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Mettler-Toledo International, Inc. (MTD) CEO Olivier Filliol on Q3 2019 Results - Earnings Call Transcript

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Q3: 11-07-19 Earnings Summary

Press Release SEC *10-Q* *Slides*

EPS of $5.77 beats by $0.05 | Revenue of $753.87M (2.59% Y/Y) beats by $2.53M

Earning Call Audio

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Mettler-Toledo International, Inc. (NYSE:MTD) Q3 2019 Earnings Conference Call November 7, 2019 5:00 PM ET

Company Participants

Mary Finnegan - Head, IR & Treasurer

Olivier Filliol - President, CEO & Director

Shawn Vadala - CFO

Conference Call Participants

Ruizhi Qin - JPMorgan Chase & Co.

Jack Meehan - Barclays Bank

Daniel Brennan - UBS Investment Bank

Vijay Kumar - Evercore ISI

Stephen Beuchaw - Wolfe Research

Derik De Bruin - Bank of America Merrill Lynch

Stephen Willoughby - Cleveland Research Company

Paul Knight - Janney Montgomery Scott

Brandon Couillard - Jefferies

Operator

Good day, ladies and gentlemen, and welcome to our Third Quarter 2019 Mettler-Toledo International Earnings Conference Call. My name is Mike, and I will be your audio coordinator for today. [Operator Instructions].

I would now like to turn our presentation over to your hostess for today's call, Ms. Mary Finnegan. Please proceed, ma'am.

Mary Finnegan

Okay. Thanks, Mike. And good evening, everyone. I'm Mary Finnegan, I'm Treasurer and responsible for Investor Relations and happy to have you joining us this evening. I'm joined here today with Olivier Filliol, our CEO; and Shawn Vadala, our Chief Financial Officer.

I want to cover just a couple of administrative matters. This call is being webcast and is available on our website. A copy of the press release and presentation are also available on our website.

Let me summarize the safe harbor language, which is on Page 2 of our presentation. Statements in this presentation, which are not historical facts, constitute forward-looking statements within the meaning of the U.S. Securities Act of 1933 and the U.S. Securities Exchange Act of 1934. These statements involve risks, uncertainties and other factors that may cause our actual results, levels of activity, performance or achievements to be materially different from those expressed or implied by any forward-looking statements. For a discussion of these risks and uncertainties, please see our Form 10-K.

All of the forward-looking statements are qualified in their entirety by reference to the factors discussed under the caption, Factors Affecting Our Future Operating Results and in the business and management's discussion and analysis of financial condition and results of operations in our Form 10-K.

Just one other item. On today's call, we may use non-GAAP financial measures. More detailed information with respect to the use of and differences between non-GAAP financial measures and the most directly comparable GAAP measure is provided in our 8-K.

Let me now turn the call over to Olivier.

Olivier Filliol

Thank you, Mary, and good evening, everyone. I will start with a summary of the quarter and then Shawn will provide details on our financial results and guidance for the remainder of this year and for 2020. I will then have some additional comments and we will open the lines for Q&A.

The highlights for the quarter are on Page 3 of the presentation. Sales growth in the quarter was very good in our laboratory and industrial product lines. Food Retail declined 15%, worse than we expected the last time we spoke. Total local currency sales growth in the quarter was approximately 4.5%. And excluding Food Retail, sales growth was 6%, which is in line with our expectation at the beginning of the quarter. Excluding Food Retail, growth in the Americas was excellent while growth in Europe and Asia/Rest of World was solid. We achieved very strong growth in operating margins and earnings per share despite meaningful headwinds due to adverse currency and tariff costs. Overall, we are very pleased with the strong results for the third quarter.

As we look to the remainder of 2019 and our initial thoughts for 2020, we face somewhat of a balancing act. On the one hand, we remain confident in our growth initiatives and our ability to continue to execute and gain market share. These initiatives have strong momentum and are well ingrained in the organization and surface well in an environment in which it is more important than ever to focus on the best growth opportunities within our markets.

