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Amphenol Corporation (APH) CEO Adam Norwitt on Q3 2019 Results - Earnings Call Transcript

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Q3: 10-23-19 Earnings Summary

Press Release SEC *10-Q*

EPS of $0.95 beats by $0.08 | Revenue of $2.1B (-1.33% Y/Y) beats by $120.11M

Earning Call Audio

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Amphenol Corporation (NYSE:APH) Q3 2019 Results Earnings Conference Call October 23, 2019 1:00 PM ET

Company Participants

Craig Lampo - Chief Financial Officer

Adam Norwitt - Chief Executive Officer

Conference Call Participants

Wamsi Mohan - Bank of America Merrill Lynch

Jim Suva - Citigroup Investment Research

Shawn Harrison - Longbow Research

Matthew Sheerin - Stifel Nicolaus

Mark Delaney - Goldman Sachs

Steven Fox - Cross Research

Craig Hettenbach - Morgan Stanley

William Stein - SunTrust Robinson Humphrey

Joseph Giordano - Cowen and Company

Deepa Raghavan - Wells Fargo Securities

Michael Fisher - Evercore ISI

Samik Chatterjee - J.P. Morgan

Operator

Hello and welcome to the Earnings Conference Call for Amphenol Corporation. Following today's presentation, there will be a formal question-and-answer session. Until then, all lines will remain in a listen-only mode. At the request of the company, today's conference is being recorded. If anyone has any objections, you may disconnect at this time.

I would now like to introduce today's conference host, Mr. Craig Lampo. Sir, you may begin.

Craig Lampo

Thank you. Good afternoon, everyone. This is Craig Lampo, Amphenol's CFO, and I'm here together with Adam Norwitt, our CEO. We would like to welcome you to our third quarter 2019 conference call.

Our third quarter results were released this morning. I will provide some financial commentary on the quarter. And then, Adam will give you an overview of the business as well as current trends and then we will take questions.

As a reminder, we may refer in this call to certain non-GAAP financial measures and may make certain forward-looking statements. So please refer to the relevant disclosures in our press release for further information.

The company closed the third quarter with sales of $2.101 billion and with GAAP and adjusted diluted EPS of $0.92 and $0.95 respectively.

Sales were down 1% in US dollars and flat in local currencies compared to the third quarter of 2018. And from an organic standpoint, excluding both acquisitions and currency impacts, sales in the third quarter decreased 6%. Sequentially, sales were up 4% in US dollars, 5% in local currencies and 3% organically.

Breaking down sales into our two segments. Our cable business, which comprised 5% of our sales, was down 9% in US dollars and down 8% in local currencies compared to the third quarter of last year.

The interconnect business, which comprised 95% of our sales, was down 1% in US dollars and flat in local currencies compared to last year.

Adam will comment further on trends by market in a few minutes.

Adjusted operating income was $414 million for the third quarter of 2019. And adjusted operating margin was 19.7%, which is down 120 basis points compared to the third quarter of 2018. Compared to the second quarter of 2019, adjusted operating margins decreased 60 basis points.

From a segment standpoint, in the cable segment, margins were 10.2%, which was down compared to the 13.1% in the third quarter of 2018, primarily driven by volume as well as, to a lesser extent, product mix.

In the interconnect segment, margins were 21.7% in the third quarter of 2019, which was down compared to 22.7% in the third quarter of last year. This reduction was primarily driven by a relatively normal downside conversion, together with the impact of the cost of the restructuring actions taken in the quarter, as well as the contribution from acquisitions, which are currently operating at a profitability level below the company average.

This quarter's performance is a direct result of the strength and commitment of the company's entrepreneurial management team, which continues to foster a high performance, action-oriented culture, in which each individual operating unit is able to appropriately adjust to market conditions and thereby maximize both growth and profitability in an uncertain market environment.

Through the careful fostering of this culture and the deployment of our strategies to both existing and acquired companies, our management team has achieved industry-leading operating margins and remains fully committed to driving enhanced performance in the future.

Interest expense for the quarter remained at approximately $30 million and compares to $25 million in the third quarter of last year. As discussed in our prior earnings calls, this increase is due primarily to higher average interest rates as a result of the first quarter bond issuance and higher average debt levels.

The company's adjusted effective tax rate was approximately 24.5% for the third quarter of 2019 compared to 25.5% in the third quarter of 2018. The adjusted effective tax rate excludes the impact of the excess tax benefit associated with stock option exercises as well as the tax effect of the refinancing-related costs associated with the tender offer in the third quarter of 2019.

The company's GAAP effective tax rate for the third quarter of 2019, including the items just mentioned, was approximately 24.5% compared to 23.8% in the third quarter of 2018.

Adjusted net income was a strong 14% of sales in the third quarter of 2019.

On a GAAP basis, our diluted EPS declined by 9% in the third quarter to $0.92 compared to $1.01 in the third quarter 2018. Adjusted diluted EPS declined 4% to $0.95 in the third quarter of 2019 from $0.99 in the third quarter of 2018.

Orders for the quarter were $2.091 billion, which was down 1% compared to the third quarter of 2018 and resulted in a book-to-bill ratio of 1:1.

The company continues to be an excellent generator of cash. Cash flow from operations was $412 million in the third quarter or approximately 142% of adjusted net income. This was a very strong result.

Net of capital spending of $71 million, our free cash flow was $341 million or 117% of adjusted net income.

From a working capital standpoint, inventory, accounts receivable and accounts payable were approximately $1.3 billion, $1.7 billion and $831 million respectively at the end of September. And inventory days, days sales outstanding and payable days were 79, 72 and 52 days respectively, all within our normal range. I would note that we are very pleased with the meaningful improvement in net working capital days compared to June.

The cash flow from operations of $412 million, along with proceeds from our recently completed bond offering of $900 million, proceeds from the exercise of stock options of $33 million and cash, cash equivalents and short-term investments on hand of approximately $13 million net of translation were used primarily to repay approximately $532 million in borrowings under our commercial paper programs and other facilities, redeem approximately $373 million in senior notes, repurchase approximately $150 million of the company's stock, fund acquisitions of approximately $135 million, fund net capital expenditures of $71 million and fund dividend payments of $68 million.

During the quarter, the company repurchased 1.7 million shares of common stock at an average price of approximately $88 under the $2 billion three-year open stock repurchase plan.

At September 30, cash and short-term investments were approximately $987 million, the majority of which is held outside of the US.

As previously announced on September 4, the company launched a $900 million US bond offering, which has a 10-year term and bears interest at 2.8%. In conjunction with the US senior note issuance on September 11, the company also tendered $147 million of its $375 million 3.125% US senior notes and $205 million of its $500 million 4% US senior notes.

The company used proceeds from the note issuance to fund the tender offer, with the remaining funds being used for general corporate purposes, including the repayment of a portion of the borrowings under the US commercial paper program.

This issuance and tender offer further strengthened our capital structure by extending our average debt maturities by approximately two years, while keeping our average effective interest rate on outstanding borrowings unchanged.

At September 30, after giving effect to the new bond offering, the company had issued approximately $754 million under its US and Euro commercial paper programs. The company's cash and availability under our credit facilities totaled approximately $2.7 billion.

Total debt at September 30 was approximately $3.9 billion and net debt was approximately $3 billion. The third quarter 2019 adjusted EBITDA was approximately $501 million.

