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Fortive Corp (FTV) CEO James Lico on Q3 2019 Results - Earnings Call Transcript

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Q3: 10-24-19 Earnings Summary

Press Release *Slides*

EPS of $0.87 | Revenue of $1.86B (1.08% Y/Y) misses by $-29.21M

Earning Call Audio

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Fortive Corp (NYSE:FTV) Q3 2019 Earnings Conference Call October 24, 2019 5:30 PM ET

Company Participants

Griffin Whitney - IR Officer

James Lico - President, CEO & Director

Charles McLaughlin - SVP & CFO

Conference Call Participants

Charles Tusa - JPMorgan Chase & Co.

Deane Dray - RBC Capital Markets

Julian Mitchell - Barclays Bank

Andrew Obin - Bank of America Merrill Lynch

Andrew Kaplowitz - Citigroup

Joshua Pokrzywinski - Morgan Stanley

John Walsh - Crédit Suisse

Richard Eastman - Robert W. Baird & Co.

Nigel Coe - Wolfe Research

John Inch - Gordon Haskett Research Advisors

Andrew Buscaglia - Berenberg

Joseph Giordano - Cowen and Company

Operator

My name is Philip, and I will be your conference facilitator this afternoon. At this time, I would like to welcome everyone to Fortive Corporation's Third Quarter 2019 Earnings Results Conference Call. [Operator Instructions]. I would now like to turn the call over to Mr. Griffin Whitney, Vice President of Investor Relations. Mr. Whitney, you may begin your conference.

Griffin Whitney

Thank you, Philip. Good afternoon, everyone, and thank you for joining us on the call. With us today are Jim Lico, our President and Chief Executive Officer; and Chuck McLaughlin, our Senior Vice President and Chief Financial Officer. We present certain non-GAAP financial measures on today's call. Information required by SEC Regulation G relating to these non-GAAP financial measures are available on the Investors section of our website, www.fortive.com, under the heading Financial Information.

We completed the divestiture of the automation and specialty business on October 1, 2018 and accordingly have included the results of the A&S business as discontinued operations for current and historical periods. The results presented on this call are based on continuing operations. During the presentation, we will describe certain of the more significant factors that impacted year-over-year performance. All references to period-to-period increases or decreases and financial metrics are year-over-year on a continuing operations basis.

During the call, we will make forward-looking statements within the meaning of the federal securities laws, including statements regarding events or developments that we expect or anticipate will or may occur in the future. These forward-looking statements are subject to a number of risks and uncertainties, and actual results might differ materially from any forward-looking statements that we make today. Information regarding these factors that may cause actual results to differ materially from these forward-looking statements is available in our SEC filings, including our annual report on Form 10-K for the year ended December 31, 2018. These forward-looking statements speak only as of the date that they are made, and we do not assume any obligation to update any forward-looking statements.

With that, I'd like to turn the call over to Jim.

James Lico

Thanks, Griffin, and good afternoon, everyone. Today, we reported adjusted diluted earnings per share of $0.87 for the third quarter of 2019, representing an increase of 18% year-over-year despite short-cycle slowing that intensified over the course of the quarter. While these challenges impacted growth in certain parts of our Professional Instrumentation segment, a double-digit increase in earnings and strong cash flow performance demonstrated both the contribution from our recent acquisitions and the strength of the Fortive Business System to provide resilience to our portfolio.

As we navigate the slowing in the short term, we continue to invest in our businesses to drive organic innovation, fuel further compounding and execute our capital allocation strategy to strengthen our long-term competitive advantage across the portfolio.

We have completed a significant amount of deal activity over the past 3 years, and the execution of our capital allocation strategy continues. We have owned Advanced Sterilization Products for a little more than 2 quarters, and we're pleased with its performance thus far and continue to make substantial progress with its integration. In the coming weeks, we will close on China, representing a significant step forward as we bring the remainder of ASP's geographies under our direct control.

As we roll off the transition service agreements and install key elements of the Fortive Business System in the coming quarters, we will lay the groundwork for accelerating innovation and growth in the years ahead. We also continue to make progress with respect to the intended separation of NewCo, which we announced on September 4. Utilizing FBS, we have taken substantial steps forward with respect to our preparations, and we remain on track toward completing the transaction in the second half of 2020. We look forward to providing additional details on the transaction and updates on further milestones for NewCo in the coming weeks and months.

With that, I'd like to turn to the details of the quarter. Adjusted net earnings were $311 million, up 13% over the prior year, and adjusted diluted net earnings per share were $0.87. Sales grew 16.2% to $1.9 billion, reflecting a core revenue increase of 2.1% and the contribution from recent acquisitions. Core revenue growth was highlighted by strong performance at Gilbarco Veeder-Root and PacSci EMC, which was partially offset by declines in the short-cycle businesses within Professional Instrumentation, including Fluke, Tektronix and some parts of Sensing Technologies.

Unfavorable foreign currency exchange rates reduced growth by 120 basis points. Geographically, developed markets core revenue grew low single digits, reflecting the slowing macro conditions across both North America and Western Europe. Core revenue growth in North America was low single digits, led by GVR, EMC and Industrial Scientific, while Western Europe grew slightly. High-growth markets core revenue decreased low single digits due to the loss of Huawei-related revenue at Tektronix and weaker market conditions in the Middle East. China posted slightly positive growth as strong performance at Fluke and Qualitrol was largely offset by a decline in Tektronix due to the Huawei impact and flat performance at GVR. India was flat as growth at Fluke and Qualitrol was offset by timing delays for certain large project rollouts at GVR, which are now expected to start in the fourth quarter.

