Seeking Alpha

Transcripts | **Industrial**

FLIR Systems, Inc. (FLIR) CEO James Cannon on Q3 2019 Results - Earnings Call Transcript

Oct. 31, 2019 1:05 PM ET
by: SA Transcripts

Q3: 10-31-19 Earnings Summary

Press Release *10-Q* *Slides*

EPS of $0.59 beats by $0.01 | Revenue of $471.25M (8.36% Y/Y) misses by $-15.26M

Earning Call Audio

Subscribers Only

0:00:00 -1:05:15

FLIR Systems, Inc. (NASDAQ:FLIR) Q3 2019 Earnings Conference Call October 31, 2019 9:00 AM ET

Company Participants

Lasse Glassen - ADDO Investor Relations

James Cannon - President, CEO & Director

Carol Lowe - CFO & EVP

David Ray - President, Government & Defense Business Unit

Frank Pennisi - President, Industrial Business Unit

Conference Call Participants

Peter Skibitski - Alembic Global Advisors

Peter Arment - Robert W. Baird & Co.

James Ricchiuti - Needham & Company

Michael Ciarmoli - SunTrust Robinson Humphrey

Jeffrey Kessler - Imperial Capital

Joshua Sullivan - Seaport Global Securities

Noah Poponak - Goldman Sachs Group

Louie DiPalma - William Blair & Company

Operator

Greetings, and welcome to FLIR Systems Third Quarter 2019 Earnings Conference Call. [Operator Instructions]. As a reminder, this conference is being recorded. It is now my pleasure to turn the call over to your host, Lasse Glassen, Investor Relations. Thank you. You may begin.

Lasse Glassen

Thank you, Operator. Good morning, everyone, and thank you for joining our call. Please note that our earnings press release and the presentation slides referred to on this call are available under the Events and Presentations section of FLIR's Investor Relations website at www.flir.com/investor.

Before we begin, I need to remind you that the statements made on this call other than historical facts are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 and based on our current expectations. Words such as anticipates, estimates, expects, intends and believes and similar words and expressions are intended to identify forward-looking statements. These statements are subject to risks and uncertainties that could cause actual results to differ materially. Please refer to the earnings press release we issued earlier today for a description of the factors that could cause our actual results to differ materially from these forecasts. The forward-looking statements we make today speak as of today, and we do not undertake any obligation to update any such statements to reflect events or circumstances occurring after today.

We will be discussing our results for the quarter primarily on an adjusted non-GAAP basis. We believe that the non-GAAP information is useful because it can enhance the understanding of our core ongoing operating results and facilitate consistent comparison of the results over time. A full reconciliation between GAAP and adjusted measures is in this morning's press release.

With that, it's now my pleasure to turn the call over to Jim Cannon, President and CEO of FLIR. Jim?

James Cannon

Thank you, Lasse. Good morning, everyone, and thank you for joining FLIR's Third Quarter 2019 Earnings Call. Speaking with me on the call today is Carol Lowe, our Chief Financial Officer. Carol and I are also joined by Travis Merrill, President of our Commercial Business Unit; David Ray, President of our Government & Defense Business Unit; Frank Pennisi, President of our Industrial Business Unit; and Sonia Galindo, General Counsel.

Overall, FIIR's third quarter consolidated results were mixed. I'm quite pleased with the performance of our Government & Defense Business Unit, which delivered franchise program awards, solid organic revenue growth that is augmented by the successful acquisitions of Endeavor and Aeryon as well as improving organic operating margins. We also continue to build momentum in the Industrial Business Unit, which generated strong bookings in the quarter along with expanding operating margins. However, a couple of divisions within our Commercial Business Unit, specifically Maritime and OTS, continue to face headwinds. And some key end markets served by the Commercial Business Unit were negatively impacted by geopolitical and macroeconomic factors.

While consolidated earnings were in line with our expectations and cash flow from operations remains very strong, I am not satisfied with FLIR's third quarter revenue performance. With that said, we remain very confident in FLIR's long-term strategy, which we shared in May 2018. We've made meaningful progress on several areas of our strategy and continue to evolve the execution of our strategic plan. Our strategic priorities are evolving to focus upon leadership in sensor solutions, unmanned and autonomous solutions, airborne ISR and decision support, all the while evolving focus on professional end market customers.

We've made great progress in consolidating a leading position in Group 1 unmanned air and ground. And as shared in yesterday's announcement, we're also advancing our solutions, supporting autonomous automotive technologies. Not only are we moving our strategy forward with notable successes, we're doing so while addressing fundamental compliance needs of the business. As the execution of our strategy evolves, we will continue to fuel, feed and focus FLIR's strategic priorities.

FLIR, like most companies, faces many current external challenges negatively impacting our growth. Although these challenges are largely external, the low organic growth rates are not acceptable, and we must actively work to simplify and reshape our product portfolio to emphasize higher growth opportunities across the entire enterprise. We look forward to sharing with you more details over the next 6 to 9 months and are currently planning to host an Investor Day in Q3 2020.