In summary, this was a very strong quarter for the company financially, especially in light of moderating demand and continued uncertainty across global markets.

I will now turn it over to Adam who will provide an overview of the business and comment on current trends.

Adam Norwitt

Well, Craig, thank you very much, and I'd like to extend my welcome to all of you here on the phone today. Thanks so much for spending a few of your precious minutes with us today.

As Craig mentioned, I'm going to highlight some of our achievements in the third quarter. I'll then discuss the trends and progress across our served markets. Finally, I'll comment on our outlook for the fourth quarter and the full-year 2019 and, of course, we'll have some time for questions at the end.

Our results in the third quarter exceeded the high end of the company's guidance in both sales and earnings per share, and that was despite continued elevated levels of uncertainty in the marketplace.

Sales declined by 1% in US dollars and were flat in local currencies, reaching just over $2.1 billion. Sales in the quarter were down by 6% organically.

Company booked just under $2.1 billion in orders, representing a book-to-bill of also just under 1:1.

Adjusted diluted EPS in the quarter reached $0.95, which while down 4% from prior year was $0.07 above the high end of our guidance that we gave at the end of last quarter.

Operating margins in the quarter were 19.7% and did come in a bit stronger than we had anticipated coming into the quarter.

Craig mentioned that the company generated very strong operating and free cash flow of $412 million and $341 million, respectively, in the quarter. I just want to emphasize that this is a great reflection of the quality of the company's earnings.

I'm extremely proud of the Amphenol team around the world. In what's clearly a challenging market environment, we performed very well this quarter. And these excellent results are another clear reflection of the agility and discipline of our entrepreneurial organization around the world.

We're very pleased to have completed two additional acquisitions just here at the end of the quarter, which together represent approximately $60 million in annual sales and which we acquired for a collective purchase price of approximately $87 million.

First, Cablescan. It's a manufacturer of high technology cable assemblies for the military aerospace market. Based in Yorkshire in the UK, Cablescan's products are sold into a range of military aerospace applications, including in particular land vehicles and aviation. And this company represents an outstanding complement to our already broad array of value-add interconnect solutions for the important military and commercial aerospace markets.

XGiga is a manufacturer of active fiber optic interconnect products for the global communications markets. And this company, which is based in Shenzhen, China, broadens our product offering and strengthens our already industry-leading offering of high-speed interconnect products for the communications infrastructure market.

So, as we welcome these outstanding new teams to the Amphenol family, we remain very confident that our acquisition program will continue to create great value for the company.

We have now acquired nine great businesses so far here in 2019 and these excellent companies collectively represent annualized revenues of approximately $530 million and, more importantly, they have strengthened Amphenol across nearly all of our end markets with their entrepreneurial management teams, their high technology product offerings and their complementary market positions.

Most importantly, though, these new family members create additional platforms for future expansion and performance improvement in the company. We're pleased that our acquisition program remains a core competitive advantage for Amphenol.

Now, turning to our progress across our served markets, I would just comment that we continue to be very encouraged by the value created by the company's balanced and broad end market diversification.

Once again, in the third quarter, no market represented more than 20% of our sales. And very importantly, this diversification helps to mitigate the impact of the volatility of individual end markets, while all the while exposing us to leading technologies wherever they may arise across the electronics industry.

So, turning first to the military market. The military market represented 12% of our sales in the quarter. Sales grew by a better-than-expected and very strong 26% in both US dollars and organically.

This strong growth was very broad based, but was driven in particular by growth in military vehicles, naval applications, aviation and communications equipment. Sequentially, our sales increased by a very strong 9% in what is normally a seasonally more moderate quarter.

Looking ahead, we expect sales in the fourth quarter to again increase modestly from these third quarter levels. And for the full-year 2019, we now expect to achieve sales growth in the military market of just above 20%. This improved outlook reflects our team's excellent execution in the face of higher demand from customers across the defense market.

I remain extremely proud of Amphenol's team working in the military market. With strong demand that's being driven by both robust defense spending, together with accelerating adoption of new technologies, our organization has simply done an outstanding job reacting to satisfy that demand, while also expanding our overall market position.

The addition of Cablescan this quarter further strengthens our already strong value-add interconnect offering for a wide array of harsh environment applications.

And our broadened range of interconnect products, together with the strongest and most international manufacturing footprint, positions us very strongly for the future.

The commercial aerospace market represented 5% of our sales in the quarter. Sales in commercial air were also stronger than expected, growing 15% in US dollars and 16% organically as we capitalized on continued strong demand for next generation jetliners with high electronics content. Sequentially, our sales were up slightly from the second quarter.

Looking into the fourth quarter, we expect sales to increase modestly from these levels. And for the full-year 2019, we continue to expect a low double-digit increase in sales from prior year.

The commercial air market continues to represent a significant opportunity for the future in Amphenol. Our customers are implementing new technologies on existing and next generation jetliner platforms, which creates increased demand for our high technology products. We look forward to benefiting from that favorable trend for many years to come.

The industrial market represented 20% of our sales in the quarter. Sales in the third quarter increased by a less-than-expected 4% in US dollars and were down by 6% organically as growth in oil and gas and medical applications was more than offset by reductions in heavy equipment, instrumentation and battery-related products.

On a sequential basis, our sales did increase by 2% from the second quarter as the contributions from the CONEC and Bernd Richter acquisitions that we announced last quarter were offset in part by slowing demand in the industrial market, and that demand was slowing in particular in Europe.

Looking into the fourth quarter, we expect sales in the industrial market to further moderate from current levels due to slowing demand, especially in Europe.

And for the full year of 2019, we now expect growth in the low-single digits, and this represents a modest reduction from our prior expectations. This slowdown is related to reduced demand outlooks from both our distributor and OEM customers.

Regardless of this further erosion of demand that we're now seeing, we remain very encouraged by the company's leading position in the industrial market. Through both our successful acquisition program as well as our organic initiatives, we have developed a very broad array of interconnect, sensor and antenna products across a diversified range of exciting segments within the global industrial market.

We're proud of the success and look forward to continuing to realize the benefits of our efforts in the industrial market into the future.

The automotive markets represented 18% of our sales in the quarter. Sales in the automotive market were roughly as expected in the third quarter with sales increasing from prior year by 4% in US dollars, but down 2% organically. The organic moderation of sales was related to both the European and North American markets.

Sequentially, our automotive sales decreased slightly as the addition of GJM last quarter was offset by a moderation of demand from European automakers in particular.

Looking into the fourth quarter, we expect a slight decrease in sales from these levels. And for the full-year 2019, we now expect sales to be up only slightly from prior year.

Regardless of the less favorable demand environment in the automotive market this year, I will just tell you that our position in this important market is as strong as ever.

Customers around the world are continuing to design their new vehicle platforms with a wide array of electronic functionality, and we're working aggressively with those customers to design in our broadening portfolio of interconnect, sensor and antenna products on to their next generation vehicles.

In addition, we continued to work on a wide array of advanced vehicle technologies, including next-generation electrified drivetrains, autonomous driving systems and many others.

The mobile device market represented 15% of our sales in the quarter and our sales were much better than expected in the third quarter, growing a very strong 32% sequentially from the second quarter.

On a year-over-year basis, sales were down, although by a less-than-expected 21%, as growth in tablets and wearables was more than offset by lower sales related to smartphones and laptops.

