Seeking Alpha α

Transcripts | **Technology**

TE Connectivity Ltd. (TEL) CEO Terrence Curtin on Q4 2019 Results - Earnings Call Transcript

Oct. 30, 2019 2:50 PM ET
by: SA Transcripts

FQ4: 10-30-19 Earnings Summary

Press Release SEC *10-K* *Slides*

EPS of $1.33 beats by $0.02 | Revenue of $3.3B (-10.83% Y/Y) beats by $30.55M

Earning Call Audio

Subscribers Only

00:00 -55:33

TE Connectivity Ltd. (NYSE:TEL) Q4 2019 Earnings Conference Call October 30, 2019 8:30 AM ET

Company Participants

Sujal Shah - Vice President, Investor Relations

Terrence Curtin - Chief Executive Officer

Heath Mitts - Chief Financial Officer

Conference Call Participants

Mark Delaney - Goldman Sachs

Shawn Harrison - Longbow Research

Wamsi Mohan - Bank of America

Joe Meares - SunTrust

Joe Giordano - Cowen

Matt Sheerin - Stifel

Craig Hettenbach - Morgan Stanley

Jim Suva – Citi

Christopher Glynn - Oppenheimer

Deepa Raghavan - Wells Fargo Securities

Samik Chatterjee - JP Morgan

Operator

Ladies and gentlemen, thank you for standing by and welcome to the TE Connectivity Conference Call -- Fourth Quarter Earnings Call for Fiscal year 2019. At this time, all lines are in a listen-only mode. Later, we will conduct a question-and-answer session. [Operator Instructions]

I would now like to hand the conference over to our host, Vice President, Investor Relations, Sujal Shah. Please go ahead.

Sujal Shah

Good morning and thank you for joining our conference call to discuss TE Connectivity's fourth quarter and full year 2019 results. With me today our Chief Executive Officer, Terrence Curtin; and Chief Financial Officer, Heath Mitts.

During this call, we will be providing certain forwarding information and we ask you to review the forward-looking cautionary statements included in today's press release. In addition, we will use certain non-GAAP measures in our discussion this morning and we ask you to review the sections of our press release and the accompanying slide presentation that address the use of these items. The press release and related tables along with the slide presentation can be found on the Investor Relations' portion of our website at te.com.

Due to the large number of participants on the Q&A portion of today's call, we're asking everyone to limit themselves to one question to make sure we can give everyone an opportunity to ask questions, during the allotted time. We are willing to take follow-up questions, but ask that you rejoin the queue if you have a second question.

Now, let me turn the call over to Terrence for opening comments.

Terrence Curtin

Thank you, Sujal and thank you everyone for joining us today to cover our 2019 results as well as our outlook for fiscal 2020.

As I normally do before we go through the slides, let me frame out the key messages in today's call. First, I am pleased with our execution in the fourth quarter, delivering both revenue and adjusted earnings per share above the midpoint of our guidance, despite the market backdrop where many of our key markets are showing declines.

Both in the fourth quarter and for the full year, our results reflect resiliency in our business model and successful execution of multiple levers that we can control to preserve margin, earnings, and cash flow performance despite the cycling we're seeing in certain end markets.

And I think the real evidence of this resilience is that our adjusted earnings per share in 2019 being down only 1% on an overall sales decline of 4% versus last year, while maintaining 17% adjusted operating margins for the year.

Another key element is that we always talk about our strong cash generation model and our free cash flow in 2019 was up 15% versus the prior year. And from that how we used our capital, we returned $1.6 billion to our owners, while continuing our bolt-on acquisition strategy through which we deployed an additional $300 million of capital in 2019.

Now, as we look forward into fiscal 2020, we expect that the majority of our markets, specifically in the Transportation and Communications segments, will decline at similar rates as they did in 2019.

Our sales guidance also reflects the headwinds from currency exchange that we're dealing with, as well as ongoing inventory corrections that we're seeing throughout the supply chain, especially in our channel partners which began late in 2019 and we expect to be completed by middle of fiscal 2020. A key point is that our strong content traction will partially offset these headwinds.

Now, we continue to benefit from secular trends whether it's electric vehicles, autonomy trends in the -- vehicle next-generation aircraft, factory automation or cloud computing. These trends are real and the content gains that we are experiencing are real as well.

These content gains are enabling us to outperform even in declining markets and is buffering the market conditions that we're seeing both in 2019 and what we're assuming in 2020.

Lastly, I am pleased that we initiated the cost actions we review with you during our calls and we remain committed to execute on the levers under our control to improve financial performance as we move to 2020.

And despite this market environment, I do want to emphasize that our investment pieces remain solid with a more resilient portfolio, leadership positions in attractive markets that benefit from secular trends, and leverage to drive margin and earnings resiliency. And these levers that we're pulling are helping position us to generate more earnings leverage as markets return to growth.

So, now I'll turn to the slides and then if you could I would appreciate if you could turn to Slide 3 to briefly review the highlights from the fourth quarter. Our sales in the quarter were $3.3 billion and exceeded the midpoint of our guidance, representing a 6% decline on a reported basis and 5% decline organically year-over-year, due to the market weakness I highlighted.

