’s engine was halted after only 218 ours on Sept. 14, 1981, because by then the engine had failed 51 times. The failures involved a turbocharger, fuel injection pump, variable fan control and supercharger drive system.

The reasons for these new problems at Teledyne units have emerged most clearly at Water Pik, the company’s best-known consumer-goods operation. Water Pik shows profits--but to do so it had to discontinue product development spending and cut advertising and marketing support drastically (see further explanation at the end of this article).

Singleton’s bid to garner the M-1 business by purchasing Chrysler surprised long-time observers. It market a “highly significant change: in direction for the company, says Robert M Haniss, president of AMDEC Securities in Los Angeles. For years, Singleton has disparaged the wave of high priced takeovers in U.S. industry, saying he preferred to buy smaller chunks of companies in the stock market for well below book value. But on the Chrysler offer, he bid three times book value.

With it s bulging coffers, Teledyne could prove a formidable player in the acquisition game. Most of the company’s $2.9 billion wad of stock is sequestered in the policy reserves of its insurance units, where state regulators discourage the use of such funds for big takeovers. But Teledyne has ready access to almost $1 billion-$622 million in cash and securities at headquarters and $360 million in short-term loans to its unconsolidated insurance subsidiaries. With only $629 million in long-term debt, or 27% of total capital Teledyne could probably borrow an additional $1 billion.

But diverting its investment trove into acquisitions could prove perilous to Teledyne’s earnings, partly because those profits have grown to depend on investment income. The 45% of total operating profits provided by investments last year grew from just 15% three years earlier. Admittedly, analysts scorn a sizable portion of these earnings as more mirage than substance. Teledyne uses equity accounting for its investments in four companies,--Litton, Curtis-Wright, Brockway, and Reichold Chemicals—adding a share of their earnings into parent company’s even though no cash changes hands.

The real danger could be that acquisitions would further divert cash from reinvestment in Teledyne’s existing operation units. When Teledyne acquired them, most of the companies boasted strong, often dominant, positions in their markets. For example, Teledyne’s Wah Chang operation in Albany, Ore, had a virtual monopoly on free-world production of zirconium, a crucial metal in building nuclear reactor.

But Wah Chang, where production capacity has been stagnant for a decade, watched French producers walk off with some 40% of the market by 1980. And this year a new zirconium plant build by Watinghouse Electric Corp. in Italy may pare Wah Chang's share to less than half of the estimated $1250 million free-world output. Although Teledyne does not break out profit figures for its units, Wah Chang is also believed to be reeling from the recent dive in specialty metals process.

In his recent interview with *BUSINESS WEEK*, Singleton offered no prescription for Teledyne's declining fortunes, "I like to steer the boat each day rather than plan ahead way into the future," he says. And although associates credit him with almost total recall of business details, Singleton claimed not to know such operating data as the number of seismic crews recently laid off at the company's geophysical unit in Houston.

Teledyne's chief is equally uncommunicative in his dealings with the financial community and shareholders. The company's Fireside Thrift & Loan, a California consumer finance unit with $125 million in deposits, rated seven pages in Teledyne's 10-K report to the SEC when it was profitable in 1979. Since then the unit has lost more than $4 million pretax each year and turned in one of the worst performances among the state's 50 thrifts. But Fireside's results were boiled down to a single line, labeled only: "Equity in net loss of unconsolidated subsidiary."

Interviews with more than a dozen former Teledyne executives—many of whom admire Singleton—provide insight into some sources of the company's troubles. Teledyne's top officers are immersed in an incredible meeting schedule. Approximately 390 meeting a year, for example, are held with offers of 130m units designated as profit centers. Singleton himself attends most of the important sessions, while his second-in-command, President George A. Roberts, attends all the meetings.

Manufacturing units have apparent autonomy in devising their own plans. But a tacit imperative has been deeply ingrained in Teledyne's corporate culture. "Their philosophies that cash is king," says Eugene Rouse, former head of Water Pik. All profit-center managers are viscerally aware that Singleton wants his businesses to be net generators rather than users of cash. That syndrome is reinforced by a compensation package stressing rewards for turning cash over to headquarters---a reward system not uncommon in business but reportedly heightened in importance at Teledyne.

The stress on cash generation helps explain how such vital expenditures as those for research and development can get short shrift. Indeed, Teledyne spends an average of less than 1.57%of manufacturing sales on its own research more than 25% below the all-industry average. "Dr. Henry likes cash cows where the money keeps churning out," says a former electronics executive who left Teledyne to form his own company. As a result, he continues, the emphasis is on "updating the product with ingenuity," not money.

Such penny pinching on project development has proved especially costly at the company's San Diego based Ryan Aeronautical subsidiary, formerly the premier producer of robot aircraft used for military target practice and reconnaissance. Ryan's Firebee model controlled 75% of the market in the early 1970s, defense sources estimate. But Teledyne's emphasis on garnering cash from its operations opened the field to more innovative rivals. Northrop Corp., for example, has introduced cheaper, easier-to-launch alternatives that rely on sophisticated electronics to match the Firebee's capabilities. Consequently, the Firebee faces a minuscule production run this year and will likely be shot down entirely in next year's defense budget.

In line with the cash-generating philosophy, Teledyne's manufacturing units get little input from either Singleton of President Roberts if they achieve their goals, "They manage you by numbers," says former executive Rouse. "As long as you are performing, you never hear from them."

But the consequences of coming up short can be excruciating. At budget review meetings the craggily handsome *Singleton* turns "hard, cynical, and cold,: speaking in measured, clipped tones "like his is biting a bullet," recalls a former associate. *Singleton* has been known to explode in rage if a subordinate speaks out of turn. *Teledyne* officials "quake in mortal fear" of *Singleton*, says one retired company executive.

Deepening their fear is Singleton's stated preference for summarily closing down weak units rather than selling them. He folded Teledyne's big Packard Bell television manufacturing operation in 1974, for instance, when an expansion effort failed.

But walking away from its problems has not always worked for Teledyne, as the company is now discovering at its toxic waste disposal unit, U.S. Ecology Inc. In 1979 the subsidiary tried to abandon a low level nuclear waste dump, after it was filled up, that it had operated for 11 years on land near Sheffield, IL, leased from the state. Enjoined by court order from leaving the site, U.S. Ecology continues to monitor and maintain the facility, although it no longer gets revenues from new shipments.

Earlier this year radioactive tritium--so far not at hazardous levels—began to leak from the dump into nearby private property, creating potential liability for damages. "I don't feel we have any liability there," says *Singleton* without elaborating. But the Illinois attorney general has sued U.S ecology for $97 million in damages, and negotiations between the state and the company continue. The Teledyne unit operates three other nuclear and toxic waste disposal dumps elsewhere.

Until recent years, Singleton gave his insurance subsidiaries operating autonomy within the same tight performance parameters as his manufacturing operations. But an earnings debacle of one unit, Argonaut Insurance Co., changed all that. To boost earnings, Argonaut chased after risky medical malpractice insurance in the early 1970s, ultimately sticking Teledyne with a $105 million pretax loss in 1974. At the time, say state insurance officials, Singleton carefully pondered the impact of letting Argonaut go bankrupt. Instead he stepped in, got rid of all Argonaut's top officers, and uncharacteristically gave the unit a needed infusion of cash.

Since then, we have stayed very close to the details of those (insurance) businesses," acknowledges Singleton. One former officer describes Singleton's role in the units as "unbelievable involvement of a chief executive in minor decisions." Singleton reportedly decided, for example, which of several small branch offices should be closed down in an austerity drive at one Argonaut subsidiary.

In spite of such close scrutiny, the results of Teledyne's insurance operations have been mediocre. According to A. M. Best Co., which analyzes insurance companies, Teledyne's major life insurance subsidiary, United Life Insurance Co. of America, fell to 68th place in its industry in 1980, from 47th in 1970, in premium revenues. At the same time, Teledyne's property and casualty units, primarily Argonaut and Trinity Universal Insurance Co., dropped to 40th from 33rd by the same measure.

On underwriting results, another key yardstick, the property and casualty units ranked a dismal 74th among the 100 top firms in 1980. Industry sources believe that Argonaut is also being hurt by rate-cutting in one of its major lines—California workers' compensation insurance.

While Singleton pays extraordinary attention to insurance, managing Teledyne's stock portfolio is dearest to his heart. Right now, he has weighted the portfolio heavily with international oil producers, conglomerates, banks, and insurance companies. Since he began his dedicated stock purchased in 1976, Singleton had racked up some spectacular gains. His 26% stake in Litton, for example, purchased for an estimated $140 million, soared above $900 million before sliding back to its current level of $470 million. But last year, Singleton's sinning gambles on takeover plays such as Conoco and Norris Industries were skunked by such losers as Mobil Oil and International Harvester.

Singleton's fascination with Teledyne's financial side is surprising in light of his background. After earning his PhD in electronics at Massachusetts Institute of Technology, he put in brief stints at General Electric Co. and Hughes Aircraft Co. before coming to prominence as head of Litton's Guidance & Control Systems Division. He left in 1960 to found Teledyne after a clash with Litton's financial chief, Roy L. Ash, now better known as architect of AM International's abortive plan for becoming a high-technology company. Associates say that Singleton, an operating man by training, learned one crucial lesson from Ash: The person at the financial throttle exercises terrific control.

Whether his enthusiasm for stock market plays will continue to determine Teledyne's future is an open question—one that Singleton himself will probably decide. An avid jogger, he says he has no intention of giving up control of Teledyne--despite his age—"while I'm still healthy and strong." Insiders indicate that President Roberts, 63, makes none of the important strategic decisions. They also note that the president's outgoing style contrast sharply with Singleton's icy reserve.