Looking into the fourth quarter, we do expect sales to moderate from these levels. For the full-year 2019, however, we now expect the sales reduction in the mid-20% range, which is an improvement from our prior guidance of an approximately 30% reduction from prior year.

This upgrade in our outlook is related to increased demand for our antenna, connector and mechanism products that have been designed in to new mobile platforms. And I can say that, as we drive toward the end of the year, our team will for sure remain poised as always to capitalize on any additional incremental demand opportunities that may arise.

I remain encouraged by our position in the mobile devices market. Our team is working on a wide array of next generation mobile devices, including smartphones, laptops, tablets, wearables and many, many other accessories. And we're confident that, in the long term, this market will continue to be a positive contributor to the company's overall performance.

Most importantly, though, our exceptional team remains the most agile, reacting to the inevitable changes that occur in the mobile devices market, which allows us to thereby secure both our market position as well as the company's financial performance.

The mobile networks market represented 8% of our sales in the quarter. Our performance was a bit better than expected in the third quarter, with sales decreasing only slightly in US dollars and flat in local currencies.

On an organic basis, our sales declined by 12% as the impact of the restrictions put on certain Chinese entities that we discussed last quarter more than offset growth that we did see with service providers in the quarter.

Sequentially, sales were down by 10% from the second quarter, largely related to the same dynamics that we discussed extensively last quarter.

Looking into the fourth quarter, we expect a further reduction of sales in the mobile networks market. And for the full-year 2019, we continue to expect sales to be flat to prior year in US dollars, but down in the high-single digits organically as benefits from our acquisitions are offset by a moderation in demand from both OEM and operator customers.

Regardless of the more challenging market environment here in 2019, we remain very confident in the long-term outlook for our mobile networks business.

Our leading-edge interconnect and antenna solutions have positioned the company strongly with both equipment manufacturers and operator customers around the world.

As those customers plan for 5G and other network upgrades, we look forward to benefiting from our robust position as their partner. This creates a significant long-term expansion potential for the company.

The information technology and data communications market represented 18% of our sales in the quarter, and sales were down by a bit less-than-expected 9% in US dollars and 13% organically, with reductions in products sold into networking servers and storage hardware.

Sequentially, our sales were down only slightly from the second quarter as demand from OEMs exceeded our reduced expectations that we had coming into the quarter.

Looking into the fourth quarter, we expect sales to moderate from current levels. And for the full-year 2019, we now anticipate a decline in the low-single digits from prior year, and this represents a modest upgrade from our guidance that we discussed last quarter.

Amidst all of these current market dynamics, our OEM and service provider customers across the IT datacom market are continuing to push their systems and networks to ever-higher levels of performance.

Our ability to enable such performance through our next-generation, high-speed, fiber optic, power and other interconnect solutions has allowed Amphenol to be a leader in this market, and we're confident that we will continue to maintain that position over the long term.

The addition of XGiga this quarter significantly strengthens our offering for high-speed applications, adding active fiber optic interconnect to our already strong passive fiber optic and high-speed copper solution.

The broadband market represented 4% of our sales in the quarter. Sales in the third quarter grew by 11% sequentially, which was a bit better than we had expected.

Compared to prior year, our sales declined by 5% as spending by broadband operators, essentially in all geographies, continued to moderate.

Looking ahead, we expect sales to moderate seasonally in the fourth quarter. And for the full-year 2019, we continue to expect sales to be down in the high-single digits from prior year on reduced investments by broadband operators.

Irrespective of this continued muted outlook in the broadband market, we remain encouraged by the company's still expanding range of products for this market which, together with our deep relationships with customers around the world, positions Amphenol for future success.

So, in summary, with respect to the third quarter, I just want to say that I'm very pleased with the company's performance in the quarter, especially given the high degree of uncertainty that remains in the world economy.

While we had come into this quarter with a more muted outlook, we were able to outperform those levels through excellent execution by our teams around the world.

The Amphenol organization has clearly continued to perform well in this very dynamic marketplace. And in particular, our long-term approach of growing both organically and through our successful acquisition program has resulted in us expanding our market position, while strengthening the company's financial performance.

And that superior financial performance is a direct reflection of the company's distinct competitive advantages. Our leading technology, our increasing position with customers in diverse markets, our broad worldwide presence, our lean and flexible cost structure, our highly effective acquisition program and, most importantly, our agile and entrepreneurial management team.

Now, turning to our outlook for the fourth quarter and the full year, considering the heightened level of uncertainty in the overall economy and, of course, assuming, as always, constant exchange rates, we now expect the following results.

For the fourth quarter, we expect sales in the range of $1.960 billion to $2 billion and adjusted diluted EPS in the range of $0.89 to $0.91. This represents a sales reduction versus prior year of 10% to 12% and a decrease versus prior-year adjusted diluted EPS of 13% to 15%.

For the full-year 2019, we now expect sales in the range of $8.035 billion to $8.075 billion and adjusted diluted EPS in the range of $3.65 to $3.67. For the full year, this new guidance represents sales and adjusted diluted EPS declines of 2% and 3%, respectively.

Regardless of this year's more challenging market environment, I just want to assure you that the Amphenol management team looks forward to driving strong results into the future.

Our team is aggressively pursuing a diverse array of growth opportunities, while reacting quickly to align costs with current levels of demand. This is the essence of the agile Amphenolian culture as embodied by that outstanding organization. And it is that team, coupled with our deep technology position with customers across our markets and complemented by our successful acquisition program, that positions the company very strongly for the long term.

And with that, operator, we'd be very happy to take any questions that there may be.

Question-and-Answer Session

Operator

Thank you. The question-and-answer period will now begin. Our first question comes from Wamsi Mohan from Bank of America. Your line is now open.

Wamsi Mohan

Yes, thank you. I have two quick ones. One is just on the guidance. You're not rolling forward the entire beat in 3Q into the full year for revenues. And I hear your commentary about the cautious backdrop macroeconomically, but can you bridge that delta, given the fact that there's a $120 million upside in the quarter relative to the midpoint of your guidance, but $80 million sort of flow through. So, that delta of $40 million, did you see some pull forward in the quarter or was it some other dynamic? And I have a follow-up.

Adam Norwitt

Yeah. Wamsi, you've done good math here. I would just point out a couple of factors. Number one, currency is a drag in this guidance compared to prior guidance, and not insignificant. I think somewhere to the tune of about 30-plus-million dollars of currency impact. We did have the positive impact of the acquisitions. I think as well, we talked about all the given markets. I won't go into each of the markets. I think I already spent a long time to discuss those.

But we feel very good about this guidance in its totality. When you think about the strength here across many of our markets compared to what we saw last time, I think this is a very strong guidance.

The other thing I would just point out is that we had a higher-than-expected mobile devices results in the third quarter. And I think some of that came a little bit earlier than we would have expected, and it doesn't necessarily represent a full-year increase.

I think some of that is higher for the year and that's why we've talked about the year being down in the kind of mid-20s instead of 30%. But the strength that we saw here in the quarter, some portion of that may have also come out of the fourth quarter.

Wamsi Mohan

Okay. Thanks, Adam. And as a quick follow-up on your comments on mobile devices, can you give us some color on whether the incremental strength you saw was more on the variable side or on the mobile phone side? And any color that you can share around if it came from existing products versus new products or increases in content, that would be very helpful. Thank you.