On a sequential basis, our sales were down 3% and on a year-on-year basis, our Transportation segment was down 5% organically, as we expected and this was driven by global auto production declines as well as declines in commercial transportation markets. Industrial Solutions grew 1% organically and that was ahead for guidance, primarily driven by continued strength in Aerospace, Defense and Marine. And lastly, our Communication segment declined 18% organically, as we expected, driven by the inventory destocking in the distribution channel we talked about last quarter.

From an earnings perspective, adjusted earnings per share, was $1.33 which exceeded the midpoint of our guidance, driven by strong execution, particularly in our Industrial segment. Adjusted earnings per share declined only 1% on a sales decline of 6% versus the prior year, demonstrating the resiliency we are focused on driving through the cycle. And lastly, fourth quarter adjusted operating margins were as expected at 16.3%.

From a free cash flow perspective, similar to the year, it was very strong at nearly $700 million and we returned $332 million to our owners. And our capital strategy continues to include capital deployment to build out our portfolio inorganically and also to further capitalize on the secular trends to drive future growth.

So let's turn to Slide 4 for some additional highlights on the full year, as well as to talk more about our guidance for 2020. Through the full year, we delivered sales of $13.4 billion and this was down 4% on a reported basis and 2% organically. Transportation was down 3% organically, driven by the market declines and content growth in our strong global position resulted in outperformance versus decline in global auto production of over 6%.

Industrial Solutions grew 3% organically, driven by growth in Aerospace, Defense and Marine and medical applications. And Communications declined 7% organically, driven by market weakness and destocking in the channel. As we discussed in the last call, we saw these inventory trends by our channel partners that started in the order side in the third quarter and impacted our fourth quarter and will continue to impact us through the first half of 2020.

For the full year, our adjusted operating margins were at 17% at the total company level and we generated at 130 basis points of margin expansion in our Industrial segment, as we continue to execute on our multiyear margin expansion plans. We delivered adjusted earnings per share of $5.55, down 1% versus the prior year on a 4% sales decline. As I mentioned earlier, I'm very pleased with our free cash flow generation, which was up 15% to $1.6 billion and clearly, this demonstrates our strong cash flow model.

Now let me turn to the guidance of the lower part of the slide for fiscal 2020 at a high level and then at the end, I'll come back and provide more details for each segment and end market. So, for 2020, we expect sales of $13 billion and this is a decline of $450 million from 2019. When you think about that decline, about one half of that decline is due to the strength of the U.S. dollar and that's just creating a currency exchange headwind.

The other half of the decline versus 2019 is really driven by two key factors. First, as I covered earlier, we are assuming that we will not be seeing end market recoveries in 2020. The markets that declined in 2019 are expected to show continued weakness in 2020, while markets like Aerospace and Medical, we continue to believe will have nice growth as an underlying market in 2020.

The other part of the decline is that, we expect inventory destocking that I'd mentioned already to continue through the first half of fiscal 2020, before normalizing in the second half. And as we've mentioned to you before, approximately 20% of our sales go through the distribution channel and the Industrial and Communication segments are the ones with the highest exposure to the channel. So, you're seeing that in our fourth quarter and you'll see that in those segments in the first half as that works through.

While we cannot control these headwinds, our 2020 guidance includes the content benefit from the secular trends that we demonstrated over the past several years and this content will partially buffer the top line headwinds that we face as we go into 2020.

Moving over to earnings, adjusted earnings per share, we expect to be at $5.05 at the midpoint. This includes an approximately $0.30 a year-over-year headwind from the currency exchange, I talked about already, as well as a higher tax rate that Heath will get into, and these two headwinds are the main majority of the earnings decline.

In addition, we're going to continue to execute on the levers we can control driver cost reduction as well as footprint consolidation plans that we've laid out for you, while we're going to continue to invest in long-term growth and our content opportunities. We do expect to generate improvements in both margin and earnings per share as we progress through the year.

So let's turn over to orders and that starts on slide five and really sets the basis for our guidance as we start the year. In the fourth quarter, organic orders were down 6% year-over-year and we did see a sequential slowdown with orders down 3% from quarter thee, reflecting the end market and inventory correction trends I mentioned earlier. Our book to bill in the quarter was 0.97 and through our distribution partners, our book to bill was actually 0.90.

So let me talk about this a little bit more and you're going to see the segment details on the slide, so let me talk by region and what we see sequentially. First, we did see improvements in China on organic orders sequentially, but this was more than offset by declines in Europe and North America.

By segment, Transportation was flat sequentially, but we did see sequentially declines in Industrial and Communications segments and those declines were really driven by the destocking that were seen by our partners.

When we talk about our distribution channel partners, orders were down double-digit sequentially in the fourth quarter, so they actually weakened further from what we saw in quarter three from an order perspective. And we continue to see distribution sell-through run at a lower level and then market demand. And we do expect these trends to continue until the end of our second quarter.

So let's get into our results by segment and I'm going to start on slide six with Transportation. During the quarter Transportation sales were down 5% organically year-over-year as we expected. In auto, sales were down 4% organically, driven by global auto production declines.