It may be that Singleton's strategy will come under more pressure from Wall Street than from insiders or the company's six-member board, which included such luminaries as Arthur rock, the legendary venture capitalist. Teledyne pleased Wall Street for years: Its stock repurchases between 1972 and 1980 helped push its share price to $175 by mid-1981, from $10 when the repurchased began. But since them, in a troubled market, Teledyne stock has declined to a recent price of $119. As the company's operating difficulties become more obvious, Wall Street analysts—as unforgiving as Singleton is with his own subordinates—could quickly turn from allies into enemies.

Singleton now seems to have three main options in resuscitating returns to shareholders. Teledyne can continue to buy its own stock—a tack that cannot continue indefinitely. Or it can try the acquisition route, as it did with Chrysler's defense unit. Although it is often rumored to be a takeover target, Litton is probably too pricey for Teledyne's pocket book.

The third option—and least likely, in most observers' view—is for Teledyne to try to regain its lost operating muscle by boosting investment in its current businesses. The company still has some potential powerhouse in its vast stable. In defense which accounts for about 125% of manufacturing sales, Pentagon officials praise Teledyne CAE, a turbine-engine maker in Toledo. CAE now has less then $40 million in sales but as prime producer of engines for the Navy's Harpoon missile and as second source supplier (after Williams International) of cruise missile engines, it is in-line for fast growth. Teledyne also has a number of small but respected machine tool units that could provide groundwork for expansion.

Singleton will have to bolster all his operations to restore the manufacturing base that once bankrolled his stock market plays. But a Catch-22 is involved: To have enough liquidity to boost capital investment and research significantly Singleton might have to dismantle at least part of his portfolio, at a time when the market is down. True to his reputation, he offers no hint about what he will do, although Teledyne's future hangs in the balance.

Example: The String of flops that clogged *Water Pik*

The decay that remains hidden at many *Teledyne* Inc. operations is rapidly becoming evident at the company's *Water Pik* subsidiary, maker of such familiar products as the *Water Pik* dental appliance and the shower massage pulsating showerhead. After an initial success with new product launches, *Teledyne* now appears to be siphoning cash from *Water Pik* with little regard for the offshoot's future health.

At first the 1967 purchase of the outfit, based in Fort Collins, Colo. Proved to be one of *Teledyne*'s star acquisitions. Revenues soared to $130 million by 1976 from less than $20 million before the takeover. Sales of the *Water Pik* device that gave the company its name continued to grow, peaking at about 1 million units that

year. The Shower Massage, launched in 1973, became of the hottest gift items of its time, and its sales spurted to 9 million units.

Absurd device. But the company stumbled badly when it introduced a string of new products that flopped. Mothers snubbed the company's Nurture baby food grinders, preferring household blenders. And what one former insider calls "the most absurd consumer product ever devised" –an electronic counter of a dieter's bites that signaled how fast to chew—met a quick death. Both the insta-pure water filter and the Pnme Step At A Time cigarette filter, rolled out in the mid-1970s and still being distributed, are reported to be barely profitable.

After these sorry events, *Teledyne* virtually shut down new product development, leaving *Water Pik* dependent on two main lines: The Shower Massage, which is down about 75% from its peak sales level, and the now 20 year old *Water Pik*, which has plummeted almost one-third from its high point. The only product the subsidiary has introduced recently—the Smart Tip cigarette filter, which cuts tar an nicotine intake by 50%--has had a slow start since its debut last year.

Water Pik's sales have dropped 50% to $65 million, since 1976. Expenses have been slashed, too. For example, advertising costs have been cur more than 80% over the past six years. Sources say *Teledyne* has kept the unit strongly profitable. But with aging products and weak promotional support, *Water Pik* is almost certainly headed for troubled times.

***Teledyne* is highly diversified:**

Industrial products and services: $1,2003.7 million in 1981 revenues

Insurance and finance: $1,104.4 million

Specialty metals $870 million

Aviation and electronics $865.2 million.

Consumer $298.7 million

….but spends little on its manufacturing: 55% less on capex and 30% less on R&D than competitors

….to free cash for stock investments

Companies	Number of shares owned (000)	Percent of Ownership	Market Value Dec. 31, 1981 (mil.$)	Percent change in value since Dec. 31, 1980*
Aetna Life	4,445	6%	196	+24
Borden	1,481	5	41	+9
Brockway	2,275	33	33	+4
Colt Industries	1,145	8	64	+24
Connecticut General**	2,269	6	113	+8
Crown Cork	1,204	8	36	+6
Curtis Wright	2,602	52	107	Unchanged
Dart & Kraft	2,376	4	121	+16
Exxon	4,046	****	126	-14
Int'l Harvester	5,497	16	47	-59
Kidde	3,898	21	91	+3
Kimberly-Clark	888	4	58	+23
Litton Ind.	10,400	26	586	-35
Mobil	2,375	1	57	-29
National Can	1,227	14	26	-6

Reichhold Chem.	1,535	22	17	-4
Security Pacific	1,310	5	53	+19
Texaco	5,633	2	186	-9
Travelers	2,251	5	99	+13
Wells Fargo	1,103	5	28	-11
60 other companies	NA	NA	838	-5
TOTAL	NA	NA	2,923	-11
*Adjusted for purchases during 1981 **Merged into CIGNA on March 31, 1982				
***Includes 1.7 million common-equivalent shares of convertible preferred stock				
****Less than 1% Data: computer Directions Advisors Inc., company filings, BW estimates				

End of Business Week Article

Comments: *Note the tone and adjectives used by the writer. What point of view did the reporter take towards Mr. Singleton? Was the writer objective? If you were the reporter, how would you have written the article? What did the writer neglect in analyzing Teledyne? If you were judging Dr. Singleton's performance managing Teledyne what would you focus on? Think about these questions* *<u>before</u>* *you read on.*

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Mr. Leon G. Cooperman, C.F.A., Partner of *Goldman, Sachs & Co.* replies to the above Business Week Article.

An Open Letter to the Editor of Business Week.

I have been a reader of your publication for about 20 years, and only on one previous occasion (cover story, Death of Equities, August 13, 1979) was I sufficiently aroused to write to the Editor. Now your May 31, 1982 cover story on Teledyne, Inc. and its chairman, Dr. Dr. Henry Singleton, is a second occasion.

I found the article to demonstrate a blatant lack of understanding of the company (bordering on the irresponsible in its thrust as well as a lack of appreciation of what, in my opinion, is one of the greatest managerial success stories in the annals of modern business history. The reporter simply portrays the company's success to date as the result of an acquisition binge in the 1960s and a stock-buying surge in the 1970s, the latter being financed by "siphoning" off the cash flow of its operating businesses to get where it is today. These are gross simplifications of rather elaborate, well-conceived, and, most importantly, well-executed business judgments and strategies for better than 20 years.

Speaking in general terms, Dr. Singleton has followed the principle of allocating cash to assets (real of financial) that offer, in his view, the highest potential return given the investment risk involved. You criticize this shifting of capital from real to financial assets. An intelligent investor would recognize that, in point of fact, that is precisely the responsibility of management. More importantly, Dr. Singleton has not, as have many other chief executive officers, restricted himself solely to real assets but rather has built a company able to take advantage of returns in both financial markets and the real sector.

More specifically, as a Teledyne observer, I can identify at least five different strategies utilized to foster the company's development over the past 20 years.

<u>Strategy One: Growth Through Acquisition</u>

In the period 1960-1969, Dr. *Singleton* recognized the unusually low cost of equity capital the company enjoyed and relentlessly used the company's common stock as a currency to acquire. In this period of acquisition growth

(in excess of 130 acquisitions), the company's sales and net income increased from essentially zero to about $1.3 billion and $58.1 million, respectively.

Strategy Two: Intensively Manage Your Business

In the period of 1970-1981, Dr. Singleton and his management team demonstrated an ability to manage second to none. Net income, without the benefit of any acquisitions, rose from $61.9 million in 1970 (a peak year) to $4,412.3 million in 1981, a compound growth of approximately 19%. (In that period, the S&P 400 earning grew at a 12% rate off a depressed base.) Net income of the 100% owned manufacturing businesses rose more than six-fold in that period, to $269.6 million from $46.7 million. (Exhibit 1 presents a breakdown of operating earnings.) The company's ratios of profitability (Exhibit 2) are among the best in American industry—return on equity ranged for 25% to 30%. In the past few years, and its return on total capital exceeds 20%, both approaching twice that of American industry. In the last few years, each line of business in the company's manufacturing sector has earned in excess of 50% before taxes on identifiable assets, with pretax profit margins in the manufacturing sector in the area of 15%.

Do you possibly believe that this record of growth and profitability could be achieved in a competitive world economy with a tactic of "siphoning-off" the operating earnings to finance the build up of a stock portfolio? Doubtful. And in fact, as seen in exhibit 3, the company while not one of the more aggressive spenders on plant and equipment, has spent well in excess of its cumulative depreciation in the period of 1973-1981. More to the point, I would suggest that a conservative approach to capital additions may have been more appropriate given the economic realities of the world may have been more appropriate given the economic realities of the world economy, which is today awash with excess capacity and it likely to recover in a sluggish fashion.

Strategy Three: Repurchase Your Undervalued Equity

Just as Dr. Singleton recognized he had an unusually attractive stock to trade with in the 1960s. he developed the belief that the company's shares were undervalued in the 1970s. In the period 1971-1980, you correctly point out that the company repurchased approximately 75% of its shares. What you did not point out is that despite the stock's 32% drop from its all-time high reached in mid-19871 to the time of your article, the stock price remains well above the highest pride paid by the company (and multiples above the average price paid) in this ten-year period. Contrary to many corporate managements whose stock repurchases have proven ill-timed, Teledyne has been extremely astute from both a stock market stand point and a return on investment approach. The effect on earnings per share has been dramatic, with earnings-per-share growth about twice that of net income in the 1971-1981 period.