Adjusted operating profit margin was 21.3%, representing a year-over-year decrease of 80 basis points, including 55 basis points of dilutive operating margin associated with acquisitions. Core operating margins decreased 25 basis points as the continued slowing within Professional Instrumentation more than offset strength at GVR and another solid quarter of operating margin expansion in Matco.

During the third quarter, we generated $348 million of free cash flow for a sequential increase of $111 million from the second quarter. This free cash flow performance represented a conversion ratio of 168%.

Turning to our segments. Professional Instrumentation posted sales growth of 24.8% despite a low single-digit decrease in core revenue. The significant contribution of recent acquisitions, most notably ASP, continued to drive overall growth within Professional Instrumentation. Unfavorable foreign currency exchange rates reduced growth by 110 basis points. Segment-level adjusted operating margin was 22.2%, representing a year-over-year decrease of 300 basis points, including 120 basis points of dilutive operating margin associated with acquisitions. Core operating margins decreased 180 basis points, reflecting a combination of slower revenue performance, the impact of tariffs and unfavorable foreign currency exchange.

Advanced Instrumentation & Solutions core revenue decreased low single digits as strong performance at EMC was more than offset by continued slowing across Fluke and Tektronix. Field solutions core revenue decreased low single digits, including a low single-digit decline in developed markets driven primarily by slowing at Fluke in North America. High-growth markets increased low single digits driven by growth at Fluke and strong performance from Qualitrol in China. Fluke's core revenue declined mid-single digits due to a high single-digit decrease at Fluke Industrial. Fluke Digital Systems grew greater than 20%, led by strong growth at eMaint, which generated a 10% increase in net new customers and a greater than 20% increase in annual recurring revenue. From a geographic perspective, the slowing that emerged at the end of the second quarter became more pronounced in the third quarter, particularly in North America, which saw a high single-digit decrease in revenue with slowing point-of-sale trends.

Fluke generated mid-single-digit growth in China driven by strong performance across Fluke Industrial, process instruments and food networks. Fluke Health won a multimillion-dollar order for RadWatch, a product developed in collaboration with the U.S. Army to monitor and measure radiation dosage. The acquisition of PRÜFTECHNIK closed at the beginning of the quarter and has gotten off to a solid start. We are excited about the integration of PRÜFTECHNIK -- how the integration of PRÜFTECHNIK enhances Fluke's offering and capabilities with respect to asset reliability and condition monitoring.

ISC delivered low single-digit core growth as decreases in Western Europe and China partially offset stronger performance in North America. ISC's lower core growth in the quarter reflected a decline in instrument sales, which tend to be more sensitive to broader macro slowing. ISC's iNET offering had another strong quarter, generating mid-teens growth as ISC continues to increase its share of subscription-based recurring revenue. ISC also recently launched the WiFi-enabled Ventis Pro5 Multi-Gas Monitor, ISC's first direct-to-cloud product and a key step forward for ISC's emerging connected worker safety initiative. The integrations of both Intelex and SAFER Systems are progressing well, positioning ISC to significantly advance its safety-as-a-service strategy aimed at providing real-time solutions for its customers' environmental, health and safety-related workflows.

Qualitrol's core revenue declined low single digits as the continued challenges in North America, Western Europe and the Middle East were partially offset by greater than 20% growth in China and greater than 30% growth in Latin America. Qualitrol saw mid-teens growth in their basic sensors product line driven by share gains and have started to see early signs of more positive bookings momentum heading into the fourth quarter.

Our facilities and asset management businesses, Gordian and Accruent, both rolled core during the third quarter but had a relatively small effect on the core performance of Professional Instrumentation given the partial period. These businesses continued to perform well, generating high single-digit core growth. Gordian's procurement platform, in particular, continues to drive strong growth, paced by increased construction volume with large enterprise customers, including the New York City Department of Education. Gordian also recently closed its largest facility planning deal to date with CommonSpirit Health systems to complete a facility condition assessment across its entire network. Accruent saw slower growth in the quarter due to softer licensing revenue as it transitions customers away from certain legacy products toward its higher-growth SaaS offerings. The company continues to generate strong SaaS bookings with its sales team increasingly driving enterprise customers towards longer-term subscription-based contracts with higher total contract value. Accruent added more than 70 customers in the third quarter while significantly expanding its existing contract with Cushman & Wakefield to cover a broader range of offerings across Accruent's software platform.

Product realization core revenue decreased slightly as strong growth at both EMC and Invetech was offset by continued weakness at Tektronix. EMC generated another quarter of broad-based double-digit sales growth across both its core defense product lines and its commercial satellite offering. EMC continues to maintain a very strong backlog with large recent customer wins and increasing momentum among commercial satellite operators, providing the company with excellent revenue visibility into next year.

Tektronix registered high single-digit decrease in core revenue. Tektronix continue to be negatively impacted by slowing at Keithley, broad-based weakness in Western Europe and the loss of its Huawei business due to U.S. government-imposed trade restrictions earlier this year. While Tektronix registered strong growth from its high-performance oscilloscopes driven by the 5G buildout in China, it also saw further slowing in North America, including a low double-digit decline for its core mid-range scopes. Negative point-of-sale trends present an ongoing challenge heading into the fourth quarter. Despite the macro challenges, which we expect to persist into next year, Tektronix continues to focus on business execution, driving gains in its strategic growth segments, including key data center and automotive wins during the quarter.

Core revenue for Sensing Technologies decreased low single digits as growth in North America and China was more than offset by weakness in Western Europe. Anderson-Negele had a strong quarter using FBS commercial tools to drive continued share gains in adjacent segments of the food and beverage end market. Building on the momentum in its environmental monitoring offering, Setra recently launched its Setra Lite product line, providing a simple, cost-effective and highly visible solution to address pressure monitoring requirements in hospital rooms, which has been very well-received by the market.