In commercial transportation, our sales were down 14% organically, which reflects broad market weakness across the regions, as well as some supply chain corrections that has been noted by some of our customers. Our sensor business was flat organically, with growth in Industrial applications, offset by declines in Transportation applications. And on the margin perspective for the segment, adjusted operating margins were 17.6%, as we thought.

So let's move over to Industrial on slide seven. Segment sales grew 1% organically year-over-year above our expectations, with growth driven by our aerospace and defense, as well our medical businesses. Our aerospace, defense and marine business delivered another strong quarter with 13% organic growth and that's driven by content gain from new programs in both commercial aerospace, as well as defense.

In Industrial Equipment, sales were down 8% organically, driven by both weak market conditions and factory automation, as well as inventory corrections. And that was partially offset by 5% organic growth in medical applications.

Our energy business was up 2% organically, with growth in North America and China offsetting declines in Europe. Our adjusted operating margins in the segment expanded 50 basis points over the prior year to 15.5%, driven by strong execution by our team. And I am pleased that we remain on track with our multi-year margin expansion plan that was evidenced by the 130 basis points of adjusted operating margin expansion for the full year for the segment.

So let me turn to Communications Solutions on slide eight. In Communications, both our data and device and appliance sales were down 18% organically and that was in line with our expectations. We saw demand-driven weakness across all regions, along with inventory destocking in the distribution channel. This segment has the highest percentage of business going through the distribution channel, so there is greater impact from channel dynamics in this segment.

Adjusted operating margins were 12%, which was impacted by the volume driven sales decline. And for this segment, we continue to focus on achieving adjusted operating margins in the mid-teens, and we're utilizing levers to achieve target margins along with the demand returning to more normalized level.

So, with that as a backdrop on the segment side, let me turn it over to Heath to cover the financials, and I'll come back later and talk guidance.

Heath Mitts

Thank you, Terrence, and good morning, everyone.

Please turn to slide 9, where I'll provide more details on the Q4 financials. Adjusted operating income was $538 million with an adjusted operating margin of 16.3% as we expected. The GAAP operating income was $444 million and included $71 million of restructuring and other charges and $23 million of acquisition charges and other items.

For the full year, restructuring charges were $255 million. Now this is lower than we expected due to the timing of certain footprint actions. And you keep in mind that these actions are complex activities, so there is some that have moved from that where the charges will be taken instead of late in 2019 this had moved into 2020, but nothing fundamentally has changed with our overall restructuring plans.

As a result, I expect restructuring charges to be at similar levels in fiscal 2020 as we continue to execute on optimizing manufacturing footprint and improving the cost structure of the organization.

Adjusted EPS was $1.33, down 1% year-over-year and we were able to preserve adjusted EPS despite the sales decline of 6%, as Terrence mentioned. This demonstrates our ability to execute on multiple levers to drive earnings performance. GAAP EPS was $1.11 for the quarter and included restructuring acquisition and other charges of $0.22.

And the adjusted effective tax rate in Q4 was 15.1%. Our full year 2019 adjusted effective tax rate was 15.5%. The Swiss tax reform, which is in the process of being enacted currently, which we mentioned last quarter results in our effective tax rate increasing to the high-teens going forward.

For 2020, we expect an adjusted effective tax rate of between 18% and 18.5% due to these tax reform changes. However, importantly we do not expect an impact to our cash tax rate, which will stay below our reported ETR, so in the mid-teens for cash tax rate.

Turning to slide 10, our full year results demonstrate strong performance in the benefit of our portfolio position in what turned out to be a declining demand environment. Our sales were down approximately $550 million year-over-year, which included approximately $400 million impact from currency exchange rates.

On the 4% sales decline, we saw an only 1% reduction in adjusted EPS. Adjusted EPS was $5.55 and we were able to maintain 17% adjusted operating margins despite the sales decline. Adjusted EBITDA margins were approximately 22% and reflect the strong cash performance of the business.

So for the full year free cash flow increased by 15% to $1.6 billion with net capital expenditures representing a little over 5% of sales. We remain committed to our balanced capital deployment strategy. We deployed $300 million for acquisitions that will strengthen our sensing and electric vehicle technologies. And please note this does not include the first sensor acquisition that we announced previously and should close some time next spring or early summer.

ROIC for the year remains strong in the mid-teens and we continue to target mid-teens ROIC as we balance organic investments with acquisition opportunities. Our balance sheet is healthy and we expect cash flow to remain strong, which provides us the flexibility to utilize cash to support organic growth investments to drive long-term sustainable growth while also allowing us to return capital to our shareholders and continue to pursue bolt-on acquisitions.

So I'm pleased with -- that our team reacted quickly and pulled the levers, and our business model throughout the year helped mitigate the impacts of the weaker sales on our margin and EPS performance. As you should expect, we will continue to balance our structural cost actions and our long-term growth investments to ensure sustainability in our business model.

With that, I'll turn it back over to Terrence to cover guidance.

Terrence Curtin

Thanks, Heath, and let me get into guidance. Let me start with the first quarter, that's on slide seven -- 11 and certainly our year builds off of this first quarter. So as I highlighted earlier, the order patterns we saw in the fourth quarter, we do expect that our revenue in the first quarter will be between $3 billion and $3.2 billion and adjusted earnings per share of $1.10 to $1.16. At the midpoint, this represents declines on reported sales of 7% in total and organic sales of 6% year-over-year.