Now let's move to an overview of the third quarter beginning on Slide 3 of the presentation, with comments on several key financial highlights. Carol will provide additional details on our third quarter financial performance in her prepared remarks. As announced earlier this morning, we reported third quarter revenue of $471 million. Total revenue growth was 8%, while organic revenue growth was 2.5%. Foreign currency exchange negatively impacted growth by nearly $5 million or approximately 1%. This brings the year-to-date foreign exchange impact on revenue to a headwind of approximately $20 million.

Total bookings increased 13% compared to prior year as growth was driven primarily by significant franchise program wins in the Commercial and the Industrial Business Units, along with Government & Defense nonprogrammatic orders in the quarter. For the first 9 months of 2019, total bookings are up 14%. At quarter end, total company 12-month current backlog stood at $668 million, an increase of 13% compared to the balance at the end of the third quarter 2018. In addition, total backlog increased nearly 17% to $810 million over the same period.

Compared with the third quarter last year, adjusted gross profit increased 6% to $240 million, primarily due to contributions from the recent acquisitions and organic growth within the Government & Defense and Industrial Business Units. However, adjusted gross margin of 51% decreased 129 basis points compared to the prior year due to the ongoing ramp of recent acquisitions along with weaker end markets in our commercial business unit. This more than offsets productivity gains from initiatives through the FLIR Method in all of our business units. In addition, adjusted operating income declined 4% compared with the third quarter last year. Adjusted operating margin was down 282 basis points year-over-year due to the dilutive effect of recent acquisitions as well as an increase in corporate expenses, which Carol will discuss in more detail.

Based on our year-to-date results and outlook for the fourth quarter, we're fine-tuning our full year 2019 guidance. We now expect full year revenues of approximately $1.9 billion, representing growth of approximately 7%, which includes organic growth of approximately 2%. We also expect full year adjusted earnings per share of $2.30, which represents the low end of the guidance range we had provided previously. Finally, we announced the quarterly dividend of $0.17 per share, which will be payable on December 6 to shareholders of record as of November 26.

I'd now like to switch gears and discuss our recent progress in executing our strategic priorities to fuel, feed and focus the business. I'll start with a few key third quarter highlights that will help fuel our business in the near term, feed the delivery of our strategic plan and also address more specifics on our recent progress in executing the FLIR Method.

Let's move to Slide 4 with some key recent awards that will help fuel the growth of our business. In the third quarter, the Government & Defense Business unit was awarded a $35 million indefinite delivery, indefinite quantity contract by the U.S. Army. The 30-month engineering, manufacturing and development award is for Contamination Indicator/Decontamination Assurance Spray or CIDAS, which provides a vivid color indication in minutes to identify the presence of various chemical weapons. CIDAS also enables the ability to map chemical agent contamination for emergency response missions as well as aiding the decontamination of personnel or equipment after the exposure to chemical weapons. It can also be used at various stages of the hazard management process to minimize the spread of contamination, all consistent with our strategic objectives to innovate technologies to better inform decisions, which save lives.

And at this month's Association of the U.S. Army or AUSA Annual Meeting along with our partners, Textron and Howe & Howe, our team debuted a working prototype, the Ripsaw M5 offering for the army's next-generation unmanned Robotic Combat Vehicle or RCV program, which is highlighted on Slide 5. This is a perfect example of the growth opportunity for our Government & Defense Business Unit from large franchise programs, utilizing unmanned technologies. FLIR's contribution to this platform will include our world-class intelligent sensors and unmanned assets, including cameras delivering 360-degree situational awareness, surveillance gimbals, tethered drone and ground robots. The confluence of FIIR's technology combined with contributions from Textron and Howe & Howe results in an overmatch on the battlefield. As a result, we are very optimistic about our team's competitive position for this program with final award selection anticipated later next year. This program is well aligned with our long-term strategic plan to position FLIR as a leading unmanned solutions provider for the DoD's modernization priorities, which include utilizing unmanned solutions to protect the war fighter.

Our Industrial Business Unit also continued to advance franchise programs. As highlighted on Slide 6, FLIR was selected by Veoneer for its autonomous vehicle production contract with a top global auto maker planned for initial unit sales in 2021. The Veoneer system will be the first in the industry to include multiple thermal sensing cameras, supplied by FLIR to enhance the safety of self-driving vehicles. FLIR's automotive-qualified thermal sensing cores are a key component of Veoneer's thermal sensing cameras and systems, which have proven effective on hundreds of thousands of passenger vehicles today. With over 15 years' experience in automotive, FLIR has the only automotive-qualified thermal sensor that is deployed on over 600,000 cars today for driver early warning systems. This selection shows the value of thermal sensing for self-driving applications, which we believe to be an imperative and essential component in the ADAS sensor suite, paving way for future adoption by other automotive manufacturers.

Turning to Slide 7. Each business unit release new products, ranging from handheld and drone-mounted detection equipment for incident responders and multiple thermal imaging cameras that will help improve safety on the job. In September, the Industrial Business Unit launched the new high-performance industrial thermal camera in the T-Series family called the T860. This new thermal camera is the first to feature an available subscription to onboard inspection route software ideal for streamlining inspections of utility companies' critical assets. The camera incorporates our advanced vision processing, including patented MSX and UltraMax technologies to enhance image clarity.