Turning to Advanced Sterilization Products, the company grew low single digits, in line with our expectations, as we continue to work our way through the completion of the transition service agreements. ASP's growth was led by strong performance in China and Japan, which saw continued momentum in terminal sterilization as well as strong growth in high-level disinfection tied to the recent launch of its new automatic endoscope reprocessor product line for the Japanese market.

ASP also landed some key wins in North America, expanding its footprint and overall portfolio in strategic integrated delivery networks in both Texas and Illinois. The ASP team has begun to apply the Fortive Business System to streamline its innovation efforts and accelerate the introduction of a series of new products targeted for launch in 2020. Consistent with our strategy to build strong positions in connected workflows, we recently signed an agreement to acquire Sensus, a leading provider of instrument tracking software as a key addition to our sterilization offering. Sensus provides central sterilization departments with frontline error prevention tools and analytics which help improve efficiency and productivity in sterilization workflows, optimize compliance reporting and reduce the risk of hospital-acquired infections. We expect the acquisition to close before the end of the year.

Moving to Industrial Technologies. Revenue grew 5.2%, including core revenue growth of 6.5%. Acquisitions contributed 10 basis points of growth, while unfavorable foreign exchange rates reduced growth by 140 basis points. Segment-level adjusted operating margin was 23%, including a core operating margin increase of 190 basis points driven by the continued strong volume at GVR and solid performance at Matco.

Our Transportation Technologies platform core revenue grew high single digits, led by mid-teens growth in North America. GVR delivered low double-digit core revenue growth, highlighted by a mid-teens increase in developed markets. GVR's performance in North America was paced by sustained momentum from EMV-related sales, while growth in Western Europe reflected a combination of continued share gains and significant service rollouts with Costco during the quarter. GVR posted flat growth across high-growth markets as strong performance in Latin America was offset by continued delays from automation project rollouts in India as well as a large dispenser tender for which expected delivery has been shifted into the fourth quarter. Despite these short-term dynamics, GVR continues to build on its strong position within high-growth markets. In India, in particular, the strong order momentum and a healthy backlog provide good visibility into the region's sustained growth in the coming quarters.

GVR recently launched Passport Express Lane, adding a self-checkout system optimized for convenience stores to its Passport suite of solutions. GVR also launched a new family of products for Insite360 called HALO, which provide a significant upgrade to the system's fuel logistics functionality. During the third quarter, we made a follow-on investment in Tritium as we continued to support the company's rapid growth. GVR also recently announced the integration of a credit card reader into Tritium's high-speed EV charging stations, enhancing payment functionality to include credit card, debit card and contactless payment methods.

TeletracNavman performed in line with expectations, generating a low-teens core revenue decrease in the third quarter as continued strong growth across Asia Pacific was more than offset by the company's performance across North America and Western Europe. The key priority for the TeletracNavman team remains the stabilization of its business in North America as it addresses the high level of customer churn over the past 12 months and returns the company to a sustainable growth trajectory. We continue to see improvements in our customer-related metrics, including the level of customer churn.

Moving to Franchise Distribution. The platform's core revenue grew low single digits during the third quarter as low single-digit growth at Matco was partially offset by a low single-digit decline at Hennessy. Matco was led by another strong quarter of growth in hardline tools, offset by some slowing in tool storage. Matco continues to see good traction with new product introductions, highlighted by the recent launch of a new half-inch air impact wrench, with a market-leading combination of power and control in a lightweight design that makes it significantly easier for the technician to handle.

Before turning to the guide, as we look ahead to 2020, we are mindful of the challenging macroeconomic environment and are therefore planning to increase our spending on a range of strategic productivity initiatives by approximately $45 million in the fourth quarter. These initiatives will better position us to deliver sustained earnings growth while maintaining investments to drive future growth and innovation.

We are updating our full year 2019 adjusted diluted net EPS guidance to $3.42 to $3.47, representing a year-over-year growth of 12% to 13% on a continuing operations basis. The revised annual guide reflects the headwinds faced by our Professional Instrumentation segment due to the short-cycle slowing dynamics that became more pronounced in the third quarter and which we expect to persist through the end of the year. The revised guidance assumes 1% to 2% core revenue growth and an effective tax rate of approximately 15%.

We are also initiating our fourth quarter adjusted diluted net EPS guidance of $0.96 to $1.01, representing year-over-year growth of 5% to 11%. This includes assumptions of flat core revenue growth, flat core OMX and an effective tax rate of approximately 15%.

To wrap up, during the third quarter, we delivered high-teens earnings growth with strong free cash flow even as the macroeconomic backdrop became more challenging. The quarter demonstrated the powerful earnings contribution from the acquisitions we have added over the past few years, which are also increasing the resilience of our portfolio as they compound and become a larger share of our total revenue. Despite short-cycle slowing in the headwinds we expect to persist into next year, we continue to execute our capital allocation strategy to drive further portfolio transformation, build a better, stronger Fortive and create greater long-term value for employees, customers and shareholders.

With that, I'd like to turn it over to Griffin.

Griffin Whitney

Thanks, Jim. That concludes our formal comments. Philip, we're now ready for questions.

Question-and-Answer Session

Operator

[Operator Instructions]. Your first question is from the line of Steve Tusa with JPMorgan.

Charles Tusa

So can you just help us a little bit with parsing out the acquisition? How much of an impact on margin and then maybe easier, just like what was the negative earnings impact from stuff that ran through from the deal that you closed in the third quarter, if there was any?

Charles McLaughlin

In the third quarter, the deal expenses, on our adjusted earnings side, there's nothing in there that ran through there. And there really wasn't any headwinds related to the acquisitions. And the headwinds we faced were largely about the slowing of the top line as we progressed through the quarter.