Adam Norwitt

Yeah. No, thank you. I guess the short answer is kind of all of the above, Wamsi. I think we did see more-than-expected strength in smartphones, but also in wearables. And I would say it's on existing, but also, in particular, on new products. So, I think we've just seen a little bit better demand from a variety of customers across a variety of products. It is maybe the easiest way to answer that.

Operator

Thank you. Our next question is from Jim Suva of Citi. Your line is now open. Excuse me, Jim, please check your mute function. Your line is now open. Go ahead, Jim Suva. Your line is now open.

Jim Suva

Hi. It's Jim Suva here. When you mentioned the mobile devices, was it mostly on, like, unit volumes? Was it on your design-in features? Because I remember like six months ago, we had talked about changes in designs and things like that. And now, we're pleased that things are better. Just kind of curious about, was it more volumes or designs or a combination of both and how should we think about that? Because at the beginning of the year, I know there were a lot of questions around designs and content on the mobility side. Thank you.

Adam Norwitt

Well, I think, Jim, relative to our exceeding our outlook, I would just say that the mobile devices we saw strength really across platforms with a variety of customers, both on new and existing platforms, and that's a combination of new designs, existing designs on things like smartphones, wearables and otherwise.

So, it's not necessarily, at this stage, a change in architecture because I think we talked about that early in the year. And I think by the third quarter, most of those architectures are already well settled. So, I would credit this more with just better volumes and our ability, in particular, to meet those better volumes from customers, which is not the easiest thing in the world.

Our team, to come into the quarter with an expectation of kind of low double-digit sequential growth, but in the end to achieve a 32% sequential increase in sales in mobile devices, that requires an enormous amount of agility to ramp up in the face of that demand. And I'd just give an enormous amount of credit to our team to ramp up in the face of that. And as usual, the agility of our mobile devices team, I think, is really second to none in our company or across the industry.

Jim Suva

Thank you so much for the clarification. It's greatly appreciated.

Adam Norwitt

Thank you.

Operator

Thank you. Our next question is from Shawn Harrison of Longbow Research. Your line is now open.

Shawn Harrison

Afternoon, everybody. And congrats on the strong results.

Adam Norwitt

Thank you, Shawn.

Craig Lampo

Thank you, Shawn.

Shawn Harrison

An easy one first and then a follow-up that's maybe not as easy. Craig, what were the actual restructuring charges taken in the quarter that I'm assuming don't repeat here in the December quarter?

Craig Lampo

Yeah. Thanks, Shawn. As you know, we typically really don't call out restructuring expenses. And they were included in our adjusted operating margin of the 19.7% and we don't call those out as non-GAAP items since, as we know, we hold ourselves accountable and our general managers fully accountable for these costs.

So, I guess what I would say from a perspective of magnitude, I'd say even considering these incremental costs incurred in the quarter, our year-over-year conversion on the third quarter, the relatively significant organic decline is still only slightly higher than the kind of normal downside conversion range. And as a matter of fact, to even answer a question you didn't ask, which is as it relates to the fourth quarter, which really doesn't have any significant costs in there related to restructuring of any magnitude, I would say that we do expect the year-over-year conversion as we step up into the fourth quarter on lower sales to be very strong and actually will have higher margins on a lower sequential sales amount.

Shawn Harrison

Okay. As a follow-up, Adam, what are you hearing from your distributors more on the industrial side of the business, particularly given this European weakness? Are you going to see inventory corrections persist well into 2020? Just any updated outlook you're seeing from your distribution partners in light of the incremental European weakness?

Adam Norwitt

Yeah. Shawn, you are the expert on this even more than I. But I will just say that the industrial trends today – industrial is the market that is more heavily distributed for us as you know well. The industrial trends are not the most favorable. I think we came into the quarter with a certain expectation. You'll recall, last quarter, we talked about the fact that, in the second half, we had anticipated previously a step-up in both the industrial and automotive markets. We then came to the conclusion through the course of the second quarter that that was not going to happen.

We saw that indication from our distributors and OEM customers. And I think, this quarter, it got maybe a little weaker on both fronts there again. And so, from the distribution perspective, our distribution sales in total were down on a sequential basis.

We haven't seen from an inventory perspective that kind of big spikes or changes in the inventory, but I think the end demand is really flowing through the distribution channel in that way.

What does that mean going forward? It's always very hard for me to predict that. I think it's definitely too early to call a kind of a recovery in industrial market. I think you all see no doubt the same reports that I see. And I don't know that anybody is really calling that recovery, and I certainly wouldn't be the first to call it such a recovery. And so, as we head into next year, I think we're still – there is still a high degree of uncertainty about industrial demand trends, in particular, in Europe, but not only in Europe.

The European industrial market is intimately related to the automotive market. And I don't think it should come as any surprise that, as people thought the second half would have a recovery in automotive and then that didn't come, that ultimately manifests itself in less industrial equipment manufacturing and demand, and I think that's kind of what we're seeing here in the quarter.

So, when does that make its way through the distribution channel? What levels of inventories that the distributors ultimately conclude are the appropriate levels? I have a hard time to pin that down right now.

I think what is our team doing in the face of this? Well, we're doing what we always do. We're making adjustments where we have to make those adjustments. And some of our industrial operations have had to quickly react to that, having had different expectations coming into the second half of the year. And then, we're going out there and continuing to design in products with customers where there remains a very, very strong amount of industrial electronics design-in activities. And so, that level of new product innovation, working on new applications with customers, enabling next generation factories, enabling the electronification of all of these industrial equipment that we work on, none of that work has slowed. To the contrary, I would say that our industrial customers around the world are still seeking ways to create new functionalities, new capabilities with their equipment, and that's something that our teams are intimately involved in around the world.

So, like always, it's one of those times where we've got to get our costs aligned. We deal with what comes our way from our distributors and our OEMs, but we continue to focus on building next-generation products that can enable our customers' next generation systems.

Operator

Thank you. Our next question is from Matt Sheerin of Stifel. Your line is now open.

Matthew Sheerin

Yes. Thanks. And good afternoon. I guess, Craig, a follow-up question on Shawn's question regarding the cost-cutting efforts and the margins. As you pointed out, you should be back over 32% gross margin and operating margin should be back over 20%, despite a couple hundred million dollar decline in revenue due to those efforts. As you look forward, and Adam talked about some areas of incremental weakness in some units, should we expect continued cost-cutting efforts at the operating level as we get into 2020? And given, as you said, those acquisitions total, I think, $500 million in revenue run rate, typically come in below the operating levels of the company, are there plans to see that or those margins improve as you get into next year?

Craig Lampo

Yeah, sure. No, thanks for the question. I think I would say, as we go forward, of course, if there is a significant shift in the demand environment that we're going to clearly take action. And our general managers, as they did in the third quarter, are going to clearly react to that and adjust the levels of their businesses to the reality of the demand environment.

We've taken the action today that we see given the current demand environment. So, I wouldn't say I would call out any current plans to make any significant changes in the next quarter or so. But this could change based on the current demand environment.

So, we're guiding to what we see. I'm not going to comment per se on 2020 yet. We'll talk about that in January as we see that. But, clearly, the game plan in terms of our playbook hasn't changed as it relates to our reaction and our adjustment in terms of the cost structure. But we feel pretty good about the actions that are taken today. We've done a good job and the general managers really did an outstanding job of reacting to the reduced demand expectations. And we do look forward to certainly realizing the benefits of those restructuring actions given the current demand environment and protecting the margins that we have.