Additionally, in September, the Commercial Business Unit launched the new M300 series of marine thermal cameras. Applying enhanced stabilization technology to this high-performance visible, thermal and multispectral imaging, the M300 family offers increased situational awareness and safer navigation to professional mariners, first responders and recreational boaters. The M300 series integrates with the latest generation of marine navigation displays, including the award-winning Raymarine Axiom multifunctional display.

Finally, the Government & Defense Business Unit introduced the MUVE C360, the industry's first multi-gas detector for unmanned aerial systems. Created for emergency response teams, the C360 will allow operators to fly drone into a scene to determine the flow of hazardous vapors, both at the source and in the air. Doing so allows responders to assess the situation remotely before sending anyone into harm's way. When the C360 arrives in the market this quarter, it will immediately change the chemical and gas monitoring process forever.

As highlighted on Slide 8, we continue to make additional strategic investments that will feed delivery of our long-term strategic plan. In early October, we announced the acquisition of the intellectual property and certain operating assets of Aria Insights, Inc., which pioneers the development of tethered small unmanned aerial systems. The Aria assets have been integrated into FLIR's Unmanned Systems and Integrated Solutions business, further augmenting our industry-leading technology portfolio. Aria's innovative technology and IP assets will enable us to enhance current capabilities and advance the range of solutions we can deliver to our customers in this growing market segment.

Now turning to Slide 9. The FLIR Method or TFM is comprised of 6 elements with an emphasis on One FLIR. TFM remains as the foundation as we fuel, feed and focus the business to drive long-term value creation. Over the next several months, we'll be utilizing the tools of TFM to assess the overall complexity of our company. For a company our size, we bring to bear an exceptionally wide range of technologies, serving a equally wide range of end markets and customers. Our analysis will be aimed at finding ways to eliminate unnecessary complexity. At the same time, we'll work to reshape our portfolio to better serve professionals with innovative technologies that provide critical decision support to save lives and livelihoods. We look forward to updating you on our progress on these activities in future calls.

With that, I'll now turn the call over to Carol for her review of the third quarter financials. Carol?

Carol Lowe

Thank you, Jim. Looking at Slide 10, you'll find our third quarter financial results. Please note, with the exception of cash flow, all of these financials are on a non-GAAP basis. Reconciliation to GAAP data is included in the filed appendix.

As Jim mentioned, we generated $471 million in revenue for the third quarter, resulting in a year-over-year growth rate of 8%. Adjusted gross profit increased 6% versus the third quarter of last year, and adjusted operating income decreased 4% during the same time frame. Organic growth on a year-over-year basis was 2.5% while adjusted margins decreased, mostly due to the acquisition made to advance our unmanned strategy. As previously communicated, we expected these near-term impacts to margins when making these critical investments. As we continue executing on our strategy, we're confident we will realize positive contribution from those investments in the coming quarters.

At the bottom line, adjusted diluted EPS was $0.59 in the third quarter, in line with our expectations, notwithstanding the lower-than-expected third quarter revenue. We have experienced elevated corporate expenses compared to the same quarter a year ago. This is mostly due to deliberate investments in R&D technologies, our IT infrastructure and the investment in sustaining general trade compliance resources. We are very focused on aligning our expense base with our revenue profile and will consider additional actions to ensure that happens.

With respect to the consent agreement, I'd like to remind everyone that we are now about 1.5 years into a 4-year time line. Under the terms of the agreement, we agreed to pay a $30 million penalty, half of which is suspended, provided we use those funds to improve our compliance. We have been making major investments into trade compliance, which, over the next 2.5 years, we estimate will exceed $15 million minimum required by the consent agreement. We are deep into our implementation of a more robust compliance program and will continue to incur related expenses as we fulfill our commitment. We are currently undergoing the first audit required by the consent agreement. We expect to receive the results of the audit by the end of Q1 2020. This audit will greatly inform our remediation efforts and require compliance investments. We will provide updates on this matter while we work our way through the remaining term of the agreement.

Year-to-date cash flow from operations were $277 million, marginally higher than $276 million generated in the first 3 quarters of 2018. In the third quarter, we repurchased approximately 1.5 million shares for $75 million, increasing our year-to-date share buyback to approximately 2.5 million shares. Finally, we returned $23 million to shareholders in Q3 through the payment of dividends for a year-to-date dividend payment of $69 million. Our cash balance at September 30, 2019 was approximately $295 million.

After adjusting for discrete items flowing through GAAP income tax expense, our adjusted effective tax rate for the third quarter was 16%, down from 20.5% in the second quarter, driven mainly by a higher benefit earned from foreign-derived intangible income and research credits combined with a lower U.S. tax burden on income earned by foreign subsidiaries. Taking the impact of these items into account for the full year, there was a catch-up reduction from the first half. For the full year, we now expect our effective tax rate to be approximately 19% excluding discrete tax items.

Expanding a bit more on our 2019 outlook. As Jim mentioned earlier, we expect full year revenue of approximately $1.9 billion, which represents year-over-year growth of 7%, including organic growth of 2%. At the bottom line, we anticipate full year adjusted earnings per share of approximately $2.30, which was the low end of our original guidance range. As communicated on prior calls, our 2019 adjusted EPS guidance includes approximately $0.06 of dilution from the Aeryon Labs and Endeavor Robotics acquisitions. Through the first 9 months of the year, we have revised nearly all of that dilution and expect these acquired businesses to scale sequentially from the third to the fourth quarter.