Charles Tusa

Okay. And then when it comes to the deal that you were planning to contribute this year like Gordian and Accruent, I think ASP is kind of a bit of a standout. That seems to be on track. Just remind us what you said they were going to contribute at the beginning of the year. And is that still the case here that they're going to contribute the same amount? Or is the Accruent comment that you made, I think it was Accruent you made a comment around, is that slowing having an impact on what those were ultimately going to contribute?

Charles McLaughlin

So I think that the ASP is -- continues to be right on track on that at $0.20. And I think the -- what we said in the beginning of the year is, I have to go back and look, but $0.24 to $0.28 for the year. And I think when we get there, they're largely intact. Keep in mind that probably 1/3 of the OP from those things are in the fourth quarter. So I think that we're -- we continued in that range.

Operator

Your next question is from the line of Deane Dray with RBC Capital Markets.

Deane Dray

Maybe we could start with the market conditions. And I know you picked your words carefully in the prepared remarks, but you said the short-cycle slowing intensified. And then if I heard you correctly, did you say that you expect some of the slowness to persist into next year? So take us through the cadence of the quarter and then what this means in terms of outlook for 2020. I know you're not giving specific guidance, but just in terms of how long this persists.

James Lico

Yes. Sure. Thanks, Deane. So I would -- it's Jim, by the way. I would say that -- a couple of things. One, just take us back to where we're at in July. What we saw in July was mostly what we thought to be inventory correction in our point-of-sale in places like Fluke and Pac, where we have the best visibility. Point-of-sale was still holding in there pretty well in June, but our sales into those channel partners was generally slower. So we saw it as a destocking mostly.

As we progressed through the quarter, we increasingly saw the degradation of point-of-sale. And I think that's what led us to what we believe to be true now is this will continue to persist. And so our guide for the year really reflects what we've seen in terms of degradation on the point-of-sale side.

I'd also say that we're starting to see it in our direct business as well in some places. So it's not just a channel situation. And typically, and I think this is probably more a Fluke common theme because of knowing the history there is that the smaller channel partners tend to be down more than the bigger ones, too. So that's a dynamic that we typically see in maybe a more protracted slowdown than just a quarter or 2.

To your question about how does -- what's our view of next year. I think you step back and you look at we really took a significant look at where we're at, and the productivity initiatives that we announced, the $45 million, I think really have a construct in which we think a number of these things continue into next year. So I don't have a crystal ball for the full year right now nor would I want to try to provide that. I think it's fair to say that when we snapped the line on the calendar, things aren't probably likely to change all that much, and that it's least likely that the first quarter and probably into the second quarter, a number of these things continue. And that's sort of our thought process at this point.

Deane Dray

Great. I appreciate that color in terms of the expectations. And could you flesh out a bit on this restructuring initiative? This is right out of the Danaher playbook. Year-end restructuring, set yourself up for a stronger, leaner, coming year. The $45 million, what, in terms of cash, might that be? How much is headcount? Is there rooftops? And just some color there would be helpful.

Charles McLaughlin

Hey, Deane, this is Chuck. I think the returns we'd expect on that would be under a year on that $45 million. I think that it's -- there's a number of different places as we saw slowing in the quarter, initiatives across the businesses, primarily where we're seeing slowing. So more focus on the PI. Beyond that, given that we're just rolling those things out at the operating companies, I think we'll leave the details for another day.

Operator

Your next question is from the line of Julian Mitchell with Barclays.

Julian Mitchell

Maybe just a question around the sort of the Q3 performance and the Q4 guidance. So in the third quarter, you had 2% core growth and a slight decline in core margins. Q4, you're guiding for flat core sales and a flat core margin. So I just wondered, with that slowdown in the top line that you've talked about, why don't we see that core margin pressure increase in Q4? Is it something to do with mix within the 2 segments or something around the tariff timing impact a year ago? Maybe just help us understand that margin dynamic. And maybe to put a point on it, the adjusted margin in Q3 was 21.3%. Just to clarify, if you can, what's the number for Q4?

Charles McLaughlin

Sure. First, I'll take the adjusted margin percentage in Q4 raises to 22.1% for the full company. I think the main thing, mix plays certainly a part of it and can give you some variations on the flat OMX. But I think when you look back to last year, in Q4, we had some onetime things that aren't repeating, and so that gets us to a little bit better than what we saw in Q3. But if you look back over Q2 to Q3, it's been flat.

James Lico

Julian, I think it also reflects what you saw in the third quarter, what -- this sort of slowdown through the quarter. We're much more prepared from a fourth quarter standpoint for that slowdown. And so what you also see is us taking action and the impact of those actions actually really having more impact on the quarter. So it's what -- it's certainly the -- we've got some slightly easier comps on the tariffs too as you accurately pointed out, but it's also this ability for us to get after.

The free cash flow in the third quarter was so strong, we were certainly prepared on the working capital side. And I think we're better prepared on the P&L side in the fourth than, say, we were in the third.

Julian Mitchell

Understood. And then maybe just my follow-up around capital deployment. You've announced the split will happen 9 to 12 months from now. You've also got some restructuring underway today because of the slowing top line. Given those two aspects, do you think it's plausible that you would have much M&A activity in the coming two or three quarters? Or the view is you have a lot on your plate and so maybe M&A takes a backseat for a while.

James Lico

Well, I would say, first, we certainly would agree with the point that we have a focus on a number of things that are really important. We mentioned in the prepared remarks, both the ASP integration and the separation into NewCo are going well, and that certainly takes time and resources and energy. So we would certainly vehemently agree that as a prioritization, those things are top of mind and things that Chuck and I and the rest of the management team are certainly focused on and really on a daily basis.