Our sales guidance for quarter one represents a 6% sequential decline and this is greater than a typical seasonal decline, which is more like lower single digits. And it reflects the weakness in the end markets, as well as the ongoing effects of destocking in the distribution channel that I highlighted.

Adjusted EPS is expected to be down $0.16 from the prior year, driven by the market-related sales decline as well as a stronger dollar. We do expect operating margins to be slightly below our quarter four levels due to the sequential sales decline. However, we do expect as we go through the year, we're going to see improved margin and earnings performance.

If you look at it by segment for the first quarter, we expect Transportation Solutions to be down mid-single-digits organically with high single digit declines in global auto production and broad weakness in commercial transportation markets.

Industrial Solutions, we expect to be flat organically and we expect to continue to have nice growth in our aerospace and defense and medical applications. But this is going to be offset by weakness in industrial applications especially around factory automation.

In our Communications segment, we expect to be down mid-teens organically and the story in the first quarter is very similar to the story we -- just in the quarter -- booked quarter and is driven by the continued inventory destocking in the distribution channel that we see.

So let's turn to slide 12 and I'll cover the full year guidance. We expect full year sales of $13 billion at midpoint, representing year-over-year declines in reported sales of 3% and organic sales decline of 2%.

Adjusted earnings per share is expected to be $5.05 at the midpoint, which includes year-over-year headwinds of approximately $0.30 from currency exchange and tax rates that we mentioned earlier.

So let me talk a little bit about the markets and I'll go through them by segments as normal. So for the full year, we expect Transportation Solutions to be down low single digits organically. We expect our organic auto sales to be flat to down low single digits for the full year.

And what we've seen over the past couple of quarters is that we saw global auto production to get to a run rate of around 21 million vehicles per quarter and it ran at both the third and fourth quarter of our fiscal year. And what we expect is that this level of quarterly production is going to remain roughly consistent through 2020. And with this assumption, it results in mid-single-digit global auto production declines for fiscal 2019. We do expect content growth to enable us to continue to outperform these weaker auto end markets.

And when you think about commercial transportation as part of the segment, we do expect commercial transportation markets to be down high single digits in 2020, which caused the sales decline in this business to be in line with the market due to some of the inventory corrections that we expect in the early part of the year. And we do expect growth in our sensors business unit this year, driven by the ramp up of new auto wins.

Turning over to Industrial Solutions. It is expected to grow low single digits organically with growth in aerospace, defense and medical, being offset by decline in factory automation applications.

And in Communications, we expect to be down mid-single-digits organically with both data and devices and appliances being impacted by the continued broad market weakness and inventory destocking in the distribution channel. And with this market framing it's also the way we're thinking about how do we continue to size the organization correctly around these markets as I mentioned earlier.

So before I turn it over to questions, just some other things I want to highlight and some of it to reiterate what I said at the front. We have built a strong portfolio with leadership positions in the markets we serve and this portfolio is performing significantly better than last time we went through a market cycle.

The content growth that we talked about it is enabling outperformance even in a declining market and it's actually allowing buffering versus some of these weak market conditions of 2019 and 2020.

And the trends like I said earlier whether it's electric vehicles, autonomy features in a vehicle, next-generation aircraft, factory automation or cloud computing these are going to continue for quite some time.

Additionally, we are demonstrating strong execution on our multi-year Industrial margin expansion plan and remain on track for high teen margin in that segment, and I do feel we're executing on what we can control through our restructuring plans that we've increased across all segments not just Industrial enabling us to take advantage to get greater leverage when we do have markets return to growth.

And I finally want to highlight our cash flow generation continues to be strong, whether it's a good market or not and it was proven by the 50% up year-over-year. And it does allow us to maintain a consistent capital strategy with both what we've done on returning capital to owners, as well as improving the portfolio to bolt-on acquisitions.

So, before we close, I do want to thank our employees across the world for their execution in 2019 as well as their continued commitment to both our owners and our customers and a future that is safer sustainable productive and connected.

So Sujal, with that, let's open it up for questions.

Sujal Shah

Thank you. Holly, could you please give instructions for the Q&A session?

Question-and-Answer Session

Operator

[Operator Instructions] Your first question comes from the line of Mark Delaney with Goldman Sachs.

Mark Delaney

Yes. Good morning. Thanks very much for taking the question. I'm hoping to better understand the linearity…

Terrence Curtin

Hey, Mark.

Mark Delaney

Good morning. Yeah. I'm hoping to better understand the linearity to our revenue and EPS in fiscal 2020 that's assumed in guidance. And maybe you can provide some more color on how the company is expecting revenue and earnings to grow off of the 1Q 2020 base and what the key variables are that lead to that improvement?

Terrence Curtin

So yeah, Mark, thanks for the question. And certainly, the fourth -- the first quarter is based upon the order trends we saw. And the other trends, I would say, reflect the market structure I sort of laid out. But then we also have which will impact the first half what we are experiencing through some of the corrections that we're seeing through channel partners.