Turning to Slide 11. I will highlight the performance from each of our business units, beginning with the Industrial Business Unit. Third quarter revenue was $177 million, driven by strength in cooled cores and cameras that was offset by lower demand for Test & Measurement products, Machine Vision cameras and the continuing gradual transition from handheld to UAS based and fixed mount offerings. The Q3 revenue results were seasonally in line and essentially flat year-over-year. Operating income for industrial was $58 million, 4% higher than Q3 2018. Operating margin improved 140 basis points year-over-year, driven by sustained productivity gains resulting from the FLIR Method, and we continue to realize favorable product mix.

The Government & Defense Business Unit saw revenue growth of 24% year-over-year, including contribution from the unmanned acquisition. On an organic basis, the business grew by 10%, significantly exceeding 1% organic growth the previous year. All businesses within the Government & Defense Business Unit contributed to the organic growth. It is also worth mentioning that several of the recent large programmatic awards we have announced such as NBCRV and MPCAD will be in development for the next several years, with production anticipated in the second half of 2021. These programs take time to mature but are expected to be a significant source of growth in the future.

Operating income for the Government & Defense Business Unit increased 5% year-over-year and total operating margin declined 494 basis points due mainly to higher operating expenses from recent acquisitions. In Q3, Government & Defense current backlog reached $447 million to end the quarter, a 21% increase over the third quarter of 2018 having successfully replaced a large end-of-life program. While Government & Defense book-to-bill in Q3 with less than 1 due delays of award from our Middle East customers, we have several awards that are in final stages that are expected to close later in Q4 2019 and Q1 2020. Book-to-bill for Government & Defense stands at 1.06 for the first 3 quarters of the year.

The Commercial Business Unit third quarter revenue was down 5% year-over-year, inclusive of a negative 1.4% impact from foreign currency. The Maritime business continues to experience year-on-year revenue decline, which correlates directly to industry conditions. Additionally, headwinds from the OTS realignment persisted into the third quarter, but we're seeing some positive signs as a result of the team's efforts to reposition our products for the professional.

Our ITS business, on the other hand, experienced strong double-digit top line growth over last year. Operating income and operating margin for the Commercial Business decreased 28% and 286 basis points year-over-year, respectively. Although implementation of the FLIR Method is bringing record productivity to our processes, overall profitability for the business unit was negatively impacted by the revenue declines in Maritime and OTS. Foreign currency exchange and U.S. import tariffs also continue to have a negative impact on our financial performance.

In the appendix on Slide 14, you will find our GAAP to non-GAAP reconciliation. I will note that of the total $18 million in after-tax reconciling items, expenses associated with acquisitions represent the largest portion. Total pretax acquisition-related expense is $21 million, including amortization of acquired intangibles of $15.5 million. Consent agreement-related expenses were approximately $4 million pretax for the third quarter.

I will now pass the call back to Jim.

James Cannon

Thank you, Carol. The third quarter was a productive period for FLIR. We continue to advance our strategic priorities and made good progress on many fronts as evidenced by the successful integration of recent key acquisitions, and our success in furthering important franchise programs that will be the key to achieving our growth objectives. As part of this, we've also made great strides in unmanned air and ground programs while advancing our solutions supporting autonomous automotive technologies.

It is our objective to evolve into a higher growth company while enjoying best-in-class margins as compared with industry peers. However, we still have a lot of work ahead. FLIR's top line growth did not meet our expectations in the third quarter, and we're working with a sense of urgency to identify and address our challenges head on.

Looking to the fourth quarter and beyond, we will continue to accelerate our efforts to leverage the FLIR Method across the enterprise. In doing so, we remain diligent in our daily tasks to consistently exceed our commitments with integrity and our purpose to innovate The World's Sixth Sense to save lives and livelihoods.

With that, I'd now like to open up the call for questions. Operator?

Question-and-Answer Session

Operator

[Operator Instructions]. Our first question comes from Pete Skibitski with Alembic Global Advisors.

Peter Skibitski

Jim, on the lower organic revenue guidance from 5% to 2%, is that all due to the Commercial unit? Or are there other factors in other segments as well? Or is the balance basically FX? Just want to make sure I understand that.

James Cannon

Yes, there is some modest FX impact, as we mentioned, but the bulk of it is in our Commercial businesses. If we look at our expectations for our Government & Defense Business Unit full year on an organic basis, it will be ahead of what our expectation is, with the acquisitions contributing as well. If we look throughout the Industrial portfolio, we've got some real strength in OEM, but the Commercial Business Unit's headwinds, principally around Maritime and OTS restructuring, are well below expectations and not growing to prior year despite some real bright spots as we mentioned in the ITS business, which has continued to grow nicely and be very accretive but just too small to move the overall enterprise, if you will.

Peter Skibitski

Okay. Okay. That makes sense. Just one follow-up for me. Can you just give us a better sense of which programs in particular are driving this strong government organic growth? I think it's been strong this quarter, I think in the second quarter also. And then just maybe you can size some of these Middle Eastern awards that you're expecting?