Strategy Four: Stocks Preferable to Bonds for the Taxable Investor

You seem to miss the key aspect of Dr. Singleton's emphasis of common stocks in early 1976. In owning an insurance company, Teledyne, like other insurance companies, has to invest its cash flow and can do so in a number of different financial and non-financial assets.

At a time when most insurance companies were still reeling from the devastating effects of the vicious 1973/74 bear market and were busy buying 9.5% - 10% long-term bonds over common stocks, Teledyne determined that stocks were more attractive than bonds.—particularly on an after tax basis given the tax preferred nature of dividend income from on corporation to another (85% excluded) and the better prospect of capital appreciation and income growth over time. (Exhibit 4 traces Teledyne's movement into stocks beginning in 1976.) The record thus far suggests that management's judgment was correct as indicated in Exhibit 5. The spread in asset performance is dramatic and quite relevant given the size of the company's asset base.

Lastly, I would point out (Exhibit 4) that the current market value of Teledyne's invested assets in stocks and fixed maturity investments is substantially above its cost basis—a situation very few insurance companies enjoy today because few had his prescience to emphasize stocks over bonds.

Strategy Five: Build Cash for Uncertain Times

At a time when American industry is saddled with the most illiquid financial position and highest debt load in the post-World War II period, Teledyne is in its most liquid financial position ever. I can assure you it is not an accident but rather the result of a correct assessment some 12 months ago of our current economic problems. The company currently has cash and equivalents of nearly $1 billion, no bank debt, and less then $5 million per year of maturing long term debt in the ten-year period, 1984-1993. In addition, at recent levels of profitability, the company (excluding non-cash equity accounting earnings) generates approximately $400 million per year of cash flow.

In sum, then, you can see the company has utilized not only a multiplicity of strategies (as opposed to just two), but the timing of their adoption has been nothing short of brilliant. While I (and they) will readily concede to having their share of mistakes (International Harvester being the most visible), your article chose to concentrate on what appears to be a half-dozen examples of isolated difficulties without any consideration to the overwhelming successes of the company. Their record of operating and asset management is second to none. Their strategy in no way has been completely "hooked to cash" as you portray, and I believe your article is a poor excuse for good journalism and borders on a betrayal of the public confidence. While a more effusive person could have "pumped up" your writer, Dr. Singleton marches to his own drummer with a concentration of blood around his brain not his mouth.

The cover picture of the May 31st edition portrays Dr. Singleton as the mythical Greek character, Icarus, who fell to his death when he flew too close to the sun and his was wing melted. However, I see Dr. Singleton (and his management team) as a group of exceedingly competent industrialists, working for the benefit of the Teledyne shareholder (yes, I am one of them), and my only regret is that I can not find more Henry Singletons and Teledyne's in which to invest.

Leon G. Cooperman, C.F.A, Partner

Chairman, Investment Policy Committee

May 25, 1982.

EXHIBIT 1	**1971**	**1972**	**1973**	**1974**	**1975**	**1976**	**1977**	**1978**	**1979**	**1980**	**1981**
Sales											
Industrial	376.0	404.3	487.8	599.6	613.3	701.8	814.5	914.6	936.4	1017.0	1203.7
Specialty metals	263.9	287.2	375.7	433.2	455.0	508.3	600.8	698.0	841.2	898.6	870.0
Aviation and electronics	331.5	366.5	408.9	487.0	460.3	453.4	491.1	539.1	642.6	726.8	865.2
Consumer	130.6	158.1	183.1	180.2	186.4	274.1	303.4	289.9	285.4	284.0	298.7
TOTAL SALES	**1102.0**	**1216.1**	**1455.5**	**1700.0**	**1715.0**	**1937.6**	**2209.8**	**2441.6**	**2705.6**	**2926.4**	**3237.6**
Insurance and finance revenues	446.6	512.6	601.5	732.3	758.0	703.7	750.7	779.1	893.1	985.3	1104.4
TOTAL Revenues	**1548.6**	**1728.7**	**2057.0**	**2432.3**	**2473.0**	**2641.3**	**2960.5**	**3220.7**	**3598.7**	**3911.7**	**4342.0**
Income Before Taxes											
Industrial	*NA*	*NA*	*NA*	*NA*	80.3	98.4	134.4	130.3	148.2	156.0	216.2
Specialty metals	*NA*	*NA*	*NA*	*NA*	37.6	69.8	81.9	115.7	135.2	146.7	147.5
Aviation and electronics	*NA*	*NA*	*NA*	*NA*	41.9	57.3	68.0	72.7	83.3	86.3	112.5
Consumer	*NA*	*NA*	*NA*	*NA*	28.8	45.2	49.5	32.1	40.7	35.6	40.9
TOTAL Operating profits					**188.6**	**270.7**	**333.8**	**350.8**	**407.4**	**424.6**	**517.1**
Expenses (Income)											
Corporate expense					8.9	24.8	16.8	14.1	16.5	22.2	29.6
Interest expense	12.3	12.8	22.2	22.6	22.3	18.8	16.0	15.8	12.5	21.5	26.3
Interest and dividend income	-2.9	-4.2	8.2	-10.5	-10.4	-9.2	-11.6	-16.8	-22.7	-27.8	-49.4
Pretax Income	57.2	60.1	78.0	127.0	167.9	236.3	311.6	357.6	401.1	408.7	510.6
Provision for taxes	-27.1	-29.3	-39.4	-64.2	-85.3	-123.0	-159.8	-181.6	-193.8	-194.2	-240.9
Income of consolidated companies	**30.1**	**30.8**	**38.6**	**62.8**	**82.6**	**113.3**	**151.8**	**176.0**	**207.3**	**214.5**	**269.7**
Equity in NI of unconsol. Cos.											
Insurance companies	27.3	28.5	27.3	-31.3	19.1	21.6	31.8	89.5	120.9	78.2	70.6
Equity accounting	0.0	0.0	0.0	0.0	0.0	1.9	11.1	-16.9	43.8	51.0	72.0
TOTAL	**27.3**	**28.5**	**27.3**	**-31.3**	**19.1**	**23.5**	**42.9**	**72.6**	**164.7**	**129.2**	**142.6**
Net Income	**57.4**	**59.3**	**65.9**	**31.5**	**101.7**	**136.8**	**194.7**	**248.6**	**372.0**	**343.7**	**412.3**
Net per share	$0.62	$0.67	$1.01	$0.55	$2.57	$4.75	$7.28	$9.40	$14.71	$15.24	$19.96
Average shares outstanding, millions	88.8	85.8	63.3	53.2	38.8	28.4	26.5	26.4	25.3	22.6	20.7

Chg. In Avg. OS in Pct.	***-3.4%***	***-26.2%***	***-16.0%***	***-27.1%***	***-26.8%***	***-6.7%***	***-0.4%***	***-4.2%***	***-10.7%***	***-8.4%***

(a)(includes $28.4 million of unusual capital gains related to Elira Corp. and Studebaker-Worthington takeovers. (b) Due to write-off by Litton.

(c) Included $15.6 million nonrecurring contribution from Curtis-Wright resulting from stock exchange with Kennecott copper

Exhibit 2: Comparison of Selected Financial Characteristics (Data through 1981)

	***Teledyne*, Inc.**		**S&P 400**		***Teledyne* Relative to S&P 400**	
	10-Year	3-Year	10-Year	3-Year	10-Year	3-Year
EBIT Margin (a)	13.5%	20.5%	11.9%	11.3	1.13x	1.81x
Return on Assets	18.1	24.5%	14.5	14.6	1.25	1.68
Return on equity	19.3	25.9	14.2	15.3	1.36	1.69
Sustainable growth (b)	32.1	34.9	9.6	10.3	3.34	3.39
Book Value Growth	32.7	35.0	8.8	9.3	3.72	3.76
EPS Growth	50.0	26.0	10.8	7.5	4.63	3.47
Leverage	1.91x	1.64x	1.86x	1.90x	1.03x	0.86x

(a) EBIT is earnings before interest and taxes.
(b) ROE times retention rate.

Exhibit 3: Capital Spending and Depreciation/Amortization, 1973-1981 in (millions)

Year	Capital Spending	Depreciation & Amortization
1973	$50.9	46.3
1974	45.0	46.5
1975	38.9	52.2
1976	37.3	53.4
1977	60.4	48.2
1978	102.0	57.2
1979	92.5	67.4
1980	99.2	78.9
1981	133.0	90.8
Cumulative Total	**$658.4**	**$541.9**

Exhibit 4: Insurance Companies' Investments, 1975-1976 and 1981 in $millions

	1975	1976	1981
Unicoa corporation and Subsidiaries			
Fixed maturities, at amortized cost (a)	$283.6	$242.9	$315.6
Equity securities, at market (b)	81.0	232.3	646.1
Mortgage loans on real estate	136.2	121.1	68.1
Real estate, at cost, less accum. depreciation	45.0	46.4	31.9
Other Loans and investments	23.7	17.5	32.4
Total Investments	**$579.5**	**660.2**	**1,094.1**
Casualty Insurance Subsidiaries			
Fixed maturities, at amortized cost (c)	$576.4	402.0	296.2
Equity securities, at market (d)	77.1	311.6	1,822.1
Other Investments	14.0	26.6	6.8
TOTAL Investments	**$667.5**	**$740.2**	**$2,125.1**

(a) Respective market values are $259.0, $239.0 and $283.5 in millions.