So when you think about the first half what you're going to see is, you are going to see us under-earning on the top line probably in the magnitude of about $100 million of what we normally we do due to the channel corrections that we're experiencing. And when we think about that, and I know I talked about it in the script, our channel business runs about $2 billion a year and that ran about $500 million a quarter. And that's running about $100 million less than it normally runs. And that's due to we're seeing sell throughout being down in the high single-digits, and certainly we're not seeing that in our market.

So the inventory corrections that we're experiencing, we are seeing and that's going to complete through the end of the second quarter. So that's a headwind we're going to have in the first half that will normalize. And some of our assumptions around that was, we did actually see our channel partners inventory come down slightly in the fourth quarter, but that's going to be with us through the first half.

When you sort of adjust for that headwind, really what you see as you go through the year is pretty normal seasonality. We aren't assuming that markets are recovering. As I said in my opening comments, there are markets that are strong aerospace, medical. We expect the trends in those markets are going to stay that way through 2020, and you see that in our Industrial Solution segment performance not only this year, but as we guide for next year.

When you get in around the Transportation segment, we do expect auto production to stay at that $21 million -- 21 million unit run rate, which is sort of flattish production throughout the year sequentially, so we aren't expecting rebound there or in commercial transportation.

So, when you think about the market shape, the market shape is really just once you adjust for the channel destocking, it's going to adjust our normal seasonal pattern, which is we go up a little bit into quarter two, a little bit up further in quarter three and sort of stay there. So there really is a market recovery in the guidance we came out with on.

From an earnings perspective, I think there is a couple of things. Certainly, the channel part is creating some pressure on our margin that will reverse as that normalizes in the second half. And when you think about the progression for the year, it's probably about split between 50% of the margin improvement and earnings improvement is due to the revenue improvement, once it destock the other 50 is cost actions 50%.

So it's pretty balanced with the actions we have talked to you about. So, the linearity reflects market environment that is sort of a continuation of what we're seeing this year.

Sujal Shah

Okay. Thank you Mark. Can we have the next question please?

Operator

And your next question comes from the line of Shawn Harrison with Longbow Research.

Shawn Harrison

Hi, morning everybody. Just maybe I ask a finer point as a follow-up of Mark's question. As you've had a lot of restructuring the past couple of years and more into fiscal 2020 what would you expect kind of the run rate EBIT margin for the three businesses to be as we exit 2020 and build on it in 2021? Just to get a better idea of the savings flow through as volumes recover.

Heath Mitts

Shawn this is Heath. I think you have to -- we have restructuring activity going on in all three of the segments okay. And so now to Terrence's point earlier on the markets and so forth, we are seeing and we continue to expect organic performance next year down 2% and it's a little bit steeper in the Communications segment even.

So, as we look at it, we will be exiting the year and we anticipate exiting the year next year closer to our existing run rate here for the second half of 2019, so kind of in that 17-ish number in terms of exiting next year.

As you break it down by segment, you would expect continued tick up from our entry point into 2020 and then to the exit points for each of the three segments. Our plan for Industrial has always been how do we consistently get it in from where it historically had been in the low teens operating margins to get it consistently in the mid to high teens.

We're a little bit of ahead of schedule on that multiyear journey as you saw the year-over-year improvement in Industrial this year. Transportation certainly has room to move up, particularly as some of the plans come offline that are part of the overall restructuring plan. How much of that we see in 2020 versus as we go into 2021 is still to be determined based on the timing of getting those offline.

And then Communications, the smallest of the three segments, so you're always going to have the most volatility in margins there just by the law of small numbers. However, as you look at it over time that business should average out somewhere in the mid-teens from an operating margin perspective. They're obviously battling up against a fair amount of volume depression right now.

Sujal Shah

Okay. Thank you Shawn. Can we have the next question please?

Operator

And your next question comes from the line of Wamsi Mohan with Bank of America.

Wamsi Mohan

Yes, thank you. Good morning. Heath can you talk a little bit about free cash flow in 2020? You had a very strong growth in free cash flow in 2019 despite the revenue performance and I was wondering if you kind of help bridge 2019 with 2020, any major puts and takes that you see?

Heath Mitts

Sure. Thanks for the question Wamsi. Listen we're pleased with the cash flow performance. I mean we talked a lot about the markets here and earnings and margins and so forth. But at the end of the day, cash is still king. And we feel very good about our ability to -- in this environment, our operating model allows us to reporting capital out pretty aggressively.

So, between working capital optimization, we obviously are spending less in CapEx in this environment, but don't misinterpret that or anything in terms of funding growth activities that still remains strong.

We're also taking advantage of some of the investments we've made when we were spending more in the prior year to add capacity in certain regions that is allowing us to move some of the restructuring that we're doing now. Now, there will be some restructuring dollars put into play as we go into 2019 in terms of mainly severance expense and so forth related to those restructuring activities.

But as we look forward, I would anticipate a similar level of CapEx in 2020 as we just experienced in 2019. I would expect our working capital to stay resilient and I would expect a similar type of conversion if you will between cash and net income as we think about FY 2020. So, it's a good story.