James Cannon

Yes. So throughout the year, the Government & Defense Business has done a really good job of finding non-programmatic business to offset the end-of-life of the EO/IR-FP program as well as DR-SKO, which we produced our final shipments on this past quarter. So a bulk of the backlog build and such really have been of the non-programmatic wins as we've oriented the business to compete on much larger programs of record as we enter 2020.

That said, Soldier Borne System, which we were awarded earlier in the year and are well into delivery on, in fact, the 3rd Brigade Combat team of the 82nd Airborne took the Black Hornet through Soldier Borne System to Afghanistan, we've gotten good feedback as well as the NBCRV, the Nuclear Biological Chemical Reconnaissance Vehicle that we're producing have been the 2 most notable programs. But as we go into 2020 and beyond is when we expect some of these, again, much larger programs to begin to produce.

For our ground robot systems, the MITRE program, as we exit this year and going into next year, will be in shipment through Q4 and accelerating into next year for ground robots. The SubT program also will be well into delivery. And as we've mentioned in the prepared remarks and the slides, we're really excited about the Remote Combat Vehicle with team Ripsaw. Our partnership with Textron and Howe & Howe to produce what is really disruptive modernization with an unmanned ground robot system to augment ground armored forces. The big -- well, the international order expectations that we mentioned that did materialize in the quarter were out of the Middle East. We still expect to be awarded those. However, timing slips to the right a bit. We hope to receive them by year-end or early into next year.

Operator

Our next question comes from Peter Arment with Robert W. Baird.

Peter Arment

Jim, on the -- your mentions of the reshaping the product portfolio in the Commercial segment, what can you -- give us any color on that? And any expected time line when you're talking about that in 2020?

James Cannon

Some of that has already been well underway with our restructuring of the OTS business. That's happened throughout the year. And that's a tough transition as we've pivoted to focus on professional users of weapon sights, law enforcement, military customers, et cetera, and that continues to produce headwinds for us as we move through that transition. After the May 2018 strategy that we described in our priorities through 2021, this is the logical time that we work to evolve that strategy. As we mentioned, we're going to have an Investor Day in Q3 of next year, but we're already looking at how we need to prioritize the business going forward. We cover down on a very wide range of end markets, and we want to have more of a growth footing, again while having best-in-class margin rates compared to our peers.

So when we look at our priority going forward, we are going to put much more emphasis on sensor leadership, unmanned and autonomous, airborne ISR in decision support. Because across all of our technologies helping that professional make a better decision quicker to save lives and livelihood is our ultimate purpose, if you will. Our Maritime business has grown nicely from 2017 through 2018, but throughout this year continues to have headwinds. They also have worked to pivot to have more of a professional focus with their multifunctional displays and other feature functionality throughout the technologies that they've launched.

And the ITS business, as I mentioned inside Commercial Business Unit, has actually done quite well. It's just subscale to move the overall enterprise. So looking, not just a portfolio, but how we focus future R&D, shape the portfolio into higher growth footing, if you will, and address complexity inside the business so we have the right systems to be able to scale and be compliant going forward are the key components of the evolution of our strategic plan. But we're not prepared at this moment to give any specific direction.

Peter Arment

Okay. And if I just as a follow-up, just on switching over to Industrial growth, I mean, maybe this is for Frank. But the OEM sounds very solid in that channel. But what are we seeing from the market dynamics on Machine Vision in Test & Measurement? When -- is this a bottoming-out process? Or what exactly -- can you give us color there?

Frank Pennisi

Yes. What I'll tell you in the Machine Vision space specifically, what you're seeing, you've seen in the reports of our peers, there's a bit of a downturn in the semiconductor and the automotive consumer electronics space. What the general consensus is that we're at or near or bottom at this point. What I'll tell you is our business is performing either at or above the level of our peers. We've seen double-digit bookings growth in the Machine Vision business. So feeling great about that and just feel like we're on the kind of at the bottom in that particular space. In the Test & Measurement space, I'll tell you, it's just generally a GDP growth market. So we're generally in good position with that. That's just a function of what's happening with the economy.

Operator

Our next question comes from Jim Ricchiuti with Needham & Company.

James Ricchiuti

As a follow-up to that last question, yes, it's a little surprising to hear that you're seeing that kind of bookings growth in the Machine Vision business, just given the weakness that you talked about in some of these key markets. Where is the momentum in bookings coming from in the industrial Machine Vision camera business?

Frank Pennisi

Yes. So I'll tell you, a lot of it is the fact that we put a lot of time and effort into our go-to-market efforts that have been able to allow us to have a relatively broad-based booking for starters. But I would tell you some of the areas of higher growth are occurring in the life sciences and robotics spaces, in addition to the fact that we're getting some competitive wins in some of the spaces that are still a bit downtrodden.

James Cannon

And there's been some nice innovation in that business, too. I'll point to Firefly that's got onboard analytics, et cetera.

James Ricchiuti

Okay. That's helpful. And then -- and as a follow-up, I don't know if you're willing at this point to discuss the pipeline for the A&D business, looking out to 2020. But I was wondering if, Jim, you or David, if you're willing to comment on that. It sounds like there's activity that you're expecting potentially this -- the end of this year in the Middle East. But how does the pipeline look more broadly for some additional franchise wins?