(b) Respective costs are $83.1, $214 and $479.6 million
(c) Respective Market values are $490.0, $394.0 and $265.7 million
(d) Respective costs are $76.4, 293.5, $1,279.3 million.

Exhibit 5: Comparison of Stock and Bond Returns, 1976-1981

	Average Annual Return	
Year	**S&P 500**	**AA Industrials**
1976	23.6%	18.2%
1977	(7.2)	3.3
1978	6.4	(4.3)
1979	18.2	(12.2)
1980	31.5	(5.5)
1981	(4.9)	(1.7)
	12.5	***(1.2)***

Average 1976-1981

TELEDYNE SELF-TENDER OFFERS 1972-1984

Announcement Date	Share Price On Prior Day ($)	Tender Price ($)	Premium (%)	Shares* Offered (Millions)	Shs** Tendered (Millions)	OS. Prior to Tender (Millions)	Shares Tendered As A Percent of Outstanding
9/14/72	$16.38	$20 Cash	22%	1	8.9	31.9	27.9%
12/13/73	$10.88	14 Cash + 50 cents Broker Fee	28.7	4	1.6	23.2	6.9
5/31/74	10.75	20 p.a. 10% deb. OID 67.75% = 13.55	26	1	3.9	22.2	17.6
12/4/74	7.88	16 p.a. 10% deb. OID 68.875% = 11.02	40	1	1.9	18.3	10.4
4/30/75	12.25	18 Cash	47	1	3.6	18.4	19.6
2/6/76	32	40 Cash + 25 cents Broker Fee	25	1	2.5	13.6	18.4
5/20/80	95.13	160 p.a. 10% deb. OID 80.875% = 129.40	36	1	3.0	13.9	21.6
5/9/84	155.75	200 Cash	28	5	8.7	20.3	42.9

*Always had right to accept more. ** All shares tendered accepted

10-Year Treasury-Note Yields rose from 5.95% in 1971 to 10.24% in 1980 and then to almost 16% in 1981. Stocks were preferable to bonds during this period.

--

A Case Study In Financial Brilliance, Teledyne, Inc., Dr. Henry e. Singleton by Mr. Leon G. Cooperman, Chairman and CEO of Omega Advisors, Inc. presented at the Value Investing Congress on November 28, 2007

Exhibit 10: Let's Take a Closer Look at the 5/1984 Tender

5/9/84 close

$155.75 x 20.3 mm shares = $3.16 billion Market Cap

Buyback = 8.7 mm shares x $200 = $1.74 B

New Shares Outstanding = 11.6 mm (42.9% reduction)

90 Days Later

Stock Price $300 x 11.6mm shares = $3.48 B Market Cap

So despite having $1.74 B less assets, the company's market cap rose by $320 mm! In that period, the overall market was largely unchanged.

I would also not that Dr. Singleton used cash in the offer and not debt. He avoided getting caught with high cost fixed rate paper at a time when interest rates were set to decline.

Exhibit 11: Quoted of Dr. Henry Singleton in the February 20, 1978 Issue of Forbes Magazine

"There are tremendous values in the stock market, but in buying stocks, not entire companies. Buying companies tends to raise the purchase price too high. Don't be misled by the few shares trading at a low multiple of 6 or 7. If you try to acquire those companies the multiple is more like 12 or 14. And their management will say, "If you don't pay it, someone else will.' And they are right. Someone else does. So it is no acquisitions for us while they are overpriced. I won't pay 15 times earnings. That would mean I would only be making a return of 6 or 7 percent. I can do that in T-bills. We don't have to make any major acquisitions. We have other things we are busy doing.

As for the stocks we picked to invest in, the purpose is to make as good a return as we can. We don't have any other intentions. We do not view them as future acquisitions. Buying and selling companies is not our bag. Those who don't believe me are free to do so, but they will be as wrong in the future as they have been about other things concerning Teledyne in the past."

Exhibit 18: Observed Types of Buybacks

Type 1: No opinion on valuation, but management's attempt to merely offset option dilution to avoid shareholder flack over option creep.

Type 2: Very nefarious conduct on the part of management where companies actively buy back stock to accommodate executives happy to exercise options and sell their stock back to the company at better prices than they would have otherwise received.

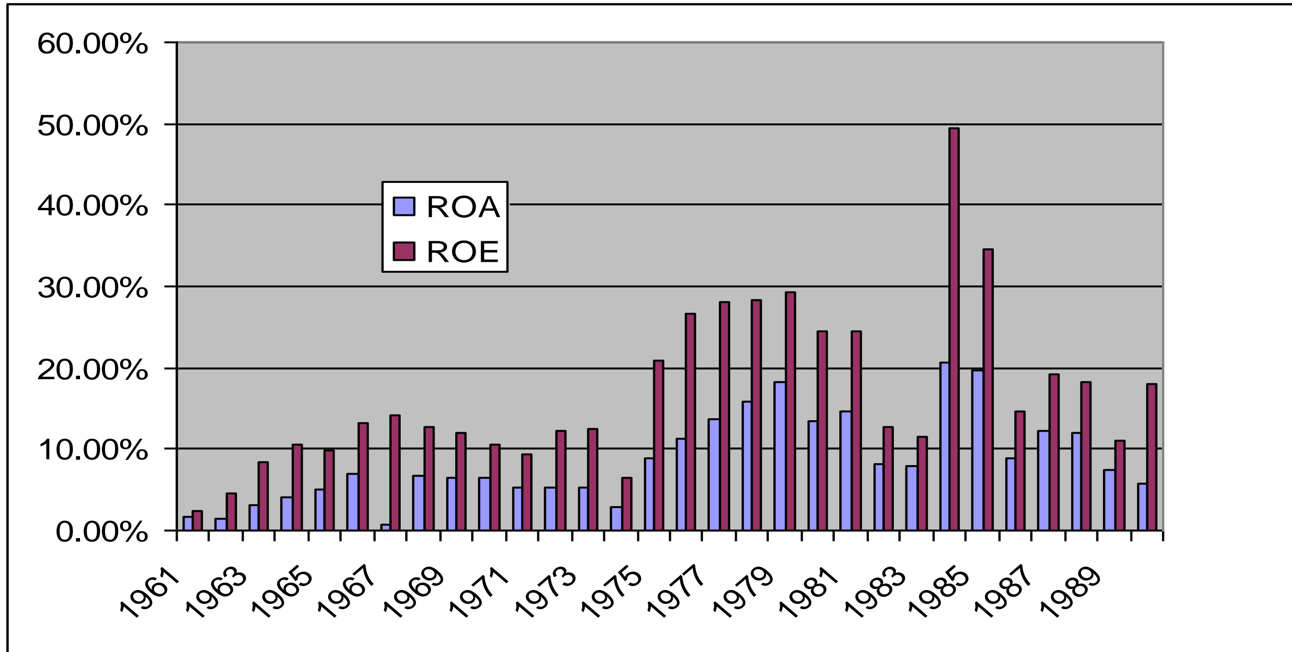
Type 3: Management has no opinion on valuation, but is simply returning money to shareholders via repurchase as opposed to a dividend. The reasoning goes as follows: dividends are forever whereas if corporate circumstances change, they can always suspend the buyback program. When I hear that I remind managements that with the average stock yielding 2%, for every share a corporation buys back, they are buying back 50 years of dividends in one shot. In our view, if a reasonable dividend turns out to be a mistake, the corporate purchase program would turn out to be a disaster.

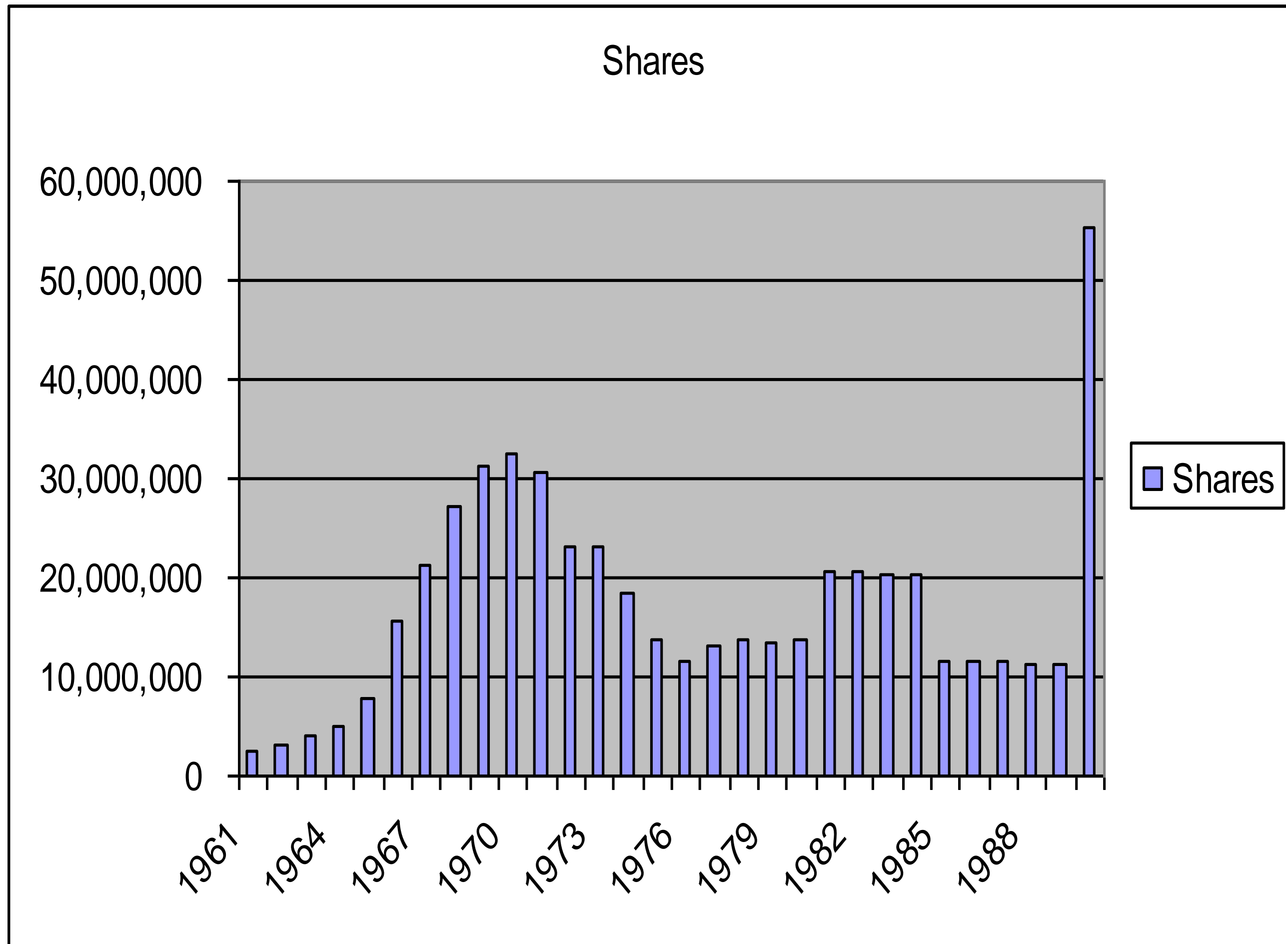
Type 4: The last type of repurchase program is the one that we like and the one that Warren Buffett obviously identified with when he made his comments in the early 1980's. That type of program is where managements have correctly identified a mispricing of their equity and by retiring shares they are going to leverage returns to the long-term equity holder. Regrettably, all too few managements have shown an astuteness in identifying such valuation.