We announced -- we've done 3, really, if you think about from the second quarter. In the second quarter, we closed ASP. We've done SAFER. We've done Intelex. We've done PRÜFTECHNIK. And of course, today, we announced the Sensus deal, so 4 deals in the better part of 90 days. So we've been pretty active. And we're certainly very focused on the integration of those things.

So I think Sensus is a good example. We -- as I mentioned at a couple of the conferences recently, we'd be more likely to be focused on anything if we did something to be bolt-on-ish and -- or maybe adjacent that's within the real strategic side. And I think Sensus represents that. In many respects, it's adjacent to exactly what we do in Sterilization. It's sort of like how Intelex is akin to ISC. It's very much akin to what we do at ASP. So I think we'll be focused on those kinds of transactions. If they're right down the middle of the fairway, we would be acting on them. But we do have a focus on a number of these things. And while I wouldn't say we're not focused on M&A, I think it's safe to say that the M&A we've done is pretty considerable here recently.

Operator

Your next question is from the line of Andrew Obin with Bank of America.

Andrew Obin

So you did highlight North American slowdown in PI. And I was just wondering what specific end markets would you attribute the slowdown to.

James Lico

Yes, I would say -- well, first, in terms of location, we said it was -- I would say we certainly saw where we were -- if I think about Fluke, Fluke was -- Fluke Industrial in particular, our Fluke Networks business as well, those are 2 places in North America. So that was relatively broad-based, but you could certainly see where industrial customers were slower. We don't have a lot of automotive exposure, but we have manufacturing certainly in those numbers. And you'd see some of those places are just some examples of where you might see a little bit more end-market slowing.

Certainly, electronics would be the other place where we saw it. So whether that's anyone assembling or designing electronics, we saw a little bit slower markets. And that's a channel dynamic as much as anything. So those are some end markets. I think where we stood up, where we had innovation, we continue to do pretty well from a product perspective. The II900, the Sonic Imager, we announced last quarter at Fluke, did exceptionally well in the quarter. Our thermal imaging product line did pretty well in the quarter.

So where we have some innovation, we still saw some opportunities. So I think the key for us is to continue to find those places where there's opportunity and really utilize prioritization in what we call dynamic resource allocation to put our resources in some of those end markets.

I would say that when we look at places like where we have software conversions of SaaS, things are really well. So eMaint's a great example, is while the end market might be similar to some of the places that are slowing from an instrument standpoint, we're still seeing a lot of SaaS conversion in those end markets with maintenance software. We mentioned eMaint grew over 20% for another quarter in a row, and their performance was outstanding. So where we have those SaaS conversions, Andrew, I would say, the end market almost doesn't matter. We're still doing pretty well.

Andrew Obin

And just a follow-up question on Tektronix. There's been some headlines that we're seeing stabilization in sort of semiconductor markets specifically. Is that a -- has your view changed on that until fourth quarter next year? Are you seeing any signs of stabilization? Does it matter for Tektronix where we are right now?

James Lico

I think it's still a little early for us to call stabilization. I would say, on the capital front, the onesie-twosie stuff might be something that continues. But some of the bigger projects, like our Keithley business has a decent bellwether there. We still haven't seen a big upturn or maybe even a flattening yet. So I think we're still at least a quarter -- I've heard some of the same things, but I think we're definitely not planning for any of that in the rest of the year.

Operator

Your next question is from the line of Andy Kaplowitz with Citi.

Andrew Kaplowitz

Jim or Chuck, you said you had 150 basis points of price this quarter, which seems like a good deal on price. But could you talk about the trade-off between price versus cost across the company? I know you lapped tariff in Q3, but did you have positive prices for cost in Fluke and Tektronix in particular? And if you didn't, how quickly could the thing catch up with cost in those segments? And what should it look like for the company moving forward?

James Lico

Yes, I think both at Fluke and at Tek in the quarter, we beat the corporate average from a price standpoint. I think we're still a little behind on the price-cost dynamic at both those places. We've got some cost reductions that have offset some of those. But from just a pure price tariff, Andy, we're still lagging a little bit relative to that.

And I think as we go into the year, that obviously tapers a little bit because we've sort of started to sunset some of the tariffs in the fourth quarter. Because even though the tariffs were announced last year in the third, they really hit in the fourth and in the first. So we'll start to see a little bit of that. That could be a better. But unfortunately, the volume reductions sort of wipe out a lot of that as well.

So on the one hand, we've got the right price-cost, but that's sort of a static metric. It doesn't really have a volume dynamic to it. If you were to kind of look at it on a volume basis, we probably lost a little bit more on the gross margin front from just the volume reduction.

Andrew Kaplowitz

Jim, that's helpful. And then -- sorry, go ahead.

James Lico

No, I was going to say, and so if volume comes back, then we'd start to see things maybe ramp a little bit better. But right now, we're not anticipating any big volume comeback here in at least the rest of the year.

Andrew Kaplowitz

Got it. That's helpful. And then Western Europe, I think you said grew slightly, which was better than last quarter's low single-digit decline. You were watching Western Europe then carefully. So some of your peers have mentioned maybe even some stabilization in Europe as the quarter went on. Is this just GVR doing well in Europe for you guys, and we should still kind of watch the PI businesses there, the short-cycle businesses there? Or did you see any stabilization?

Charles McLaughlin

Yes, Andy. I think we did see some stabilization across the businesses. It's beyond just EVR. But I think that we remain watchful of everything that's going on in Europe, and this was a slightly bigger quarter than maybe we saw it coming in. But we're still watching it pretty carefully.