James Cannon

Yes. I'll make some comments, and David, you can add some color. Year-to-date, the book-to-bill for our Government & Defense Business is about 1.06. We've seen a lot of strength in, again, the unmanned applications as we go forward and expect some program awards for unmanned ground robots, hopefully between now and the end of the year. Some of the much larger programs begin to award as we exit 2020 going into the 2021. But David, do you want to add some color?

David Ray

Jim, I think you're spot on. The only thing I would add is, when you think about gimbal business in our surveillance business area, programs like G-BOSS(NYSE:E) next year, we'll start to firm up around an acquisition strategy. We think we're well positioned there. The modernization efforts that our DoD customers have around the rotor wing platforms will start to take effect from an RFP proposal perspective in the second half of the year. But in the first half of the year, programs like CRS-H carbon robotics and some RCV are expected to be awarded in the first half of next year, which really are the big movers and shakers of what's going to drive kind of the franchise activity for the business.

Operator

Our next question comes from Michael Ciarmoli with SunTrust.

Michael Ciarmoli

Maybe just to stay on the government side, Jim, I think you alluded to -- I can't remember if it's Jim or Carol, talking about some of these larger programs. They're in development phase. They don't really, I guess, shift into production until second half '21. Can you just elaborate there a little bit? And I mean, is that sort of code here to kind of calibrate our expectations for margin expansion, assuming there's just normal kind of start-up costs, learning curves? And does that prevent the government margins from -- I mean, I know it's stale, but at one point you guys talked about a 29% margin. But just maybe to calibrate our expectations about how we should think about the cadence of government margins given these development programs.

James Cannon

Yes. When I think about our Government & Defense business, most of its growth over the years and historically the strength has been non-programmatic business. OCO funding, work with SOCOM and/or sales directly to allied militaries. And that continues to be a focus and can be very profitable driving strong margin accretion with good product mix. So we're going to maintain that.

Certainly, in the near term, that's a lot of focus of ours. And as we look at the book-to-bill largely throughout the year, most of it has been non-programmatic. But as we talked about when we met at our Investor Day last year, we're now building the right infrastructure, the right go-to-market strategy and the right product design to align with the requirements of much larger programs. And when they come in, we really want them to layer on top of what is the core legacy business to drive growth.

When we look at the programs we're going after, whether it be unmanned ground robots with CRS-H for example, the remote combat vehicle and our partnership with team Ripsaw, Textron and Howe & Howe, a lot of these technologies are technologies that don't require a tremendous amount of additional R&D and development on. We feel quite confident in going forward. And these will begin to layer in through the end of this year, through 2020 and 2021, but the bulk begin to deliver towards the end of 2020 and going into 2021. But in the meanwhile, we continue to work diligently, again, on growing that non-programmatic business that can be much more profitable.

non-programmatic business that can be much more profitable.

Michael Ciarmoli

Got it. And then just one more follow-up, Jim. I mean, if I look at Maritime, I mean, I think you called out some nice growth since '17, but I think this was $180 million run rate business back in 2012. It's clearly margin dilutive. It doesn't seem core. I mean, is this -- I mean, is this one that's going to be divested? I mean, it seems that it could clearly help eliminate some of your volatility, boost your margins. I know you talked about reshaping, but, I mean, this one clearly sticks out, I guess.

James Cannon

Right. Well, we're disappointed with the performance year-to-date. Certainly, we're proud of the lot of work that's been done in that business to drive innovation. But as I mentioned, as we go forward, we're evolving our strategy. We're going to focus heavily upon sensor leadership unmanned, ISR, decision support. In between now and the upcoming Investor Day, which will be Q3 of next year, just general complexity reduction and potential reshaping the portfolio is going to be considered. I'm not prepared today to talk about any specifics around any individual business unit, but it's something that we always consider and as we naturally evolve the strategy, we're going to pay much more attention to going forward.

Operator

Our next question comes from Jeffrey Kessler with Imperial Capital.

Jeffrey Kessler

Taking a look at the Commercial division again, and not to beat this dead horse, but it seems like far from dead. I just came from a conference in which companies like Axis and actually SightLogix will be -- actually competes with you on -- in some of those areas actually are having good years. The high end, where it is less price-sensitive, is having a good year, obviously, at the bottom end. It's because of, let's call it, Asian price pressures, it's meaningless to try to sell into that marketplace at this point. But what I'm interested in is that given that there is some -- there is quite a bit of success at the top end of the vision business in, if you want to call, the OTS area, I'm just wondering -- I'm just wondering what you expect to get out of the repositioning toward those end users who value your capabilities over price. Is there -- certainly, there seems to be a market -- there is a market for it. And the question is, how are you going to position yourself for that market?

James Cannon

Thanks, Jeff. For our commercial security business, we absolutely are focused on critical infrastructure and applications, where the customer does have a willingness to pay for our technologies. For the commercial security business in the quarter, we actually had very strong bookings tied to critical infrastructure projects in India. We also continue to see success with applications like data center perimeter security, or airport perimeter security, other federal government applications. As you mentioned, we do not see a lot of value going forward in competing at the bottom end of that market against Chinese imported cameras and such. But for these critical infrastructure applications that need the technology and also value the cybersecurity that our products bring, we'll continue to focus upon and intend to grow.