Adam Norwitt

And the one thing I would add to that, Matt, is we don't talk about this, as you know, very often. I think the reason we did make some mention of it last quarter is there was a real sudden change in the third quarter outlook from what we had anticipated coming into it, not required a quicker and more magnified reactivity from our teams. We talked extensively 90 days ago about why we were reducing our outlook at that point because of the variety of factors related to the trade war, related to the automotive, industrial market, distribution and otherwise, and that did result in a significant reduction in demand for some of our operations which did require them to take a very quick actions, which they all did.

These are tough things. And we don't take lightly the actions that everybody took that dislocated people, that caused disruption, but I give a lot of credit to our organizations around the world who faced to that, that they were able to make it happen in the Amphenol way to take out the costs and to get out there, reallocating resources, so that we can continue to drive strong progress for the company going forward.

Matthew Sheerin

Okay, great. That's very helpful. And just a quick follow-up, Adam, just regarding the mobile network space, which was a little bit better, still down. You're guiding down sequentially. I know there's been supplier issues, obviously trade issues. What's your take on the 5G ramp as we head into next year? I know, recently, you've sounded a little bit more cautious in terms of the near-term opportunity.

Adam Norwitt

Yeah. Look, I think we're very excited for the long term with 5G. Our teams have done a great job of designing in a wide array of products into 5G systems with really the whole range of equipment manufacturers, working with operators around the world to ensure that when that spending does happen, we will be well positioned for it. And I feel very good about the position that we have put ourselves in.

What I am not so expert at is saying when is that spending going to come. There is already some 5G spending. No doubt about it. There are networks, test networks being put in place, there is drips of spending happening in a variety of places, no doubt about it. When will it have that overall impact that will be truly meaningful to the capital spending of service providers around the world? I think that's hard to say. I think a lot of it is really resting on the underlying economics of these networks. What are people going to be willing to pay more for and thereby support wireless operators to increase their capital spending? That dynamic is probably above my pay grade to determine when that happens, but all I can tell you is we will be ready when it does.

Operator

Our next question is from Mark Delaney of Goldman Sachs. Your line is now open.

Mark Delaney

Hi, yes. Good afternoon. Thanks very much for taking the questions. First question for me was on the automotive market. Adam, you talked about the view for automotive for the full year sales being up slightly. And I think [indiscernible 0:44:19] low-single digits. Just trying to better understand, is that a downtick? If so, where are you seeing it? And any impact from the GM strike that may have impacted the automotive business?

Adam Norwitt

Yeah. Thanks very much, Mark. I'll just address the GM strike, first. It was not a meaningful impact. We obviously prefer for our customers to be producing stuff, instead of being on strike. So, happy to hear that there are resolutions in sight, but it was not a meaningful impact on our performance in the quarter.

I think the automotive market, if we looked at it in the quarter as it trended, it was very clear that, across the three regions, the most negative trending was in Europe where we were down sequentially. On a year-over-year basis, organically down. But really that trending in Europe seem to be the weakest of the regions. I would say that, in North America, the trending was maybe even a little bit pickup in the quarter and that's despite what we just mentioned. In Asia, it was essentially on par with the prior-year quarter.

So, I guess, of all the regions, we would feel a little less comfortable with the prospects in Europe right now. And then, the other two, we would feel roughly similar confidence across the two of them.

It's not an enormous change in our outlook here for automotive. I think, last quarter, we took down that outlook more significantly. I would just say, on the margin, it's a bit worse here as we look into the finish of the year. And as we look into next year, it remains to be same how that will come. We came into this year thinking the second half would be a step up and that everybody was kind of calling a bottom. I don't know really whether that is the bottom or what that overall trend is going to be going forward, but I just think it's probably still too early to tell how that industry really evolved over the coming quarters.

Mark Delaney

That's helpful. My follow-up question is on the mobile devices segment. Not looking for any 2020 revenue guidance, but just trying to think through the opportunity set for the company. Technology inflections like 5G are good opportunities for technical leaders like Amphenol to innovate. And you talked about some of the headwinds and architectural changes this year. But as you think about 2020, how are you thinking about that opportunity set in terms of some of the architectural design changes maybe becoming tailwind instead of a headwind as it relates to 5G?

As you're looking at that potential opportunity set, is there any opportunity for a much more diversified set of material customers in mobile devices for Amphenol in the 5G world? In 4G, the revenue had been at times concentrated to large OEM. And curious if you can be a bit more broad-based in the 5G world. Thanks.

Adam Norwitt

Sure. Thanks, Mark. Look, mobile devices market, you're asking me to talk about 2020 and I have a hard time talking about November. This is an inherently very difficult market to give an outlook on. As you know, I am dreadfully bad at it over a number of years. I guess, as we head into the end of this year and we look into next year, we would never get out in front of our skis in terms of an outlook for that market to be much more than a kind of a flattish outlook. It's very hard to give a prognosis of that.

But in terms of the long-term trends that you talked about, whether that's 5G, whether that's the higher mechanical complexity of devices, whether that is the different architectures that are being put into the phones, we still feel very good about the long-term prognosis for the mobile devices market, and that's coming off of a year here where we expect it to be down in the mid-20% range.

And why do we feel good about that is because we continue to see our customers driving to equip their mobile devices, whatever they may be, with more functionality for the customers. And we've talked about this for a long, long time that our position in the mobile devices rests on the presumption that our customers are going to want to make their products better, that these are not just kind of empty carriers of a standard software, but rather the ability to sell a phone to a demanding customer does depend in part on the customer's ability -- on our customer, the manufacturer's abilities to equip those products with new features.

And some of those features ultimately created demand for our unique high-technology products. And if our products can help make those ultimately devices more salable, more functional, having more use for the end customer, then our customers are going to share with us some of the value that we ultimately create. And that's the underlying philosophy of how we work in that market.

And so, as I think about the long term with things like 5G, with more complex devices, I feel very good about the long-term for that. But it doesn't take away from the inherent volatility of the market.

And so, as we come into next year, I'm going to try really hard to give an outlook that's dependable. And I probably won't do a very good job of it based on my track record. We have guided that market to be flat roughly, and we've been wrong every time. Luckily, we have been wrong to the good side of that more times than not. But this year, we were obviously wrong to the bad side of that, being down as we are in the kind of mid-20% range.

Relative to the customer set, there are only so many people who make these devices around the world and we work with all of them. And we will work with whoever that is that is driving the next successful range of products.

We've been successful in this market for such a long time. I remember when the leader in the market where people who today don't even make mobile devices and we were a leader then. And as that cycled through the variety of different companies who led the innovation and thereby captured the hearts and minds and wallets of their end customers, we were able to create a vibrant business that grew over the long term.

And so, regardless of which customers are successful in next-generation systems, we feel very good about our position.

Operator

Thank you. Our next question is from Steven Fox of Cross Research. Your line is now open.

Steven Fox

Hi. Good afternoon. Just one question from me. Adam, just over the past 90 days, if you could sort of give us a sense of your perceptions on demand in China has changed or not changed? And also your ability to operate in the region, if there's been any changes? Are you concerned about any changes? Thank you.

Adam Norwitt

Thanks so much, Steve. Look, last time – at our last call, we had very extensive discussions, as you know, about China with respect to the Department of Commerce restrictions that were put in place on Huawei and other entities. And I think we said at the time that it was still very early and we were dealing with that as we always do by having a very, very strong local team.