Exhibit A: Financial Summary of Teledyne (Consolidated)

Fin. Sum. of *Teledyne* **in $ Mil.**	**1961**	**1962**	**1963**	**1964**	**1965**	**1966**
Sales	$4.50	$10.40	$31.90	$38.20	$86.50	$256.80
Net Income	0.06	0.16	0.73	1.44	3.4	12
Net Income (loss) Per Share	$0.01	$0.05	$0.16	$0.28	$0.42	$0.77
Assets	3.7	10.8	23.9	35	66.5	170.4
Shareholders' Equity	$2.50	$3.50	$8.60	$13.70	$34.80	$90.20
Outstanding Shares	2,385,826	3188569	4024294	4912647	7908056	15,718,062
ROA	*1.62%*	*1.48%*	*3.05%*	*4.11%*	*5.11%*	*7.04%*
ROE	*2.40%*	*4.57%*	*8.49%*	*10.51%*	*9.77%*	*13.30%*
Stock price close, * - split						$85.60
in $ Mil.	**1967**	**1968**	**1969**	**1970**	**1971**	**1972**
Sales	$451.10	$806.70	1,294.80	1,216.40	1,101.90	1,216.00
Net Income	21.7	40.7	60.1	62	57.4	59.3
Net Income (loss) Per Share	$1.05	$1.51	$1.89	$1.91	$1.48	$1.58
Assets	3337.7	604.2	944.2	971.1	1,064.70	1,127.80
Shareholders' Equity	$153.10	$317.40	$504.90	$589.50	$606.10	$483.90
Outstanding Shares	21,293,445	27,180,634	31,227,967	32,496,026	30,616,374	22,972,514
ROA	*0.65%*	*6.74%*	*6.37%*	*6.38%*	*5.39%*	*5.26%*
ROE	*14.17%*	*12.82%*	*11.90%*	*10.52%*	*9.47%*	*12.25%*
Stock price close, * - split	$139.25*	107.00	39.00	24.75	23.75	19.75
in $ Mil.	**1973**	**1974**	**1975**	**1976**	**1977**	**1978**
Sales	1,455.50	1,700	1,715	1,937.60	2,209.70	2,441.60
Net Income	66	31.5	101.7	136.8	194.8	248.5
Net Income (loss) Per Share	$2.45	$1.31	$6.09	$8.90	$7.28	$19.13
Assets	1,227.40	1,108.90	1,136.50	1,225.60	1,430.50	1,566.70
Shareholders' Equity	$532.80	$477.70	$489.30	$513.60	$693.20	$875.40
Outstanding Shares	23,209,895	18,401,006	13,611,930	11,418,004	13,031,271	13,896,139
ROA	*5.38%*	*2.84%*	*8.95%*	*11.16%*	*13.62%*	*15.86%*
ROE	*12.39%*	*6.59%*	*20.78%*	*26.64%*	*28.10%*	*28.39%*
Stock price close, * - split	$14.40	10.25	22.10	69.50	62.00	96.90
in $ Mil.	**1979**	**1980**	**1981**	**1982**	**1983**	**1984**
Sales	2,705.60	2,926.40	3,237.60	2,863.80	2,979	3,494.30
Net Income	372	343.8	421.9	269.6	304.6	574.3
Net Income (loss) Per Share	$14.71	$15.24	$20.43	$13.05	$14.87	$37.69
Assets	2,027.20	2,552.30	2,905.50	3,290.70	3,852.20	2,790.70
Shareholders' Equity	1,275.40	1,401.30	1,723.20	2,111.10	2,641.20	1,159.30
Outstanding Shares	13,462,551	13,777,636	20,657,531	20,657,531	20,370,531	20,370,561
ROA	*18.35%*	*13.47%*	*14.52%*	*8.19%*	*7.91%*	*20.58%*
ROE	*29.17%*	*24.53%*	*24.48%*	*12.77%*	*11.53%*	*49.54%*
Stock price close, * - split	$113.75	216.00	157.75*	129.40	167.30	246.00
in $ Mil.	**1985**	**1986**	**1987**	**1988**	**1989**	**1990**
Sales	3,256.20	3,241.40	3,216.80	3,534.60	3,531.20	3,445.80
Net Income	546.4	238.3	377.2	391.8	258.9	94.8
Net Income (loss) Per Share	$46.66	$4.07	$6.45	$6.81	$4.66	$1.71
Assets	2,766	2,719	3,091.70	3,268.20	3,463.50	1,666.10
Shareholders' Equity	1,577.40	1,636.60	1,976	2,138.40	2,326.90	523.50

Outstanding Shares	11,709,478	11,709,478	11,667,978	11,320,289	11,189,969	55,412,845
ROA	19.75%	8.76%	12.20%	11.99%	7.48%	5.69%
ROE	34.64%	14.56%	19.09%	18.32%	11.13%	18.11%
Stock price close, * - split	$330.40	301.50	304.00	332.00	343.25	





Splits and dividends of Teledyne, Inc. and Spin-off *(Source: Distant Force by Dr. George A. Roberts)*		
Year	**Date**	**Activity**
1967	7/18/67	X2 Split
	10/27/67	3.5% Div
1968	4/5/68	3.0% Div
1969	1/20/69	3.0% Div
	3/24/69	X2 Split
1970	2/20/70	3.0% Div
1971	2/19/71	3.0% Div
1972	3/3/72	3.0% Div
1974	4/26/74	3.0% Div
1975	5/26/75	3.0% Div
1976	5/27/76	3.0% Div
1977	5/18/77	3.0% Div
1978	6/2/78	10.0% Div
1979	4/6/79	8.5% Div
1980	4/15/80	5/4 Split
1981	3/25/81	3/2 Split
1990	3/2/90	5/1 Split

Editor: If you were astute like Mr. Leon Cooperman to invest alongside a great capital allocator like Dr. Henry Singleton, you would have reaped not only the benefits of shares repurchased below intrinsic value but also the improvement in operations. Teledyne's return on assets for twelve years from 1975 to 1986 averaged 13.4%--an attractive return on total company resources.

A concern as an analyst would be how the subsidiaries of Teledyne, which competed in competitive markets, were able to achieve such high returns. Would those returns be subject to regression to the mean and, thus, not be sustainable?

Next, we will read what Dr. George A. Roberts had to say about Teledyne's businesses in his book, Distant Force.

Arthur Rock who was on Teledyne's Board of Directors for the nearly 30 year tenure of Dr. Singleton as CEO of Teledyne. "He as not only one of the brainiest guys I have ever come across," says Rock, "but his doggedness in pursuing things was just incredible."

Singleton and his partner, Kozmetsky initially focused Teledyne on emerging technologies such as semiconductors. The 1960s were a time when the stock market was excited about acquisition-fueled conglomerates, so Teledyne soon began using its richly valued stock to make some 130 acquisitions, starting in electronics, but eventually branching out into geophysics, specialty metals, insurance and consumer products.

Once he selected companies and mangers to invest in, he basically left them alone," says Arthur Rock. "The centralized operation was very small, doing nothing but accounting, taxes and legal. It was similar to Berkshire Hathaway today, altho0ugh Teledyne was started earlier."

As prices for acquisitions rose, Singleton ended his acquisition binge in 1970. The recession came and the stock market fell with conglomerated falling especially out of favor. (For a story of the excesses of conglomerates, read The Funny Money Game by Andrew Tobias) Compounding matters, some of Teledyne's' insurance and consumer products divisions ran into operating trouble. All these factors combined to cause Teledyne's stock to fall more than 80% from its peak in 1967 to its trough in 1974.