The diversification of our business, products and end markets is particularly helpful when there are mixed signals in certain end markets. Our sales and marketing programs are tailored to help guide our sales force to our best opportunities. And on a positive front, is that we believe we will continue to see tangible results from our productivity and margin initiatives.

Offsetting this positive practice is that we sit here today with an economy that is more uncertain than 1 year ago as macroeconomic data continues to weaken. We will also continue to face headwinds from adverse currency and tariff costs.

What does this mean when we take that all together? We continue to invest for growth but are cautious on the macro environment. We believe we can generate solid sales growth and strong earnings growth for 2019 and 2020. Shawn will provide more specifics, but I wanted to provide some context upfront.

Let me now turn it to Shawn to cover the financials and guidance.

Shawn Vadala

Okay. Thanks, Olivier. Sales were $753.9 million in the quarter, an increase of approximately 4.5% in local currency. On a U.S. dollar basis, total sales increased 3% as currencies reduced sales growth by approximately 1.5% in the quarter.

On Slide 4, we show sales growth by region. Local currency sales grew 7% in the Americas, 2% in Europe and 4% in Asia/Rest of World. Sales growth in Europe was particularly impacted by the decline in Food Retail. Absent Food Retail, Europe had sales growth of 4% in the quarter.

Food Retail reduced sales growth in the Americas by 2% and 1% in Asia/Rest of World in the quarter. China had growth of 5%, pretty much in line with what we expected and was impacted by strong multiyear comparisons.

The next slide shows year-to-date results. Local currency sales growth increased 5% in the Americas year-to-date, 3% in Europe and 7% in Asia/Rest of World.

On Slide 6, we outline local currency sales growth by product area. In the quarter, laboratory sales grew 7%, industrial increased 5% with core industrial up 7% while product inspection increased 3%. Food Retail declined 15% in the quarter. And excluding Food Retail, our overall growth in the quarter was 6%.

The next slide shows year-to-date sales growth. Laboratory sales grew 8% in local currency, industrial grew 5% with core industrial up 7% and product inspection up 2%. Food Retailing declined 10% on a year-to-date basis. Overall, total sales were up 5% in local currency and 6% if we exclude Food Retailing on a year-to-date basis.

Now let me move to the rest of the P&L for the quarter, which is summarized on Slide 8. Gross margin in the quarter was 57.7%, a 60 basis point increase over the prior year level of 57.1%. Stern Drive initiatives on material costs and productivity and pricing were strong contributors to margin growth. We also had some mix benefit. Partly offsetting these positives were tariffs from the U.S.-China trade dispute and some costs associated with product launches.

R&D amounted to $36 million, which represents a 5% increase in local currency. SG&A amounted to $202.8 million, a 2% increase in local currency over the prior year. The increase was driven by investments in our field force and growth initiatives, offset in part by our cost savings initiatives.

Adjusted operating profit amounted to $196.2 million in the quarter, which represents an 8% increase over the prior year amount of $182 million. We estimate currency reduced operating income by approximately $3.5 million.

We also estimate tariffs were a gross headwind to operating income by approximately $4 million. Absent adverse currency and the gross impact of tariffs, operating income would have increased 12% in the quarter. Operating margins reached 26% in the quarter, a 120 basis point increase from the prior year. We're quite pleased with this increase given the meaningful headwinds we faced in the quarter.

A couple of final comments on the P&L. Amortization amounted to $12.3 million in the quarter. Interest expense was $9.8 million in the quarter. Other income amounted to $2 million. Our effective tax rate in the quarter was 20% and is before discrete items and adjusts for the timing of stock option exercises.

Moving to fully diluted shares, which amounted to $24.9 million in the quarter and is a 3% decline from the prior year reflecting the impact of our share repurchase program. Adjusted EPS for the quarter was $5.77, a 13% increase over the prior year amount of $5.12. Absent currency and the gross impact of tariffs, our adjusted EPS growth would have been 17% in the quarter, a level we are very pleased at.

On a reported basis in the quarter EPS was $5.20 as compared to $4.93 in the prior year. Reported EPS includes $0.11 of purchase intangible amortization, $0.22 of restructuring related primarily to the two back-office cost-reduction actions. We also had a $0.24 difference between our quarterly and annual tax rate due to timing of stock option exercises.