Operator

Your next question is from the line of Josh Pokrzywinski with Morgan Stanley.

Joshua Pokrzywinski

Could you just remind us, Jim, on Gordian and Accruent, just because these are kind of going organic more recently? I guess specifically for Gordian on some of these larger projects, is that revenue cycle tied more toward when these projects kick off or when they ramp up? And I guess where the question's going is if some of that underlying activity slows a little bit more, is there still kind of an extensive backlog where projects wrap up and they still get paid? Or is that more of kind of the leading edge of the project cycle?

James Lico

Yes. I mean there's certainly a component to it of you signed -- the way -- you got to get the cost structure going through the job order contracting mechanism. So you're right, there is a point where at the start, it's not as great as it is maybe through -- the first 1/3 probably isn't as great as the -- there is a ramp to that as more costs come through. And you'll probably get more at the end than you do at the beginning.

The one thing about it though is -- and one of the interesting dynamics about the businesses is that because we don't really play in the massive construction cycle, it's really more about the rebuilds and the redos and the maintenance stuff. It doesn't really have a big component to it of large-scale construction. And in fact, when things slow a little bit, people tend to fix stuff more, and it actually is a pretty good dynamic for the business. So the combination of that and of being underpenetrated means that I think we still have a lot more opportunity in the business going forward despite what the economic cycle might look like.

Joshua Pokrzywinski

Understood. And then, I guess, just a second question on GVR, obviously heading into a tougher comp here into the fourth quarter. EMV though is kind of reaching its time to shine in that whole adoption cycle. Can you help us kind of calibrate what the push and pull of those two dynamics are, the tough comp versus closer to the transition period?

James Lico

Yes. Well, we had a really good third quarter there as we said. I think in North America, I would -- because of slightly -- we certainly have a tougher comp in the fourth quarter, so it's probably closer to high single digit for the -- we'd probably see India -- we mentioned in the prepared remarks that India would -- we had a number of projects push into the fourth quarter. So I suspect our high-growth market numbers will be better in the fourth quarter there, and our North America number will be a little bit different just because -- in part because of the tougher comp, but not because of the overall demand, which we see continue to be good.

Operator

Your next question is from the line of John Walsh with Crédit Suisse.

John Walsh

Maybe just following up on that last question. Could you actually help us with the organics you're expecting in Q4? Obviously, you gave us the total company. But there is that comp and the India dynamic. I mean maybe asked differently, I mean, can IT actually grow in Q4 '19?

James Lico

Yes, IT will grow and probably in the mid single-digit ranges if we were to sort of think about that. And I think what we'll see in PI is probably still down a little bit. So pretty close, maybe because of the tougher comp, a little bit lower than what we've seen in the third quarter.

John Walsh

Great. And then going back to the prepared remarks, I think for Accruent, you made this comment that you'd signed up 70 new customers in the quarter. I was wondering if you could help provide some context around that number and how to think about it. And maybe building off of Josh's question, when things slow, I think there's a penetration rate story here, particularly for both Accruent and Gordian. I mean maybe how does -- where do you see the penetration rates of those solutions in the market and then how to think about signing up 70 customers? I'm just not sure how to actually think about how to term that business.

James Lico

Yes. That makes sense. John, I would say a couple of things. One, maybe talk about the Gordian thing first, just to tie that off. I think we're very -- that -- the market is very underpenetrated. Again, that's not a SaaS business. It's really more a new business model in terms of job order contracting. So there's a lot of growth. We have to invest in that growth by adding salespeople and building capability. And we've put some additional investments in the business this year in order to do that. We're seeing the business grow. I'm getting good returns off those investments.

Accruent today is -- has a larger installed base and is also more of a -- has more of a license revenue model that they're converting to SaaS. So while SaaS is still a large proportion of the sales today, they still have a conversion going on. So part of the little bit of the noise in the quarter with Accruent that we don't have in some of our other software businesses is this transition to SaaS. And so the 70 new customers is a good number because it demonstrates that we're adding customers, and that's a good thing.

But I think the other thing in the prepared remarks was the average contract value going up, and that average contract value going up, or what we would call ACV, is really a demonstration that we're converting people to SaaS, and they're doing that over a longer-term contract. And so that's -- those are both positive signs for the long-term growth of the business.

Of course, when you make that conversion of SaaS in a particular quarter or with a few months left in the year, it's not going to be as beneficial as getting a big subscription -- or excuse me, getting a big license contract. But over time, it's remarkably better and certainly from a margin perspective.

So that's really the dynamics going on in the business. And overall, we're seeing good progress. And I think the 70 number, I think if there are over 50 new customers a quarter, we're feeling pretty good about that number. Now of course, as the customer base gets bigger, we'll have to raise expectations on that, but I suspect the team there will be raising it before we are.

Operator

Your next question is from the line of Richard Eastman with Baird.

Richard Eastman

Just a question. The reference has been made frequently to the PI businesses, the short-cycle, short-turns businesses. And if I try to hang a number on those, I mean, what -- how much revenue is there? I mean I'd size it. Is it close to $2 billion between Tek and Fluke Industrial? You kind of use different definitions there. I'm just curious what that looks like. And the point that you make about the POS kind of slowing here through the quarter, do you have a good read on the channel there in those two businesses?

James Lico

Yes. So I think two questions there. If you took Fluke and Fluke all off, which Fluke Health, Fluke Networks, that remains there, Fluke Industrial, all of the -- Fluke Calibration, all those, you're in the -- and combine that with Tektronix, you're roughly a little over $2 billion in revenue. So that's a decent number. $2 billion, $2.1 billion, I think probably is a good number there.