Singleton then focused on improving operations and he was not hesitant to get involved in details. Says Richard Vie, current CEO of Unitrin, the insurance subsidiary spun out of Teledyne in 1990: "If you wanted to spend more than $5,000 on something new, you had to submit what was called a Capital Project Request and it had to be signed all the way up to Henry," he says. "People grumbled about that, but it was a tremendous device to force people to justify their spending and keep them from doing stupid things. There were never any emotional decisions made." (Editor: Dr. Teledyne forced efficient capital allocation on his operating managers. He required them to carefully analyze and justify expenditures. Dr. Singleton also emphasized generating excess cash and he redeployed that cash effectively. Obviously, Warren Buffett studied Dr. Singleton closely and used similar methods to develop Berkshire Hathaway.)

Singleton was exacting about numbers and put an emphasis on the speed and accuracy of Teledyne's financial reporting, pushing the company to report year-end numbers as early as eight days after the end of the year.

In his relationships with managers, Singleton expected complete forthrightness, as well as self-sufficiency. "Minimizing or hiding problems was a firing offense," says Vie. "At the same time, the quickest way to get thrown out of his office was to suggest you needed a consultant for something."

The focus on operational and financial detail paid off as Teledyne's net income without the benefit of any acquisitions, rose from 1970 to 1981 at a compound rate of approximately 19%. In addition, its ROE ranged from 25% to 30%, nearly two times the levels then prevalent in American industry.

Buying back stock

Singleton acted aggressively to take advantage of Teledyne's cheap stock during recessions for the benefit of long term shareholders. Using the company's strong cash flows, he began one of the most intensive and value creating share repurchase programs in corporate history. From 1972 to 1984, in a total of eight separate tender offers, Teledyne repurchased nearly 90% of its stock, always offering shareholders a premium of between 22% and 47% above the prevailing market price, yet still paying prices that proved to be low.

As further evidence of Singleton's market savvy, in three of the tender offers Teledyne issued bonds rather than used cash to repurchase stock—in each case, Cooperman notes, "top picking the bond market.:

The massive share repurchases magnified the benefit of the strong absolute earnings growth and the stock went from its 1974 low of around $5 to a high in 1987 of over $400.

Given the benefits of aggressive share repurchases, we asked venture capitalist Rock why more companies haven't followed Teledyne's lead. "The ego of the CEO is typically focused on building a business," he says, "which isn't particularly consistent with using cash to buy back stock."

In shareholders' interest

In contrast to many CEOs, Singleton wanted to get rich with his shareholders, not off of them. He never took a stock option of a salary above $1 million, never sold any of his shares when the company was engaged in tendering or repurchasing its stock, and refused to consider a management buyout of the company. Listen to Lee Cooperman describe his effort to interest Singleton in a management buyout or "MBO":

Mr. Cooperman called Dr. Singleton about having Goldman Sachs take Teledyne private. Dr. Singleton replied, "I would have no interest in what you are proposing." Mr. Cooperman comments, "What a contrast to what other CEOs have done, screwing shareholders for their personal gain! So many LBOs are a giant case of insider trading by management against their shareholders. Look at what John Kluge did in taking Metromedia private years ago, or what Aramark did in going private last year. Singleton wouldn't do it. He didn't have any interest in squeezing out investors. He understood the benefits of going private, but was philosophically opposed to it.

Cautionary tale

For all his successes, Singleton's tenure did not end on a high note. In the early 1990s, Teledyne became the subject of

numerous lawsuits related to its government work, including accusations of falsifying missile test results, lying to cover up commissions on sales of military goods to Taiwan and bribing both Saudi Arabian and Egyptian officials to procure contracts. Teledyne pled guilty to many of the accusations and paid nearly $30 million to settle charges.

Charlie Munger, who know Singleton, offered this perspective on the problems encountered by Teledyne in the early 1990s: "Henry was admirable and super brilliant and a faithful steward for his shareholders, but his extreme incentive systems for executives at subsidiaries eventually contributed to some 'cheat the government' scandals. I am sure Henry did not plan for such an outcome, and he fixed it when it came along."

"With Henry, his motivation was always a singular focus on shareholder value," says Arthur Rock.

Editor: One unanswered question would be why did Dr. Singleton bother with stock dividends and splits? See chapter on stock splits.

Lee Cooperman at the 3rd Annual New York Value Investing Congress reported by Marcelo Lima

Leon Cooperman at the 3rd Annual New York Value Investing Congress reported by Marcelo Lima

Lee Cooperman of Omega Advisors gave a great talk on Dr. Henry Singleton, the CEO of Teledyne Corporation.

According to John Train's The Money Masters, as quoted by Lee, "Buffett considers that Dr. Henry Singleton of Teledyne has the best operating and capital deployment record in American Business. […] **The failure of business schools to study men like Singleton is a crime, he says.** Instead, they insist on holding up as models executives cut from a McKinsey & Company cookie cutter." For a long time, while Teledyne's stock was inflated, Singleton used it to acquire other companies – about 130 of them. When value caught up with price he changed course and pioneered stock repurchases, shrinking his capital from 40m shares to 12m. Singleton also pioneered the spin-off as a value-enhancing exercise for shareholders. The result is a tremendous track record of increase in intrinsic value per share, one that must be studied by all who want to learn about efficient capital allocation. For those interested in learning more, Leon recommended the book Distant Force by George Roberts (the word Teledyne is an amalgam of "distance" and "force" in Greek).

Lee mentioned that Jim and Larry Tisch of Loews have a great record of doing stock repurchases.

To learn more about Loews, good businessmen and capital allocators (redundant) go here to the links on the next page:

Larry Tisch in The King of Cash http://www.amazon.com/s/ref=nb_sb_noss?url=search-alias%3Dstripbooks&field-keywords=the+king+of+cash&x=0&y=0

Jonathan Tisch, the son in http://www.amazon.com/Power-We-Succeeding-Through-Partnerships/dp/0471652822/ref=sr_1_3?s=books&ie=UTF8&qid=1316529734&sr=1-3

Editor: Hint! A good search strategy might be tracking good capital allocators and buying their companies when the stock prices trades below tangible book value or asset value, then you have the benefit of their stewardship without a premium. Examples *might* be (not recommendations) Enstar (ESGR), Capital Southwest (CSWC), Danaher (DHR),

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Towards the end of his talk, Leon recited a litany of statistics to drive home the point that America is on sale. In March of 2000 the S&P was 1527. It's 1430 today. So it's declined 6% in 7 years. Yet in these 7 years, the long term bond rate dropped 31% from 6.2% to 4%, gold is up 175%, silver is up 181%, copper is up 276%, wheat is up 280%, crude oil is up 250%, the median home price of 7 years ago is up 40%, the Case-Schiller home price index is up 93%, the Euro is up 50% against dollar and the British Pound is up 29% against dollar – you're going to see a lot of strategic activity coming to the west.

END

Many of the early acquisitions made after Teledyne's founding in 1960 were in high technology fields with strong growth potential. Only later was there diversification into financial services, insurance, oil field services follow

Teledyne organization was similar to that of many other acquisitive conglomerate—a small staff monitored the performance of approximately 130 operating units. But Teledyne was unique in loading its management and board of directors with scientists and engineers possessing advanced degrees.

Teledyne's headquarters imposed strict cash flow planning and monitoring on its subsidiaries.

Teledyne's operating managers were given freedom as long as they perform. However, the company was quick and ruthless in dismissing managers who didn't perform. Singleton personally invested the cash flows of the insurance subsidiaries.

Few divisions are known to have plunged into problems warranting such intervention, and operating level turnover was reported to be low.

Closure rather than sell off of poorly performing division was the preferred operating procedure.

Teledyne's philosophy in the 1970s was said to treat all or most of its operating subsidiaries as cash cows, expected to return net cash to headquarters. Because of this, spending on research and development was said to be below the norms for companies in similar industries despite being in high technology leading to market share erosion in the 1980s

When the stock plunged in 1969, *Teledyne* stopped making acquisitions for the next 13 years and concentrated on operational efficiency. More confident in its own success than the market, the company bought back 75% of its outstanding shares and reduced its debt to more conservative levels during the 1970s.

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Forbes, Inc. Friday, Oct. 06, 1967

***Teledyne*'s Takeoff**

Teledyne, Inc. of Los Angeles has grown into a $400 million-a-year technological complex in only seven years by thinking big and moving fast. Founder-Chairman *Dr. Henry* E. *Singleton*, 50, who keeps a blackboard in his office for rapid-fire chalk talks on the intricacies of his company, obviously believes that those with whom *Teledyne* deals should move fast too. Earlier this month, *Teledyne* offered $40 a share for 7,500,000 outstanding shares of United Insurance Co. of America (assets: $303 million). United stock was then selling at $27. Last week, apparently because directors of the Chicago-based life, health and accident company were taking too long to make up their minds, *Singleton* changed the terms. With United up to $34, *Teledyne* made a tender offer directly to the stockholders to buy 2,500,000 shares at $35 a share.

United's board called the offer inadequate and urged stockholders to turn it down. If they do not, *Teledyne*, which has made all 40 of its previous acquisitions in electronics-related businesses, will have the toehold it wants in the consumer-service field.

Alumni Club. *Teledyne*'s chairman insists that his company's growth—sales have increased an average 124% a year —has been "strictly along conservative lines," But such things are relative. *Singleton* spent his boyhood moonily reading about such captains of industry as J. P. Morgan and John D. Rockefeller. After three years at the U.S. Naval Academy, he transferred to M.I.T., where he eventually earned a doctorate in electrical engineering. In 1950, he got a job working on rocket-fire control at Hughes Aircraft—which *Singleton* now calls "Howard Hughes College" in recognition of the success achieved by many of its ex-employees.