You mentioned the OTS business as well. And for the OTS business, our Outdoor and Tactical Systems, it was largely a commercial weapon sight business focused upon outdoor enthusiasts. And we move that business to orient it to the law enforcement and military professional, the work that's required to reconstitute those channels to market, build the right products that meet their requirements, reduce the number of SKUs to serve their specific needs. We've made good success with and are in the early stages of seeing a return to growth as we're developing that market.

Jeffrey Kessler

Okay. So if I have this right, the OTS size is being repositioned. Your -- the commercial part of your -- the Commercial part of the Commercial Business, which is obviously much more than just garden-variety commercial, actually is doing fairly well. And so I take it that the combination of OTS and Maritime are what really are pulling that part of the business down, whereas the ITS side and the commercial security side are the one -- are the parts of that business that are doing well. So when I'm thinking about what you might say in a year from now or so at your Investor Day, I'm thinking about what parts of these businesses you really want and what parts of these businesses are not going to be a, let's just say, core to the company?

James Cannon

That's right. And you're correct. It's the Maritime and OTS businesses inside Commercial, they're providing the principal headwinds.

Operator

Our next question comes from Josh Sullivan with Seaport Global Securities.

Joshua Sullivan

Just a question on the Industrial business. Can you expand on the comment on the transition on the handheld business to other platforms? Just where are we in that transition? Are the non-handheld platforms, higher margins? And then how long do you think that transition will play out?

James Cannon

Yes, I'll make a couple of comments, and Frank, you can chime in. We see more and more fixed-mount applications as people want continuous monitoring of different plant, property and equipment and a lot of unmanned solutions, whether it be for inspection applications, for safety with regard to first responders, we see that unmanned growth a lot. But Frank, do you want to add some commentary?

Frank Pennisi

Yes, I would say that when you look at Jim's key priorities, which are unmanned autonomous and decision support, it really fits very well with this. The trend of folks walking around with a handheld using -- and having to interpret that data is still there, but the growth in that particular category is slowing and shifting over into going into drones and fixed mounts. Those particular categories are, in fact, a very high-growth market and industry for us, and we're seeing that transition. We're actually capturing that quite well.

Relative to the margins, I'll just say that the margins of that entire ecosystems are still accretive to FLIR as a whole. And if we can accelerate into a faster growth, that's a good thing for the business.

Joshua Sullivan

Got it. Appreciate that. And then just one on the autonomous automotive efforts. What are the current thoughts on the adoption time line for the auto industry? Maybe what are some of the near-term opportunities here?

James Cannon

Yes. Right now, we participate in almost every demonstration or experimental fleet that's out there. As we've stated, we believe thermal is a core part of the sensing suite that's going to be required as levels of ADAS move up. As we announced yesterday, partnered with Veoneer, they have won a contract with a major automaker that will go into production in 2021. It's the first to use multiple thermal sensors in the solution. We're really excited about it. We think it will encourage other automakers to adopt this as a core part of their sensing suite. So that's the first victory, if you will, and we've got a lot of work to make sure we deliver upon that successfully. And then from 2021 onward, we expect to see quick adoption because we've had great success in a lot of the demonstration fleets that have been out there.

Frank Pennisi

I think you'll see a trickle in 2021, and that trickle will turn to flow over the next few years over that. The thing that I'd also want to emphasize is that not only is it autonomous vehicles that we're talking about. But if you look AEB, automatic emergency braking, a recent study came out from AAA that the Wall Street Journal published. It basically says that all AEB systems essentially don't work at night, and that's placed directly in the thermal sweet spot. And that has actually -- we've not only gotten a lot of momentum in the thermal space in autonomous vehicles, but on standard vehicles as well and to building this in as a thermal-enhanced or thermal-assisted AEB system. So there's a lot of adoption coming up about -- what we're very excited about as a company.

Operator

Our next question comes from Noah Poponak with Goldman Sachs.

Noah Poponak

So if I take the new 2019 revenue guidance, $1.9 billion, 2% organic. If I assume Government & Defense has a similar kind of growth rate in the fourth quarter as it had in the third, kind of just through mid-single, approaching high single digit, it would imply that Industrial and Commercial or at least one of the two would have to have pretty healthy acceleration in the fourth quarter versus the second and the third. And so, one, how has that happened? Because it doesn't sound like some of the headwinds you're describing are changing in real-time right now as we're a month into the quarter? And then as I go into 2020, can the headwinds you have there alleviate enough where versus easy comps those segments can grow in line with the 5% and 4% long-term target you have? Or should I think about those as still being a little slower in 2020?

James Cannon

As we go into the fourth quarter, we do expect continued headwinds in the Commercial Business principally. The Industrial Business Unit had a really strong bookings quarter, if you will. The Government & Defense Business, as we talked about, we continue to expect strong performance. We're certainly disappointed. We want all the business units to achieve that 5% or greater organic growth rate. Certainly, from when the time we've targeted that, there have been some external headwinds that we've shaped, but it's certainly our intent as we go forward to have all the businesses contribute to our growth so we can be on a growth footing. Carol, do you want to add some color?