And I will just tell you that some of our outperformance this quarter was the result really of that local team stepping up and really doing a great job to satisfy some demand that was a bit higher than we had anticipated coming into the quarter, in particular in IT datacom and, to a lesser extent, in mobile networks.

The fact of us having a complete organization everywhere around the world and including in China where we have real leaders of the company who have every function under their supervision, totally accountable for everything that they do, designing products, ensuring the quality of those products, manufacturing those products, automating those products, interfacing with the customer, all on a local basis, has positioned us, on a relative basis, stronger than maybe some of our international peers who have more reliance on Western resources. And I think that has allowed us in the quarter to continue to reinforce to our customers, whoever they may be, that Amphenol will be there when you need us most. Obviously, we comply with every restriction and every law, but our nature of our organization is such that we're able to serve customers where maybe others would not.

On the overall situation in China, look, we have said for a long time that we don't believe that these trade wars are a positive thing for anybody. We continue to look forward to a productive resolution to the trade war and we continue to be very happy that our business is very localized around the world.

We talked last quarter about the sort of sea change that may or may not be happening in the world between going from a global world to a local world, this kind of new world order that some are talking about it. And I will just say that we remain very, very happy with our kind of purpose-built organization here of local management, with local authority who work on a real local basis with customers.

And so, I think as we go forward in China, our local team will continue to service the heck out of their customers and make sure that those customers know that they're going to get the best of the best here from those individuals who don't have to necessarily rely on resources overseas to help them solve the problems that they need solved.

What will happen long term? Again, I'm optimistic for a peaceful and productive resolution of all these things, but we're prepared either way.

Steven Fox

Great. I appreciate that color. Thank you.

Adam Norwitt

Thank you, Steve.

Operator

Our next question is from Craig Hettenbach of Morgan Stanley. Your line is now open.

Craig Hettenbach

Yes, great. Thank you. Yes, Adam, so in the IT datacom business, can you talk about what you're seeing in cloud. I know kind of cloud, which was strong for a number of years, kind of wobbled a little bit early in the year. But just what you're seeing from those customers and if there's anything noticeable by region.

Adam Norwitt

Yeah. Look, we still are very happy with our position among all of these web service providers or cloud providers. Was there a little bit of a wobble as you term it? I guess there was a little bit of a wobble. But that's not abnormal.

We've talked about the dynamic being so different between a service provider and an OEM that – OEMs, they are in the business of kind of keeping a relatively steady manufacturing process going, and that can insulate the volatility of the end demand. Whereas, when you're dealing with the service provider, they want the stuff when they need it, and they don't want it when they don't need it, and that can create a level of volatility that we're very accustomed to. We were accustomed to it early on with our exposure to the broadband market, our exposure to the mobile networks market.

And so, as the IT datacom market has evolved to include a significant component of these service providers, our teams have really been able to react very quickly to those demands. And reacting quickly doesn't just mean that sometimes they don't need the product and you have to adjust your cost. It also means that you've got to ramp-up really quickly because sometimes they call you and they need a lot more stuff than you expected or that they expected because they've decided they're going to build a new data center and the work crews are ready that day and the weather is good and they're ready to build and you better get them the parts. And so, that reactivity is something that I think our team has done a really great job on.

Now, how does that market look right now? I'd say that it's relatively normal as it is today. Maybe early in the year, it was a little bit, again your term wobble, but I think that we see good demand from that market.

On a regional basis, I would say, it is more dominated by North America. Just the more famous cloud providers all tend to be the ones who are spending the most on CapEx and whatnot. Those companies do tend to be North American and then followed closely behind maybe in Asia, in particular in China, but I would say our business tends to be probably more heavily weighted in North America, which is not inconsistent with the weighting of where the money is being spent.

Craig Hettenbach

Got it. Thanks for that. And if I could just ask a follow-up on the military business, phenomenal growth this year at 20%. Certainly, it would be tough to sustain at that level. But even if it were to decelerate from here, can you talk about maybe some of the dollar content drivers and visibility you have into military?

Adam Norwitt

Yeah. Well, I think you said it well. It's a phenomenal performance here, and I just can't can credit enough our team around the world working in the military market. This is not an easy market to achieve 26% year-over-year growth in. These are very complex products, very complex, long manufacturing processes, heavy degrees of manufacturing, vertical integration, the quality requirements, the technology associated with this product does not necessarily lend itself well to quick ramp ups of production. And I'd just give our team an enormous amount of credit for managing through this and really executing when the demand is there.

In terms of looking ahead, 20% year-over-year growth is very strong. We achieved that last year. We expect to achieve that here this year. I wouldn't expect that in perpetuity. These are very, very strong years. We're dealing with a lot of expansion, both of the budgets, but also of the content of electronics.

And as you talked about that content, to your question, we see increased content really across the board in the military. So, when you talk about a land vehicle and you look at all the systems, communications, electronic warfare, defense systems that go into a vehicle of today, I've had the good opportunity to walk into some of these vehicles and sit in them, and you feel like you're sitting in a data center, not in a tank or an armored personnel carrier. When you look at the airplanes of today, the next-generation fighter jets and the upgrades to prior generation fighter jets, again, just an incredible array of electronic systems that are being integrated into these next-generation platforms in order to create functionalities that didn't exist.

We see a lot of growth in the naval, for example, another area that I highlighted in my prepared remarks, again, putting high speed data transfer into naval applications where, in the past, you would not necessarily have had that.

So, I wouldn't say that there is any one part of the military market, which is disproportionately increasing in its content. We think the militaries around the world have woken up and said the electronics can help them do their jobs better, and I think ultimately that creates a good long-term opportunity for us.

Operator

Thank you. Our next question is from Will Stein of SunTrust. Your line is now open.

William Stein

Great. Thanks for taking the questions. Two. First, Adam, you referred to the acquisitions you did this quarter as platforms. And I know that the company has a long history of M&A and maybe you've used this term before, but I wonder if there is any significance to that? Are they different from either a geo or a customer or a market perspective that would make these somewhat different from others that you've done in the last couple of years?

Adam Norwitt

Yeah. Actually, it's not a new word for me to term our acquisitions. And, in fact, it's a real criteria for us. Because if we're going to make an acquisition, we work very hard to generate the cash that we generate and we're happy to generate a lot of it this last quarter. To put that money to work in an acquisition, you don't do it just to bring the size of revenues in at the time that you bought it. That seems like a lot of work just to add revenues.

We look for acquisitions that have great people, great products and great position, all of which help you to build a platform for that company to perform better as part of Amphenol.

And so, I use that term platform very broadly because it is a necessary precondition for us. We're not going to buy a company if we don't think it can become a platform to grow better its performance as part of the Amphenol family. And again, that can come through opening up new markets, new geographies, new customers, through the attachment of different technologies and the collaboration with other operations in the company or also a platform for profitability expansion by gaining access to Amphenol's ability and experience in low-cost areas, access to supply chain and otherwise. All of that can be a platform for accelerating growth and driving increased profitability, and that's what we always look for.

At the time these companies come in, sometimes they are, and maybe even oftentimes at lower margins than we are today, and I think Craig talked about that in terms of the impact on the conversion margins on a quarter-to-quarter, year-over-year basis, but we always look for companies that have potential far beyond where they perform today and that's to me the real essence of a platform.