Two other noteworthy Hughes alumni, Charles ("Tex") Thornton and Roy Ash, left in 1953 to found Litton Industries, a pioneering conglomerate that has turned out some prominent graduates of its own.* *Singleton* joined them, started Litton's inertial-guidance systems, and within six years built the company's electronics-equipment division from scratch into an $80 million-a-year operation. Says *Singleton* today: "When I went to Litton, I needed money and experience. I got both there." By 1960, he also had an itch to start his own business. He teamed up with Litton Colleague George Kozmetsky (now dean of the University of Texas Business School) to found *Teledyne*.

Tiny TV. *Singleton*'s philosophy at *Teledyne* has been anything but conservative. "A steel company might think that it is competing with other steel companies," he says, "but we are competing with all other companies." *Teledyne* started with semiconductors and integrated circuits, swiftly expanded through both internal growth and acquisitions into the most sophisticated electronics equipment and systems. Its 25,000 employees are at work on projects ranging from memas (tiny combinations of integrated circuits that promise TV sets containing only picture tube, control knobs and a mema) to a computerized control and navigation system that would allow automatic operation of helicopters. Active in geophysics and oceanography, the company has also become a leader in high-quality industrial metals.

This year *Singleton* has reached out to acquire such firms as Pennsylvania-based American Safety Table Co. (industrial sewing equipment), New York's Wah Chang Corp. (rare metals) and Denver's Aqua Tec Corp. (oral-hygiene appliances). That kind of diversification means that *Teledyne* has thereby reduced its reliance on Government contracts, which now account for only 45% of its business v. 82% in 1964. With profits increasing by an average 190% annually (to probably $20 million in 1967) *Singleton*'s *Teledyne* holdings have grown from his original stake of $225,000 to about $32 million.

*Including Western Union Chairman Russell McFall, who has put the telegraph utility on an ambitious diversification course, both Chairman Fred Sullivan and President Franc Ricciardi of the fast-growing conglomerate, Walter Kidde & Co., and George Scharffenberger, freewheeling president, of New York-based City Investing Co.

-- Cooperman on BB

Fund manager Amit Chokshki attended the 3rd Annual New York Value Investing Congress this week on behalf of Seeking Alpha. Here are Amit's notes from the presentation of ***Leon Cooperman, Omega Advisors****:*

Leon Cooperman's presentation consisted of two parts. The first presented a case study on *Teledyne* (TDY) and founder/CEO Dr. *Dr. Henry Singleton*'s track record in terms of capital allocation:

- *Warren Buffett* considers *Singleton* one of the best allocators of capital in American Business.
- *Singleton* was a PhD (scientist) as opposed to an MBA/business student.
- *Singleton* was a pioneer in terms of stock repurchases and spin-offs.
- Stock generated a 23% compound annual growth rate over *Singleton*'s tenure from 1961-96.

Cooperman focused on *Singleton*'s astute use of capital with regard to share repurchases and tied that into the second part of his presentation which focused on the value of share buybacks:

- Cooperman classifies share buybacks into four categories:
  - Type I: Combats the impact of option dilution
  - Type II: Assists executives that are exercising options
  - Type III: Company has no opinion on value but the buyback is done to return capital to shareholders
  - Type IV: Company believes the stock is undervalued and repurchases share
- Key questions during a buyback include:
  - Is the company buying shares at a discount to private value or merger market value?
  - What's the impact on cash flow per share and EPS?
  - Does it adversely impact the company's risk profile (highly leveraged buybacks)?

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What other great investors have said about Teledyne:

Value investors are always on the look out for catalysts. While buying assets at a discount from underlying value is the defining characteristic of value investing, the partial or total realization of underlying value through a catalyst is an important means of generating profits. Furthermore, the presence of a catalyst serves to reduce risk. If the gap between price and underlying value is likely to be closed quickly, the probability of losing money due to market fluctuations or adverse business developments is reduced. In the absence of a catalyst, however, underlying value could erode; conversely, the gap between price and value could widen with the vagaries of the market. Owning securities with catalysts for value realization is therefore an important way for investors to reduce the risk within their portfolios, augmenting the margin of safety achieved by investing at a discount from underlying value.

Catalysts that bring about total value realization are, of course, optimal. Nevertheless, catalysts for partial value realization serve two important purposes. First, they do help to realize underlying value, sometimes by placing it directly into the hands of shareholders such as through a recapitalization or spin-off and other times by reducing the discount between price and underlying value, such as through a share buyback. Second, a company that takes action resulting in the partial realization of underlying value for shareholders serves notice that management is shareholder oriented and may pursue additional value-realization strategies in the future. Over the years, for example, investors in ***Teledyne*** have repeatedly benefited from timely share repurchases and spin-offs. (Source: Margin of Safety by Seth Klarman, page 53.)

Mr. George Soros discusses his experience investing in the conglomerate boom of the 1960s. He mentions *Teledyne*.

The Conglomerate Boom of the 1960s (The Crash of 2008 and What it Means. The New Paradigm For Financial Markets by George Soros, Pages-60-70.

One of my early successes as a hedge fund manager was in exploiting the conglomerate boom that unfolded in the late 1960s. It started when the managements of some high-technology companies specializing in defense recognized that the prevailing growth rate their companies enjoyed could not be sustained in the aftermath of the Vietnam War. Companies such as Textron, LTV, and Teledyne started to use their relatively high priced stock to acquire more mundane companies, and , as their per-share earnings growth accelerated, their price-earnings multiples, instead of contracting, expanded. They were the path breakers. The success of these companies attracted imitators; later on, even the must humdrum company could attain a higher multiple simply by going on an acquisition spree. Eventually, a company could achieve a higher multiple just by promising to put it to good use by making acquisitions.

Managements develop *special accounting techniques* that enhanced the beneficial impact of acquisitions. They also introduced changes in the acquired companies: They streamlined operations, disposed of assets, and generally focused on the bottom line, but these changes were less significant than the impact on per-share earnings of the acquisitions themselves.

Investors responded like pigs at the trough. At first, the record of each company was judged on its own merit, but gradually conglomerates became recognized as a group. A new breed of investors emerged: The early hedge fund managers, or gunslingers. They developed direct lines of communication with the managements of conglomerates, and conglomerates placed so-called letter stock directly with fund managers. The placement was at a discount to the market price, but the stock could not be resold for a specified period. Gradually, conglomerates learned to manage their stock prices as well as their earnings.

The misconception on which the conglomerate boom rested was the belief that companies should be valued according to the growth of their reported per share earnings no mater how the growth was achieved. The misconception was exploited by managers who used their overvalued stock to buy companies on advantageous terms, thereby inflating the value of their stock even further. Analytically, the misconception could not have arisen if investor had understood reflexivity and realized that equity leveraging, that is, selling stock at inflated valuations, can generate earnings growth.

Multiples expanded, and eventually reality could not sustain expectations. More and more people became aware of the misconception on which the boom rested even as they continued to play the game. To maintain the momentum of earnings growth, acquisitions had to be larger and larger, and eventually conglomerates ran into the limits of size. The turning point came when Saul Steinberg of the Reliance Group sought to acquire Chemical Bank: it was fought and defeated by the white shoe establishment of the time.

When stock prices started to fall, the decline fed on itself. As the overvaluation diminished, it became impractical to make new acquisitions. The internal problems that had been swept under the carpet during the period of rapid external growth began to surface. Earnings reports revealed unpleasant surprised. Investors became disillusioned, and conglomerate managements went through their own crises: After the heady days of success, few were willing to buckle down to the drudgery of day to day management. As the president of one corporation told me: “I have no audience to play to.” The situation was aggravated by a recession and many of the high-flying conglomerated literally disintegrated. Investors were prepared to believe the worst, and for some companies the worst occurred. For others, reality turned out to be better than expectations, and eventually the situation stabilized. The surviving companies, often under new management, slowly worked themselves out from under the debris.

…Using the conglomerate boom as my model, I devised a typical boom-bust sequence. The drama unfolds in eight stages. It starts with a prevailing bias and a prevailing trend. In the case of the conglomerate boom, the prevailing bias was a preference for rapid earnings growth per share without much attention to how it was brought about; the prevailing trend was the ability of companies to generate high earnings growth per share by using their stock to acquire other companies selling at a lower multiple of earnings. In the initial stage (1) the trend is not yet recognized. Then comes the period of acceleration (2), when the trend is recognized and reinforced y the prevailing bias. That is when the process approaches far-from-equilibrium territory. A period of testing (3) many intervene when prices suffer a setback. If the bias and trend survive the testing, both emerge stronger than ever, and far from equilibrium conditions, in which the normal rules no longer apply, become firmly established. (4) If the bias and trend fail to survive the testing, no bubble ensues. Eventually there comes a moment of truth (5), when reality can no longer sustain the exaggerated expectations, followed by a twilight period (6), when people continue to play the dame although they no longer believe in it. Eventually a crossover or tipping point (7) is reached, when the trend turns down and the bias is revered, which leads to a catastrophic downward acceleration (8), commonly known as the crash.

The boom-bust model I devised has a peculiarly asymmetric shape. It tends to start slowly, accelerate gradually and then fall steeper than it has risen. Stock price fall before earnings per share turn down. The 1973-74, 1980 and 1982 recessions dealt death blows to the incoherent conglomerates created during the 1960s.

History of the Conglomerate boom during a wave of mergers in 1965-1969.

Teledyne came of age during this period so this section will provide the history of that era.

Six periods of high merger activity, often called merger waves have taken place in U.S. history. These periods are characterized by cyclic activity; that is high levels of mergers followed by periods of relatively fewer deal. A period of

restructuring comprised of spinoffs, split-ups, and divestitures may occur after a merger wave to partially undue mistakes.

The first four waves occurred between 1897 and 1904, 1916 and 1929, 1965 and 1969 and 1984 and 1989. Merger activity declined at end of the 1980s but resumed again in the early 1990s to begin the fifth merger wave. We have had a short but intense merger period between 2003 and 2007, which may be a sixth merger wave. Merger waves tend to be caused by a combination of economic, regulatory and technological shocks.