Sujal Shah

All right. Thank you, Wamsi. Can we have the next question please?

Operator

And your next question come from the line of William Stein with SunTrust.

Joe Meares

Hey, guys, thanks for taking my questions. This is Joe on for Will.

Terrence Curtin

Hey, Joe.

Joe Meares

I think you guys said deployed. Hey, how are you? I think you guys said deployed about $300 million in acquisitions last year and you have two more on the come the SMI and First Sensor. I'm just wondering what kind of sales and EPS boost you'd imagine in aggregate in fiscal 2020 from all these deals you've done?

Heath Mitts

Joe appreciate the question. The current outlook that we just guided to seems a fairly de minimis amount of acquisition. I think there's -- year-over-year there's about $50 million of top line impact. And as you can imagine with businesses just coming online that's only $0.01 or so of EPS. The -- as we look forward particularly into First Sensor, which is the more sizable of the deals our -- given where the uncertainty of the timing and one that's going to actually close we have not included anything in our guidance. Relative to First Sensor as that closes, we will certainly update that. But on an annualized basis for sensors, it's about $175 million business and is reasonably profitable. So as we bring it into the fold, we'll update our overall guidance accordingly.

Sujal Shah

Okay. Thank you, Joe. Can we have the next question please?

Operator

And your next question comes from Joe Giordano with Cowen.

Joe Giordano

Hey, good morning.

Terrence Curtin

Hey, Joe, good morning.

Joe Giordano

As you look at your global production auto estimates, what market of the three majors that you play and you think is that most risk in terms of just the market itself getting weaker from here? And if I could just ask if you can clarify your comments about content on commercial vehicles being declining roughly like your commercial vehicle sales declining roughly with market why is that kind of shifting towards a less of a content spread there? Thanks.

Terrence Curtin

Sure, Joe. Let me take separately. So first off on global auto production. When you sit there, it does feel and even when we think about next year, I'm going to keep on going back to this 21 million units a quarter, we have been dealing with in 2019. Now areas where we had the amount of cars on lot being worked down that helped. You had some of the regulation to happen in Europe and it does feel when we look at these past couple of quarters pretty stable around 21 million units. Now what that means by region as we looked at 2020 that does sort of say Asia including China is down about mid single-digits.

You have Europe down about 2% after being down high single-digits in 2019. And it does actually show for the first time now how we would tell you the Americas and the U.S. will be down slightly low single-digits. So when I look at those excuse me I don't view one. It is aggressive. Certainly, we have to continue to see -- probably China is always the one that you sit there and as inventory has come down, we still wouldn't like to see demand pick up. But net, net I think at that 21 million units were pretty balanced as we go through the year. And the other thing I would just say is we are very globally balanced that we plan all the basic programs on the year-end and regionally. So one shifts a little bit versus another. We're going to benefit from that.

So let me turn to the second part of your question on commercial transportation. The commercial transportation market like I said in my comments, we do expect to be down high single-digit. As a market, we are experiencing and you saw in our fourth quarter result we are seeing supply chain corrections by our OEM customers that started in the fourth quarter and will go in the early part of next year. That is really not a distribution business for us, that's more of a direct business for us like most of the Transportation segment. So as we look at next year and how we guide for next year, we're sort of assuming that our revenue for that market will equal the market, because the content gains will need to absorb some of the supply chain effects. So content like you've seen over the past three years, we had very good content momentum. We're just going to need some of that content to absorb some of the supply chain, so next year we're sort of assuming will be more at market and actually exceeding market due to some of the supply chain effects we're going to feel early in 2020.

Sujal Shah

Okay. Thank you, Joe. Can we have the next question please.

Operator

And your next question come from the line of Matt Sheerin with Stifel.

Matt Sheerin

Hey, guys. Thanks and good morning.

Terrence Curtin

Good morning, Matt.

Matt Sheerin

Just one question -- good morning. Just related to your auto business. Do you have -- seeing any impact from the GM strike both this quarter and as you look out to the December quarter? And just to follow-up on the commercial transportation and the HVOR market, where there has been the supply chain inventory build. Are you expecting that to take a couple of quarters just as you are the distribution channel? Or it gives your outlook in terms of end market growth differ at all?

Terrence Curtin

So let me take the second one because it builds on the question before you Matt. So we do expect that's going to take a couple of quarters. I would say it's similar to distribution channel but I would say it's not in the distribution channel. So, yes, we did see that.

You saw our performance in the fourth quarter in commercial transportation was down about 14% and we do expect we're going to get that correction work through here in the early part of 2020.

On the first part of your question on the GM strike, it really doesn't have a big impact on us because of how global we are. We're fortunate that every major OEM is a customer of TE. And I think it shows our global strength so -- while certainly that strike has impacted production a little bit it really doesn't play in much to our numbers.

Sujal Shah

Okay. Thank you, Matt. Can we have the next question please?

Operator

And your next question comes from the line of Craig Hettenbach with Morgan Stanley.

Craig Hettenbach

Yes. Thank you. Question for Terrence just looking through just what's kind of difficult market conditions. Is this a period to kind of look more internally focused in terms of making it sure you execute through to a difficult market? Or at the same time are there opportunities in kind of M&A in terms of maybe some dislocations out there? So just want to get a sense of how you're writing the business and how M&A comes into play here.