William Stein

Great. That helps. I didn't recall the word being used before, but I understand that and appreciate the clarification. One more if I can. It seems pretty clear that the trade conflict is meaningful, maybe the majority or maybe all of the sort of problems we're facing now in the macro and as it influences your business. In your view, if we were to get a resolution on the trade conflict in the near term, would you expect demand to rebound strongly based on what you're seeing in, let's say, within the following year, like 2020? Or do you perceive maybe the tariffs have maybe damaged demand conditions for a more protracted period?

Adam Norwitt

Yeah. Look, this is a big question. But I will say a couple of things here. Number one, you referred to the fact that the trade conflict is really the root of all the problems. I don't know if I would 100% agree with that. You could have an academic argument over whether the instigation of the trade war ultimately led to uncertainty, which led to then other markets unrelated to the trade war to have some changes in their demand.

I don't know that the European automotive market, as one example, or the industrial market in Europe, I don't think that's directly related to the trade war. Could it have a secondary or tertiary impact? Sure. Trade wars have lots of impacts that you don't normally anticipate at the time that you launched them and that could very well be the case, but I don't know that those are directly correlated and linked to the US-China trade situation or to other trade situations that exist.

And thus, if there was a sort of grand bargain, a grand deal that resolved everything, I don't know that that is kind of the elixir that solves all the uncertainties in the world economy.

And to that extent, when you think about tariffs, tariffs have been a real hassle. There is no doubt about it. And I think our team has done a fabulous job of managing through those tariffs since they were put in place more than a year ago. And I give just an enormous amount of credit to our team to manage through that and we managed through that in the very sort of Amphenolian way, just case by case, part number by part number, operation by operation. Those were a hassle and a diversion and a lot of work that created stress in relationships and otherwise things like that, but I don't know that the tariffs themselves were the cause of overall changes in demand.

Now, we talked a lot last quarter about the restrictions that were put in place by the US, which may or may not be a component of the trade war and the tariffs. That clearly had an impact on demand. And I think when we looked at – or when we talked last quarter about the kind of knock-on effects of that demand expectations from customers who saw lower outlooks in China, does that get resolved if the trade war gets resolved? It depends, I think. I don't know what really the answer is to that. I would hope that some would, but I would not anticipate a big kind of snap back in the overall world economy if there were a sort of grand resolution. I think that has metastasized a little bit here and created a broader degree of uncertainty that is not just confined to the fact of one country or another putting tariffs on each other.

Operator

Thank you. Our next question is from Joe Giordano of Cowen. Your line is now open.

Joseph Giordano

Hey, guys. Good afternoon.

Adam Norwitt

Good afternoon.

Joseph Giordano

Hey. We kind of covered just a little bit on military, but maybe you want to come at it in a slightly different way. When I look at the last three years really, if I look at your guide as we go into the year kind of in that low to mid and then this year high and then obviously a huge ramp each year from that initial view, and I know you like to be conservative, I'm just curious about the level of visibility exiting this year relative to the last couple of years. Does it feel kind of the same?

Adam Norwitt

Yeah. The level of visibility – look, military has a little bit longer visibility than other markets. As you know, lead times are a little bit longer. Programs are a little bit more stable. All that being said, I can tell you that you're always just one spending cycle away and budgets get passed, and then they don't have necessarily the same degree of allocations to certain programs. That can always happen. But I think, from our customers, we do get a little bit more visibility than we would – certainly than in a market like mobile devices.

Look, if you look over the last three years, last year we grew 20%, the year before we grew 13%, this year we're going to grow around 20% and we came into the year with a more modest expectation. Do we have today visibility for next year? Not perfectly, for sure. I think 90 days from now, we'll try to give you our best estimate of what next year is going to look like. I would not expect it to be three years in a row, growing at 20%. I guess I can go out on a limb and say something like that right now, but we still think, long term, it has a very favorable trend.

Joseph Giordano

Okay. And then, Craig, maybe just quick, embedded in your current guidance on the margin side, how much, if any, is a tailwind from lower incentive comp, if there is?

Craig Lampo

Yeah. I would say that – that's kind of spread out throughout the year. And I wouldn't say it has a significant impact on the overall margin guidance. There is a lot of things that happen in the costs and sort of margin in a year like this. And I would say that's just one of many, I guess, things that are happening within the cost. But, certainly, we're going to have lower incentive disbursements than we had over the last year. And without a doubt, that's going to be lower this year. But I wouldn't necessarily call it out as a tailwind to the operating margins. That is something that is accretive to the bottom line of any significance.

Operator

Thank you. Our next question is from Deepa Raghavan of Wells Fargo Securities. Your line is now open.

Deepa Raghavan

Hey, good afternoon, Adam, Craig. Hope you're doing well.

Craig Lampo

Thank you. Good afternoon to you, Deepa.

Deepa Raghavan

Yeah. Two questions from me, Adam. First off, looking back, when you guided Q3, did you really get the sense that macro reads were so bad that revenue would be down double-digit organic basis for Amphenol? You ended doing half of that, at down 6%. Or did you bake in a substantial amount of caution within, despite what the drivers were telling you? I think my underlying question, where I'm trying to go with this is, did mobile devices, IT and defense alone coming in better, intra-quarter, explain why you did better than the high end of your guide or was there a meaningful conservatism also?

Adam Norwitt

Look, we know, Deepa – we try every 90 days to give you and your colleagues the best estimate that we can on the basis of what we know at the time. And, obviously, last quarter, we came into the quarter on the heels of the significant changes that happened during the course of the second quarter that impacted IT datacom, that impacted mobile networks and that impacted, to some lesser extent, automotive and industrial. And those are really the markets last quarter that we saw as a much more negative than we had seen coming into than the second quarter.

The fact that we outperformed here in the third quarter in mobile devices and that also in military and IT datacom, and we outperformed in a few of the other markets, but I think you correctly point out, those are the three that probably moved the needle the most. I think it's just a testament to the fact that, number one, in mobile devices, it's a very hard market to predict. And if there is extra demand, our team is poised to take advantage of it on a moment's notice. And they did a great job of that.

On military, again, I would really credit here execution more than anything because I talked before about how hard it is to ramp up and our team just did a fabulous job of really satisfying customer demand and we weren't necessarily sure that we could do that going into the quarter.

And in IT and, to a lesser extent, mobile networks, I think we had taken – I don't know if you want to call it a conservative view, but we would call it a realistic view of our sales in – especially to some of the customers in China that we talked about. And we did a little bit better than that. And I think we didn't – it was hard to get a read at the time on what demand those customers would have because they had a real complex array of problems that they had to deal with in terms of availability of components and otherwise. And I think our local team just did a great job when they realized that there was more demand to satisfy that demand in a moment's notice.

And so, I wouldn't say that we came in and we're kind of overly cautious, but I think we gave our best view of the quarter, just as we're doing right now for the fourth quarter and the full year, and we're pleased that our team did a good job to do better than that.

Deepa Raghavan

Got it. That's fair. My follow-up is, to the extent you're able to share based on your conversations with your customers and how they are planning ahead, which of these end markets are your clients planning for weakness to extend well beyond this year and which are the ones are they planning for it to get better?