Carol Lowe

I would just say, Noah, because of the growth in Q4 for Government & Defense will be -- is expected to be higher than what you're estimating. The total will be very strong, especially including what's in the unmanned business and as those programs ramp. So in total, we'll have slightly higher numbers than what you're estimating.

Noah Poponak

Noah Poponak

I see. Can the entire company grow 5% organically in 2020 with what you see right now?

James Cannon

Well, we don't want to provide specific guidance to 2020 quite yet. As we go through the fourth quarter, we're building our annual operating plan so we can go through the proper diligence to understand that. And then obviously, on the February call, we'll be providing that direction.

Noah Poponak

All right. And final thing, Carol, can you specify or quantify how much -- in the third quarter of 2019 and then in the full year of 2019, how much total nonrecurring is there between the consent agreement expenditures, incremental investments, anything else that's impacting the margins? The way you're reporting them adjusted, that doesn't repeat going forward or isn't permanent.

Carol Lowe

So the amount year-to-date that is below the line is called out in the GAAP to non-GAAP reconciliation, and there's approximately $12 million that's year-to-date. And if you look at what the run through is that's in our full year guidance for ongoing GTC, Global Trade Compliance costs. We'll be at a run rate of approximately $11 million to $12 million by the end of 2019. And that is reflected in our net adjusted operating income. The other thing I'll note is that when you look at our cash flow and being basically flat -- free cash flow year-over-year or cash flow from operations, we're covering that incremental cash requirement to fund not only the ongoing costs for Global Trade Compliance but also these onetime costs that are sitting below the line. So that's a reflection of the positive that we've had from the TFM and contributing good cash flow to offset that so we can maintain strong cash flow from operations.

Noah Poponak

Do you know today what those are going to be in 2020?

Carol Lowe

So we will be informed, as I noted, in our earlier prepared remarks by the audit that's currently underway. It started. So we're having audits conducted at all of our major sites and anywhere where we have a product that has to be licensed. And we won't have the results of that until towards the end of Q1, and that will greatly inform our remediation efforts. So right now it would just be a guess until we get those results. But I do want to note that, again, we're really committed to make sure we ramp up under TFM to more aggressively manage working capital, to generate the cash that's needed so we can cover these costs without having a negative impact on total cash flow for the company.

Operator

Our next question comes from Louie DiPalma with William Blair.

Louie DiPalma

For the Industrial Business Unit, is the strength that you're seeing with Machine Vision bookings and the shift from handhelds, the higher-priced joint platforms, is that enough to offset macro weakness and your exposure to China? And should we expect the Industrial Business Unit growth -- the growth rate to improve over the next couple of quarters?

James Cannon

I would say we continue to expect headwinds in China with Machine Vision. There's no one catalyst in that market right now that's driving it from an external standpoint. We do have new products. As we've mentioned, we've had some strong bookings as we've moved into different parts of the market or diversified the kind of applications we go after. The big driver inside of IBU is the OEM business unit. They've had really strong bookings. This past quarter, they kind of led the way with that, and they continue to be a cornerstone of that Industrial Business Unit. And we are encouraged about what we see potentially in the near-term with instruments as well.

Louie DiPalma

Okay. And you just mentioned the OEM part of that business. Your partner, DJI, has dominated the unmanned systems market for the first responder vertical in the U.S. Since you are like a very strong partner and supplier with DJI, you have benefited from that. But you are like a very strong partner and supplier with DJI, you have benefited from that. But are you content with that existing relationship? Over the long term, do you envision that Aeryon Labs and Black Hornet could also be competitors to DJI for the first responder vertical in addition to you being a partner to DJI?

James Cannon

Black Hornet and Aeryon Labs with SkyRanger and SkyRaider are focused principally upon government applications, federal government, in particular, the largest customer being the Department of Defense. And right now, we continue, particularly with Black Hornet, to stay focused upon that DoD customer. DJI do have a tremendous amount of market share on the commercial and enterprise markets, and we provide payloads to them as well as develop our own payloads. And we've seen good adoption across that first responder market. They can be so price-sensitive as their budgets are often constraint. But for now, our SkyRanger, Raider in Black Hornet are certainly focused upon federal government applications principally.

Louie DiPalma

And one last question. What role does Veoneer have in your contract announcement from last night? And are they your only integrator partner?

James Cannon

They are not our exclusive integrator partner. They are a preferred partner of ours, and we have a very long relationship with them. Frank, do you want to add some commentary?

Frank Pennisi

Essentially, they're Tier 1 and we're Tier 2 supplier. We are, in fact, working with a large number of other manufacturers, whether that's directly with the OEMs or with Tier 1s. And basically -- but essentially, I'll say that we're principally aligned with Veoneer.

Operator

Ladies and gentlemen, we've reached the end of the question-and-answer session. At this time, I'd like to turn the call back to Jim Cannon, President and Chief Executive Officer, for closing comments.

James Cannon

Thank you, operator. In closing, I'd like to thank all of you for joining the call today and for your interest in our company. As always, I would also like to thank the more than 4,000 FLIR team members around the world for your hard work, passion and dedication to our mission. We look forward to updating you on our progress when we report our 2019 fourth quarter and full year results in February. Thank you, and have a great day.

Operator

This concludes today's conference. You may disconnect your lines at this time, and we thank you for your participation.