Relative to -- I think we have the best visibility. We get point-of-sale data in the U.S., Europe and China for both businesses. I think we have better granularity in North America. And increasingly, as you get farther from the U.S., the numbers become less of the total sales and they come maybe a little bit more less perfect. But North America is pretty good. Fluke, we get better -- we probably get the best data because we get multiple -- we get a multiple industry look. It's often been called the "canary in the coal mine." And so I think we get decent visibility.

And that's why we said, in June, the point-of-sale data actually looked decent. It was really the third quarter where we progressively saw -- we saw more of a destocking activity going on in June. What we saw in the third quarter was -- we still saw some destocking, but we also saw really actual demand going down.

Richard Eastman

Okay. And then just my follow-up question is around ASP. You did reference some of the investments there and some of that going into new products and product launch for 2020. But given the timing there, I don't know if you need 510(k) for any of that. Probably not. But just my question is, do you have a pipeline of new products, and given the timing, that can move the needle on growth in ASP as soon as 2020?

James Lico

Well, first of all, whenever we would talk about a new product launch with ASP, we would be including the FDA approval that would be required. So when we talk about 2020, we're talking about the actual launch of products. So whether it's the FDA or the -- their -- the appropriate organization elsewhere in the world, we would always be talking about launching a product with those approvals. So we won't talk about a launch before -- we would assume that when we give you a date, that we've got those kinds of approvals already in hand. So that's first and foremost. And we have been able to accelerate some things. We started doing some work even before, not necessarily helping them with product launches, but educating them around some of our tools of new product development. But they've also had their own innovation funnel and been doing their own things, too. So we think we're accelerating some of those things, and we'll start to see those in the -- next year.

Operator

Your next question is from the line of Nigel Coe with Wolfe Research.

Nigel Coe

I would like to better understand the pathway to PI margin stability, I guess. Chuck, I think you called out FX and tariffs as 2 headwinds. And of course, we've got some pretty big decremental margins at Tektronix and Fluke. The tax, you mentioned that they're kind of lapping 4Q. So are these largely List 2 tariffs, List 3, as that's important? It seems like FX is starting to stabilize, right? So perhaps, there's some good news there. I'm just curious, how do we sort of bend the curve on margins at PI in the absence of any good news on volumes? And maybe kind of like what I'm trying to get at here is, is most of the restructuring you're doing centered around PI?

Charles McLaughlin

Yes, I think there's a couple of quick things. There is -- keep in mind, the tariffs, they ramped through last year as they were implemented. So when -- even though we're lapping at the start of tariffs, I think the lapping starts around the first of the year when its so like-for-like come out. So that will give us some stabilization.

I agree that there's still a little bit of FX headwind in the year, but that's starting -- hopefully, that will remain stable. But I do think that some of the restructuring that -- or the -- that we're doing that we just announced is primarily focused in PI and not all because we have slowing in a number of places. But I think that's going to be helpful there. And don't forget that ASP is sitting in Professional Instrumentation as well, and that should give us some lift there as well.

Nigel Coe

Okay. That brings me then into the next question, which is the TSA roll-off at ASP. Can you maybe quantify kind of to what extent that's a problem right now? And what impact is that to margin? I've got a number of maybe $15 million to $20 million per quarter in my head. Is that a good number going forward?

Charles McLaughlin

I think that when we get down the road and we're entirely off the TSAs, yes, I think that, that will be a quarter number. I don't -- I wouldn't actually call it a problem in that it's playing out as we expected. But I think it's an opportunity that we expect to move forward with. And so I feel pretty good about it.

Operator

Your next question is from the line of John Inch with Gordon Haskett.

John Inch

I think you both said Tektronix and Fluke Industrial were down high single digits, and obviously, the shift has been much more at the point-of-sale. I'm not sure if you know or can kind of granularly or more granularly comment on the degree of destock, like is destock getting better. And do you guys think that Tek and Fluke have hit sort of low watermarks in terms of their core growth degradation? Or based on sort of the cadence of end markets, it seems like this is just kind of beginning to hit in North America. Are things potentially going to get worse here in the short run?

James Lico

Well, I think we said, North America, Fluke Industrial was high single digits in the quarter. So that's a pretty -- you got to -- you can come up with a lot of different scenarios around what the economic situation looks like. But I think given what we saw progress through the quarter, that idea that it will progress, that it will continue for a period of time is really the basis by which we took the productivity initiatives.

So I think we don't expect anything to come back and return. And the sales in is sort of equating to the sales out now. So at some point in time, we'll see some inventory lift, but we're not planning any inventory lift. And I wouldn't expect that well into next year. So I think we're prudent where we're at right now, John. Certainly, we could come up with a scenario where maybe it gets worse. But I think, right now, from everything we're seeing, having this idea that it progresses or continues and certainly into next year is, I think, is the most accurate thing.

And it seems, as we've listened to other peers, it seems similar from an end-market perspective. We're seeing some similar things. So we'll try -- we try to triangulate off of that as well.

John Inch

That makes sense. And then can we also just -- could you guys maybe -- I don't know if there's any sort of an update you can give us with respect to the time line of events for separation. So I'm thinking you were going to talk about, maybe at some point, the expected capital structure of both of the companies. At some point, we're going to get a management for NewCo, et cetera, then there's a road show. What -- are there any milestones that we should be looking for coming up in the next few months?

James Lico

Well, I think -- yes, I mean, it's very early days. I -- but I like -- as we meant -- said in the prepared remarks, I think we made some really good progress. I would say we filed registration statements. We've gotten commentary from the SEC. We've responded to that feedback. So at having done a few of these in my life now, the -- what I call the real work, the groundwork you got to do from a filing perspective, from a subsidiary standpoint, from a pretax work, we've made a lot of progress in the last several months.