Terrence Curtin

Craig it's a combination of both. Clearly I think you've seen last year, last year was -- turned out to be a year where our -- net-net our markets were negative, overall despite very strong growth in places like aerospace and medical. And we deployed capital.

We added to the sensor platforms as Heath said, we also added something in the electric vehicle platforms and they're trends that we're committed to. And they're driving content opportunities. So no different than the earlier question. We have a couple more sensor, one smaller, one SMI that just closed, First Sensors out there. We're going to continue to look at how do we strengthen this portfolio, because we do like around the secular trends how that can drive growth and the markets are cycled.

And whether it's automotive, whether it's factory equipment, we are going to have these cycles. We are going to have periods where inventory corrects in supply chain and I think we have to just stay balanced and be good capital deployers through the cycle, not stopped to one or the other. And I think, we've shown we can do both and I think we've been pretty disciplined when it comes to capital over the years and I expect we're going to stay that way.

Sujal Shah

Okay. Thank you, Craig. Can we have the next question please?

Operator

Your next question comes from the line of Jim Suva with Citi.

Jim Suva

Thank you very much. I believe it was Terrence who mentioned on the Q&A about three quarters of inventory adjustment, if I heard that correctly. And if so, was that on all the different end markets, or was that more specific to say Industrial or auto? And can you maybe update us about -- it sounds like that that would have been put us towards mid-next year about being in a more healthy equilibrium state or inventory. But if you can kind of make -- break it down by the end markets about inventory and the duration for the adjustment for equilibriums? Thanks.

Terrence Curtin

You know, Jim, thanks for the question. And as I said, we started to see this on our orders as we talked last quarter to you. We started to see the orders do it. And it really -- how it's impacting our revenue? It impacted us this quarter. You see that our Communications and in the industrial equipment market of our Industrial segment.

So when you think about those businesses -- and that's really through the electronic distribution channel, we expect that, that hadn't started and we started to feel it in our fourth quarter we just closed. And in those three businesses themselves, you're going to see that continue into our first quarter and we expect it to end by the end of our second quarter. So that's really a temporary headwind that we have. And they're the markets you're going to see at the most spin Jim.

The other market that I did mention which is in Transportation is industrial commercial transportation, which is the heavy truck. That's more above direct supply chain that we're feeling, you saw in the fourth quarter. We think we're going to follow a similar pattern, elsewhere. We feel inventory's pretty good and I was tracking pretty much to demand and underlying market plus content. So it's really those couple of markets and you can actually see it in the slides. Those markets that are showing down double-digit they are typically the ones that you're going to see -- seeing some of the impacts of the corrections that we're going through.

Sujal Shah

All right. Thank you, Jim. Can we have the next question, please?

Operator

And your next question comes from the line of Christopher Glynn with Oppenheimer.

Christopher Glynn

Thank you. Good morning.

Terrence Curtin

Hi, Chris.

Christopher Glynn

Hi, Heath and Terrence and Sujal. On the sensors comment, I think, I heard positive growth next year for thought relative to auto wins. Just wondering if you could kind of range how that expectation might unfold and may be in terms of platform mix and take rates, but also broader how you see the inflection for your sensors business ramping over the next couple of years say on the basis of flattish production?

Terrence Curtin

Yes, so Chris good question and if you look at this year our sensors business growth was below where we thought it was going to be mainly due to what we saw in the heavy truck as well as some of the auto and end market demand -- market being a lot slower than we expected. So some of the growth that we've talked to you about -- about program ramps has been slower due really to underlying markets. And our sensors business does not have the benefit of the broad base of being on every OEM like our auto business. So you will get a bit more lumpiness on there.

As we go into next year, we do sort of view the auto ramps and the Industrial space with the drivers of growth for sensors we're still going to have -- we still have a big trunk of our sensors business that's an heavy truck. That is going to be impacted by that market. And then you're going to continue to see those auto wins we've talked to you about well over $2 billion continue to ramp-up. So you're going to continue to see that content separation that we have been showing in sensors versus underlying production. Unfortunately this year has been muted by production, but we do expect that's going to continue. And that's some of the reasons we're excited that we will be able to grow next year even though auto and industrial transportation markets are going to really be helping us.

Sujal Shah

Okay. Thank you, Chris. Can we have the next question, please?

Operator

Your next question comes from the line of Deepa Raghavan with Wells Fargo Securities.

Deepa Raghavan

Good morning, all. So my question is on automotive. Terrence what's your sense on how long the auto weakness can last? And what are some of the drivers you're monitoring that can help provide visibility into any, sort of, inflection to growth when that were to happen? I mean you touched on trying to being a wildcard we understand but that's one part of the question? Second is also can you talk about some of the steps that TE is taking to keep or gain market share in the current environment? Thank you.

Terrence Curtin

So a couple of things. I think what we look at not only do what we hear from our customers we do look what is happening from a sales perspective, inventory perspective around the world. And I would say that trends we've talked to you about whether it's electric vehicle, I would say electric vehicle trends continue to accelerate. Regionally they've strengthened in Europe maybe China with some of the pause it's slowed down, but I would say net-net.