Adam Norwitt

Yeah. I think I've talked about a few of the markets already. And again, the last thing I want to do right now, especially in a year like 2019, is get ahead of myself in giving a guidance for 2020. 90 days from now, we're going to try to do our best to give you a guidance for 2020. But I think that's hard to do in the current environment. But I did, I think, already mention the fact that we would anticipate still continued strong demand in military, albeit maybe not at the levels that we talked about. It's hard to say in a market like industrial and automotive what really those trends are. If I had to say right now, I'd say that it's a relatively modest outlook right now. I think, in mobile devices, I wouldn't expect our business to be down as we expected this year by so much, but I also wouldn't ever get ahead of my skis on that market to say that that's going to be up by any measure. And I think I've talked about many of the other markets already.

But, look, 90 days from now, we're going to try really hard to give you a good outlook. There is still remaining a lot of uncertainty in the marketplace and we're going to be very thoughtful about that as we go through the quarter, collecting as much information as we can through our deep engagements with customers across all of our markets, and then we'll give it our best shot in January.

Operator

Thank you. Next, we have Michael Fisher asking a question in behalf of Amit Daryanani of Evercore. Your line is now open.

Michael Fisher

Thanks. Yeah. I was wondering, could you touch on gross margins in the quarter? I think it was down about 60 basis points. I was just wondering some of the drivers and if there is any of that kind of restructuring or cost savings plan items that hit the gross margin line?

Craig Lampo

Yeah. Thanks, Mike. I think that as it relates to gross margins, as you know – I'm not sure how long you've been covering the company, but we don't usually talk specifically about gross margins because we do measure ourselves really at the operating margin level, which really ensures attention, we believe, to all aspects of cost and certainly very pleased at the operating margin performance of the 19.7%, which I did mention earlier that we did have from restructuring items that did impact that performance in the third quarter.

I would note that most of those restructuring items, or the vast majority, certainly were impacting the gross margin line. So, there is some impact at the gross margin line as a result of those restructuring actions. So, I guess, I would not point out, I guess, anything specifically that's driving that other than maybe that. And certainly, I also have mentioned the acquisitions and the impact on the margin, the operating margin percentage and, ultimately, also the gross margin percentage on a year-over-year basis, which also is – would have some impact. Even though those certainly are accretive at the EPS level, they are having some impact at the margin and, therefore, gross margin level. But I do want to stress that we clearly try to drive all aspects of cost and, ultimately, drive operating margin versus just gross margin or SG&A.

Michael Fisher

Okay, great. Thanks. And then just one more. The weakness on the industrial side, can you maybe talk about kind of linearity of the trends we are seeing there? And then, maybe what was the delta between the trends from OEMs versus distributors? You had mentioned there were some different dynamics there.

Adam Norwitt

Yeah. Well, I think between OEMs and distributors, I wouldn't say that there were necessarily material differences to the dynamics in the quarter. In terms of linearity, I guess you mean through the course of the quarter, I wouldn't say that there was anything notable on the linearity of our industrial business during the course of the quarter. Did it weaken over the course of the quarter? I guess so. We talked to you 90 days ago which was close to the end of the first month of the quarter and we thought a certain thing, and by the end of the quarter it was a bit worse than that. So, I guess, one would say that there was a little bit of linear – lack of linearity that it got a little bit worse through the course of the quarter. Thus here we are changing our outlook in that market here again. But I wouldn't say anything real meaningful to either of those.

Operator

Thank you. Our last question is from Samik Chatterjee of J.P. Morgan. Your line is now open.

Samik Chatterjee

Hi. Thanks for taking the question. I just wanted to start off on the content growth on the automotive side. I understand your comments on the automotive end market deteriorating a bit further. Just looking at kind of your organic guidance for this year. You're probably guiding to more like a 3% revenue decline organically. If I compare that to the global production outlook of down 6%, that outperformance or content gain seems to be a bit more moderated at what we've seen over the last couple of years. So, just wanted to understand if you're seeing any kind of push out of launches that's maybe impacting how you gain content this year as the volumes are lower? Or is there something else in terms of, like, the mix of geographies, et cetera, that's going on there?

Adam Norwitt

Yeah. Well, thank you very much. And I should extend a welcome to you to our call. I think you just picked up coverage yesterday.

Look, I think content growth in automotive continues to be very robust. We still see a lot of opportunities with customers. We're pushing new electronics into their cars of all types of platforms. And I mentioned some of those areas, things like new electronic drivetrains, some of those real far out things like autonomous driving and otherwise. But even more near term, there is just so much electronics, whether that's passenger infotainment, whether that's emissions control, engine control, whether that is different safety mechanisms that go into cars, you name it. I'd tell you, every car I get into and I rent a lot of cars because I travel a lot, and every one of these cars, it takes me a long time to figure out how to do a lot of different stuff because there's so many different features that go into these cars.

Craig and I were – just a few weeks back, we were in Europe and we ended up renting a car and we were in that car for way too long driving around Europe to lots of different operations. And there was about a two, three hour ramp-up time to learn all the different feature sets in that car. And each one of those things you're learning is a new electronic system that requires a certain degree of interconnect, sensor and antennas in order to enable that.

So, I would not say that we have seen any slowdown in the adoption of new electronics, and thus the content among automakers around the world. I think the fact that we are down this year organically roughly to the levels that you talked about, which is certainly better than the overall units, is a reflection of that content. But you should also bear in mind that whenever you have a reduction, the whole supply chain has to react to that reduction.

I think there's been lots of various companies talking about the whole automotive supply chain. It's a big supply chain. It's a supply chain that's been working – really going up into the right for close to a decade. And so, sometimes the impact can be a little bit more magnified on someone like us who is a little bit farther down the chain in certain of those instances.

But we feel very good about our automotive market long term. When I just reflect back on the last decade, this is a market that, at the beginning of 2009, was a market that represented less than 5% of our sales. It was on a run rate of less than $150 million a year. And here it is 10 times that size over a decade.

And I think that real outsized growth that we've had in automotive has been not us taking business out of the hands of someone who already had that business. Rather, it was us capitalizing on new developments in cars, new electronics being implemented, not having new products together with the acquisitions that we've made to enable those next generation systems.

And we don't see long-term that dynamic really changing at all. I think consumers still thirst for next generation functionality in their vehicles, regardless of what the drivetrain system of that vehicle is, regardless of the size of that vehicle, whether they're buying a sports car or a minivan, they want to have next generation electronics embedded in that system for passenger use, for safety, for fuel economy, you name it. And I think our company is very well positioned today to capitalize upon that.

Samik Chatterjee

Got it. If I can just quickly follow-up on the broadband segment, I think you mention it did come in a bit better than you expected, although customer spending continues to be kind of a challenge there. Is it that we should kind of think about some upside? Did kind of customer spending come in better? Or was it more kind of design wins that really kind of drove better-than-expected revenues for you?

Adam Norwitt

Yeah. I think it was just, first of all, small. It's a relatively small market, 4% of sales in the quarter. And, yes, we did a little bit better than we expected, but we're not talking about huge numbers here. And still, on a year-over-year basis, it was down. We didn't change our outlook for the year in the broadband market. So, I wouldn't say that there is anything meaningfully different in our overall view of that market here as we come into the fourth quarter.

Operator

Speakers, we show no further questions at this time.

Adam Norwitt

Well, thank you very much. And again, thank you all for all of your time today and we wish you all a great conclusion to the year. And I shudder to say that we will talk to you all in 2020. Thanks very much.

Craig Lampo

Thank you.

Operator

Thank you for attending today's conference and have a nice day.