The third wave, 1965 to 1969 was brought about in part by a booming economy. During these years, often known as the conglomerate merger period, it was not uncommon for relatively smaller firms to target larger companies for acquisition. Mergers in 1963 numbered approximately 1,200 before peaking in 1969 at 6,050 and then declining in 1970 to 5,100.

The conglomerates like Teledyne formed during this period were more than merely diversified in their product lines. The term diversified firms is generally applied to firms that have some subsidiaries in other industries but a majority of their production within one industry category. Unlike diversified firms, conglomerates conduct a large percentage of their business activities in different industries. Good examples are Ling-Temco-Vought (LTC), Litton Industries, and ITT. Many small and medium-sized firms also followed this fad and moved into areas outside their core business.

As the chief goal of the mergers of the go-go years of the conglomerate era of the 1960s was increased earnings per share, the chief goal if the 1980s mergers was acquisition of undervalued assets. As the acquirers of companies in the sixties usually intended to operate them or let them operate themselves, those of the eighties—particularly as the decade wore on—seemed more and more often to be for the purpose of dismantling them in whole or in part for a quick-cash profit.

Books which will give you further insight into the conglomerate boom of the 1960s.

Big Deal: The Battle for Control of America's Leading Corporations by Bruce Wasserstein.

Amazon: http://www.amazon.com/s/ref=nb_sb_noss?url=search-alias%3Dstripbooks&field-keywords=the+big+deal&x=0&y=0#/ref=nb_sb_noss?url=search-alias%3Dstripbooks&field-keywords=the+big+deal+wasserstein&rh=n%3A283155%2Ck%3Athe+big+deal+wasserstein

The Takeover Game by John Brooks, 1987   This book will give you historical perspective--used in some corporate finances course.

Amazon: http://www.amazon.com/Takeover-Truman-Talley-Twentieth-Century/dp/052548440X/ref=sr_1_1?s=books&ie=UTF8&qid=1316522848&sr=1-1

The Funny Money Game by Andrew Tobias (1972). Read this to learn about BAD capital allocation. National Student Marketing Corporation was the "Dot.con" of the late 1960s; the darling of the "Go-Go" gun-slinging money managers, the momentum investors of that era. The company was the antithesis of Teledyne. A great study in contrasts. Management matters. A funny read.

http://www.amazon.com/Funny-Money-Game-Andrew-Tobias/dp/B001L4BPQW/ref=sr_1_1?s=books&ie=UTF8&qid=1316522901&sr=1-1

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Grant's Mar 7, 2014

All together now, buy stock

We humans seem genetically incapable of buying low and selling high, The other way around suits us better, especially when we sit in serious ponderation around corporate conference tables, According to FactSet, the average price at which the companies of the S&P 500 repurchased stock between the fourth quarter of 2012 and the third quarter of 2013 was 99.8% of the average price for the preceding 12 months. In other words, managements bought in shares not because the price was , or the value commanding. They bought in shares, as we read the managerial mind, because everyone else was buying them in. Share repurchases, their use and especially abuse, is the subject at hand.

The publication takes its cue on buy-backs from the life and works of Henry Singleton (1916-1999), pioneering genius of Teledyne Inc. As you possibly may not recall, Singleton would issue his stock when the price was up, buy it in when the price was down. He used his shares as acquisition scrip in bull markets' he used cash to reduce the number of shares outstanding in bear markets. Between 1972 and 1984, he tendered eight times for Teledyne stock, reducing the number of shares outstanding (from high to low) by some 90%. By the time he retired, Singleton personally owned 13% of the company he built and led. He took no options awards and never sold his personal holdings. Least of all did he sell as the company was buying (*Grant's Feb 28, 2003*, See page 2).

Singleton's inspired opportunism confused or rankled much of corporate America. Only later did the share buyback idea gain the establishment's blessing. By the close of the 1990s, companies were chasing their own stock prices into the stratosphere, Singleton just shook his head. There must be something wrong with the buyback idea, he confided late in life to hid friend, Leon Cooperman. It was too popular. In the third quarter of 2013, the latest period for which complete data are available, S&P 500 companies repurchased $123.9 billions' worth of stock, down a hair from the second quarter but 32% higher than the like period in 2012.

We would say there is no such thing as bad buybacks, only bad prices. The trouble with today's buybacks is that the prices are bad—the interest rates, too. The combination of ultra-low rates and a soaring equity market presents an extra temptation to options-compensated managements to buy high. As for buying low, it rarely happens. In form, the most prolific buyers of stock in bull markets are among the most reluctant buyers in bear markets. You can look it up, as colleague Charlie Grant has done.

Naturally, there is an exchange-traded fund dedicated to corporate share purchases. The PowerShares Buyback Achievers Portfolio (PKW) debuted in Dec. 2006, 10 months before the Oct 2007 market peak.

Microsoft

Microsoft, the fund's 200 top holding, had bought in 80 million shares at an average price of $28.39 in the third quarter of 2007. By early 2009, the share price had plunged to $15.15. Can you guess how many shares CEO Steve Ballmer bought during the first quarter of 2009?

Observing that the answer was none, an analyst gingerly posed a question to the Microsoft CFO, Christopher Liddell, on the April 2009 earnings call. "Can you take about your approach to capital?" the voice inquired. "I mean, is this environmental driven or is there another reason?"

"It is generally environmental," came the reply. Through another channel we have learned that the Microsoft front office found the early 2009 environment to be "uncertain," by which we think the executives were frightened. One thing, at least, was certain—prices were cheap.

Exxon Mobil, the No. 2 holding of the Buyback ETF in 2007, distinguished itself by purchasing more shares at the 2009 lows than it had at the 2007 highs, but this Singletonian coup was a rarity. Microsoft M.O. was more typical of the approach of the fund's larger holdings to Mr. Market's great Joseph A. Bank sale. Thus, Prudential Financial, EMC Corp., Viacom, Goldman Sachs and Time Warner were noshows during the renaissance of value at the lows of 2009.

Nor did most of the other 490-odd members of the S&P 500 Index show any more inclination to seize the moment than did the ETF's favorites. Between Jan. 2008 and Sept. 20, 2009, observes John Goltermann, SVP for portfolio management at Obermayer Asset Management, buybacks by the 500 companies "dropped 86%--just at the time share prices reached bargain levels. In other words, the conventional wisdom about what buybacks signal is not necessarily true, and the information asymmetry that markets believe managements have does not necessarily exist (or at least is not acted upon effectively)."

Still and all, the Buyback ETF has knocked the cover off the ball. Since inception, shares of PKW have generated a total return of 84.8% compared to 53.1% for the S&P 500. As the accompanying graph shows, the ETF started breaking away after the bull market hit its stride. It would have soared even higher, of course, if more companies allocated capital as Exxon Mobil did.

Then, again, it hasn't paid to be overly particular about the finer points of buying low during this Fed assisted levitation. Buying—just buying—has been the winning approach.

There are echoes of 2009 in the current buyback stratagem of Target Corp. The big discount retailer spent $1.47 billion on repurchases in the first half of 2013, paying an average price of $67.41. Buyback stopped in the third quarter and did not resume in the fourth quarter, ending Feb. 1, despite a fall in the stock price on the heels of that massive data breach; on Feb. 5, the shares traded at $55.07. Buybacks will resume, Target CFO John Mulligan assured analysts on last week's fourth-quarter call, "beginning later in the year as our business stabilizes and we have more clarity on breach0related costs." We will only observe that "clarity: in markets never comes cheap. Target closed at $61.32 on Tuesday.

With so many constituencies rooting the stock market higher—from the Fed to the Street to the CEOs to the activists—you do wonder who is looking out for credit. "Bondholders pay price for buybacks funded by debt," said the headline over a Feb. 27 Financial Times' bulletin. Underneath, Fitch Rating had these cautionary words: "While most stock buybacks and dividends are done in a credit-neutral manner, shareholder-friendly actions continue to drive a steady flow of downgrade and negative outlook changes."

One thinks in this context about PepsiCo, which on Feb. 25 issued $7650 million in three-year notes at a 0.95% coupon and $1.25 billion in 10-year notes at a 3.6% coupon. Officially, the proceeds were earmarked for "general corporate purposes." But keeping activist Nelson Peltz at buy can't be far from management's min (Grants, Nov. 29, 2013) One

thinks, too, of the consumer0andhairpproducts' vendor now in the crosshairs of Sachem Head Capital Management. Under the gun to maximize shareholder value, Helen of Troy Ltd. Last month announced a $550 million share buyback, of which $300 million will be spent immediately, with the announced goal of retiring 29% of the shares outstanding. It can't be said that management's activist pacification policy will necessarily be a balance-sheet wrecker; EBIT covers interest expense by a factor of 19.7. Still, if the question is, as it always should be: "What would Singleton do,?" the buyback seems poorly timed. "Observe, notes Grant, "that in the three years from 2011 to 2013, the P/E averaged 10.1 and the share price averaged $34.19. Compare today/'s $66 price and 18.9 price-earnings multiple. For the buyer, isn't cheaper supposed to be better than richer?"

And one might ask, s Goltermann does, a kind of existential question: What, really, do shareholders own? Is it the profits? Yes, but they are, or could be, fleeting. The earning assets are what the owners chiefly lay claim to. "In a nutshell," Goltermann says, "it's the assets themselves and their future profit-generating ability—not the profit itself—that give value to the shares. This is why one must think about the impact of the share repurchases on balance sheets."

Central bankers, corporate activists and assorted others in the business of buying high and ever higher: Please copy.

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