When we think of the world the electrical trend -- the electrical powertrain trend is accelerating certainly with Europe being the leader of it. And even if you take 2019 going into 2020 even though electric vehicles are still small part both electric and hybrid are going to be closely up to about 50% year-over-year even though a small part of the market. So we get the benefit of that.

Clearly we also are trying to also understand autonomy's probably pushed out little bit I would say as all of us that are in the automotive space you have less production. We all have to focus. And in that regard you see more focus going on the electric vehicle powertrain versus autonomous. You're still going to move up autonomous by feature, but probably full Level five further out. And what's created we benefit from both of those. And certainly electric vehicle is a bigger content item for us than autonomy like we talked to you about.

So we look at the same production trends you look at. It does feel like inventory continues to normalize around the world and certainly we're adjusting. And I think as Heath laid out on some of the cost plans there was things we're going to take advantage of. And hey this auto market is weaker than we thought. And what we laid out to you is how we're going to plan our cost structure to. So it's not just about setting expectations, it's also the things we're going to work to get our cost structure right to put the flexibility we need in the auto market and the other markets we serve.

Sujal Shah

Okay. Thank you, Deepa. Can we have the next question please?

Operator

Your next question comes from the line of Samik Chatterjee with JP Morgan.

Samik Chatterjee

Hi. Good morning. Thanks for taking the question. I just wanted to ask on the corporate level or the broader level. You mentioned a couple of times today, the resilience in the earnings performance in fiscal 2019 despite kind of the revenue declines that you saw.

And then, that's kind of evident in the fourth quarter results as well, but when I kind of dial forward to the fiscal 2020 guidance it goes the other direction where you have modest kind of 2% decline in revenue, but you have a higher decline in the earnings performance.

And even when I exclude kind of FX or tax impact, but still kind of probably a bit more higher earnings decline than the revenue. So, I'm just wondering can you help me bridge what changes between fiscal 2019 and 2020 on that front? Is it more reflective of kind of it becoming more difficult to drive cost out or reduce cost in commentary of a year as revenue comes down or volume comes down?

Heath Mitts

Now, I appreciate the question. This is Heath. Listen, we've dropped from two years ago to where we just guided, right, about $1 billion and still held operating margins in the high-teens. And so, there's nothing for -- to apologize for there. However, your point is taken.

The -- when we're operating at this level and we have this amount of restructuring activity going on, including footprint changes manufacturing sites coming offline, there is going to be periods of time when you do have some margin compression certainly as you have duplicative activity going on as sites are coming offline while other sites are coming up.

And we'll see some of that during FY 2020 for some of the things we've taken the charges for already in FY 2019 as well as the anticipated changes that we see forthcoming -- charges that we see forthcoming in the early part of 2020. So, there is that kind of activity going on. In addition to the fact that we are going to see, as you mentioned earlier, the currency and the tax rates tick-up certainly that has about -- that impacts about $0.30 year-over-year on earnings and we'll continue to update that.

But in general, I feel like the team is focused. We've got some opportunity to exit the year in FY 2020 in a pretty tough anticipated environment and a position that when we come out of this part of the cycle across all of our businesses, we feel very good to flex up on the uptick, relative to the cost structure and relative to where the mix of business is going to be.

Sujal Shah

Okay. Thank you, Samik. May we have the next question please?

Operator

[Operator Instructions] We have a follow-up question from the line of Wamsi Mohan with Bank of America.

Wamsi Mohan

Yes, thank you. Thanks for taking the follow-up. So your content, I think came in around 4% the low end of the range for 2019. How much do you think that this was timing related versus mix related and other things that you see given your design wins and things like that that can drive 2020 content growth towards the higher end of the range?

Terrence Curtin

Thanks, Wamsi for the follow-up. I mean, I think, the range that we've talked to you about 4% to 6%, we remain confident at that 4% to 6%. Certainly, when you take a year like this year, where you have sort of a decline in production, you can get some supply chain effects, no different than we highlighted to you. Sometimes our content as the market was growing was above the high end of our range. So, I don't see anything from a mix versus the 4% to 6% changing. I actually -- we feel good with the 4% to 6%.

And like I say on the -- in our quarter, you may be off a little bit due to supply chain effects, but feel pretty good about the 4% to 6% as we're going to the next year as well as long term. So, it's creating a buffer versus the negative market, I think that's pretty clear with the backdrop and the environment we've been dealing with. And I think our content trends have been pretty consistent with the past three to four years, that gives us confidence and with the wind we're seeing and also how we partner with our customers.

Sujal Shah

Okay. Thank you, Wamsi.

Terrence Curtin

Thanks, Wamsi.

Sujal Shah

I want to thank everybody for joining our call this morning. And if you have further questions, please contact Investor Relations at TE. Thank you, and have a nice day.

Operator

And thank you. Ladies and gentlemen, your conference will be available for replay beginning at 10:30 a.m. Eastern Standard Time today, October 30, 2019 on the Investor Relations portion of TE Connectivity website. That will conclude our conference for today. You may now disconnect.