Obviously, we just announced it 5 or 6 weeks ago, but I think those comments would suggest we've been hard at work for much longer than that. And we're certainly building the management team. We're building a Board. We're doing a number of those things. And they really all need to come at one time, if you will. So I don't want to put a predictive time on that. But certainly, I wouldn't think -- I would think we'll certainly be talking about that by the end of the year, early part of next year for, I think, with pretty good specificity.

We've announced the location. We're going to put the headquarters in Charlotte, North Carolina -- or Raleigh-Durham, North Carolina, sorry about that. So the -- so we've got a location, and we're -- and that's something we're doing. So we've made a number of -- we've made progress on a number of fronts, and we feel good about where we're at.

And as we bring everything else along, we'll have an opportunity to continue to share things as they come out. But I think that's really probably the early part of next year where we come up with some of the -- where we can come out with -- maybe that's the next major milestone. And maybe that's tied to earnings announcement or somewhere in around there, too.

Operator

Your next question is from the line of Andrew Buscaglia with Berenberg.

Andrew Buscaglia

Can you talk a little bit more about ASP? So it's been in your numbers for a couple of quarters now. Can you talk about where you are with regards to FBS initiatives, first off, kind of what inning you're there? And with regards to the margin contribution, can you talk to -- can you try to quantify that in -- within the quarter and then potentially how that progresses through next year?

James Lico

Sure. So Andrew, we'll -- Chuck and I can tag-team that. I think we're very pleased with the work that's been done on the Fortive Business System with the team there. We've made good progress. We've done a number of things. I mentioned in the prepared remarks some of the innovation efforts we've had. We've also had a number of value-selling and funnel management workshops with them. We've taught them daily management. We've done some Kaizens in the factory as well. So we've made some nice progress with adoption of FBS in -- while -- and it's really early days. I was -- a couple of weeks ago, I was with the teams in China and in Japan. And those teams are really integrating, while we mentioned China is going to come on to our direct control here in a few weeks.

So we're making good progress, and the teams are very thirsty for adopting FBS. The work that's been done, I think, suggests that having their hands on a continuous improvement system and a set of tools has been something that they've been looking forward to. And so far, adoption is very early days. As we know, this is a multi, multiyear journey. But having done this a number of times, I think we're off to a pretty good start.

Charles McLaughlin

And Andrew, this is Chuck. With the -- regards to the margins, adjusted operating margins, I think at this point, are nominally accretive. But as we were off in the TSAs, you'll see a significant lift in benefit from us over the next year from ASP for the total Fortive.

Andrew Buscaglia

Right. Okay. And is there any incentive to move some of those FBS stuff forward pre-spin?

James Lico

I think what you -- are you talking about the -- at ASP or just more...

Andrew Buscaglia

Yes. ASP, yes, specifically. Like is there a -- yes...

James Lico

I think the road maps for what we need to do in both businesses, both the separation and ASP integration, they really have independent paths. And we're working super hard and super well to get those done as quickly as possible. But the reality is they're both on separate paths. And they'll find the fact that we talk about, one, at the end of -- at the end of the first half and the other one in the second half. That's just sort of -- it just happens to be that way. We're very much running pretty hard. I don't anticipate opportunities to do much sooner on either one of those because of the work that we have ahead of us. The good news is we're making good progress along those paths now.

Operator

Your next question is from the line of Joe Giordano with Cowen.

Joseph Giordano

Do you have any color on core OMX growth by segment next quarter?

Charles McLaughlin

Well, I think, in general, it's going to look an awful lot like what we saw this quarter for core OMX. I think that when you look at our adjusting operating margins, I think both PI and IT will be around 23%, with the overall company in 20%, 22%.

Joseph Giordano

Okay. And then on the SaaS transition for Accruent, how long does something like that generally take? And I know it's a good development long-term, but sometimes, it's going to be a tough transition as it happens. So how long does that business take to transition over?

James Lico

Yes. We'll continue to do. I think what we really built on our return model was that it would occur over a couple -- 2 to 3 years. Not every customer -- we're not forcing a transition by any stretch of imagination. There's certain value that's created, particularly as people move to the cloud and have different thoughts around how they want to handle their IT transitions in some of these markets. So it's certainly a continued 2- to 3-year transition.

And I don't think there's anything that will precipitate a massive change to that. And it's certainly -- well, it might move around. The core growth rate might move around a little bit quarter-to-quarter here. But we still sit in that, the mid- to high single-digit growth rates that we'll see in those -- the combined business here, certainly through -- certainly over the next few years with having those transitions.

Operator

And there are no further questions at this time.

James Lico

Well, thanks, everybody, and Philip, thank you. Thanks, everybody, for taking the time. I know it's an incredibly busy day. I understand there were some challenges with EDGAR even today. So -- on getting some documents. So our information is on the web, on our website, if you weren't able to do that. I'm sure that you'll all figure out what they have going.

But thanks so much for the time. We obviously feel that we've taken a number of steps. I know this is a volatile environment with a lot of change going on relative to the end markets. But we feel very good about what we've done from a free cash flow perspective and earnings perspective in the quarter and really are working hard to make sure that we can implement some of the things to not only protect our earnings for next year, but also to make sure that we do what we call dynamic resource allocation, which is to make sure we can continue to prioritize the investments that are going to have the most dramatic impact on our core growth and our margin expansion in the years to come.

So we'll look forward to continuing to talk to all of you there. Obviously, Griffin and Chuck and Ross are available for questions, will be available when needed to answer any follow-ups. Thanks for the time, and good luck in the remaining days and weeks of earnings. Thanks, everybody. Have a great night.

Operator

That does conclude today's conference. Thank you for participating. You may now disconnect.