The next slide shows our year-to-date P&L. We're quite pleased with the results, which shows local currency sales growth of 5%, operating margin improvement of 90 basis points and earnings growth of 11%. We are particularly pleased with these results given the meaningful headwinds we faced with adverse currency and tariff costs.

That is it for the P&L, and I'll now cover the cash flow. In the quarter, adjusted free cash flow amounted to $151.6 million, a 29% increase over the prior year on a per-share basis. Our working capital statistics remain solid with DSO at 39 days and ITO at 4.5x. On a year-to-date basis, adjusted free cash flow amounted to $345.1 million as compared with $298.6 million in the prior period. This represents a 19% increase on a per-share basis.

Let me now turn to guidance. Olivier provided some introductory comments on guidance, but let me reiterate a couple of points before providing the details. We continue to feel confident about our ability to execute on our growth and productivity initiatives. We believe we are well positioned to continue to gain share regardless of the macro environment. We also believe we can continue to expand our operating margins through our ongoing productivity and pricing programs.

The factors outside of our control, namely the continued deterioration in the macroeconomic indicators makes cautious in our outlook. We believe our business is less susceptible to an economic downturn than in the past due to the greater percentage of our sales in laboratory and a shift within our industrial business to more attractive market segments. However, we don't believe we are immune to economic cycles. And although we remain in the investment mode, we remain agile to adapt as market conditions necessitate.

Just two final items to keep in mind. We will face very challenging comparisons in the fourth quarter and currency is worse as compared to the last time we spoke. Both tariffs and currencies will continue to be headwinds for our business. For the full year, we expect adverse currency and gross tariffs to reduce EPS growth by approximately 5% in 2019 and by almost 1.5% in 2020.

Now let me cover the specifics. We continue to expect local currency sales growth in 2019 to be approximately 5%. Our full year sales guidance, excluding food retailing, remains at 6% in local currency. We now expect full year adjusted EPS guidance to be in the range of $22.65 to $22.70, which is a growth rate of 11% to 12%. We have narrowed the range in our Q3 beat is offset by a more negative currency. With respect to the fourth quarter, we would expect local currency sales growth to be approximately 3%, which is an 11% growth on a 2-year stack basis. We would expect this sales growth -- with this sales growth to result in adjusted EPS to be in a range of $7.66 to $7.71, a growth rate of 12% to 13%.

For 2020, we expect local currency sales growth to be approximately 4% and adjusted EPS to be in a range of $24.85 to $25.10. Using the midpoint of 2019 guidance, this represent -- this results in a growth rate of 10% to 11%. This includes an estimated headwind of almost 1.5% from currency and the gross impact of tariffs.

Some further comments on 2020 guidance. We expect interest expense to be approximately $40 million in 2020 and amortization to be approximately $53 million. Other income in 2020 will be approximately $2 million, which is a decline from 2019 principally due to lower expected pension income.

In terms of free cash flow, we expect it to reach approximately $560 million in 2020, which is a 12% increase on a per-share basis. We will repurchase shares of approximately $800 million in 2020, which includes an incremental amount as we target a net-debt-to-EBITDA leverage ratio of 1.5x. As in the past, we will buy shares evenly throughout the year.

Some additional details. With respect to the impact of currency on sales growth, we expect currency to reduce sales growth by approximately 1% in the fourth quarter 2019 and 2.5% for the full year 2019. In 2020, we expect currency to reduce sales growth by approximately 1%.

Finally, as we typically do, we will provide updates on a quarterly basis for next quarter's EPS. However, I would like to point out that we would expect adjusted EPS growth in the first half of the year to be below the second half due to tougher comps and a more unfavorable impact from currency and tariffs. In particular, we would expect Q1 EPS growth to be below the low end of our full year guidance range. We will provide more specifics next year but wanted to point this out now as I know you'll be updating your models.

That is it from my side. I'll now turn it back to Olivier.

Olivier Filliol

Thanks, Shawn. Let me start by providing some additional comments on our operating results. Our lab business continues to perform very well with 7% local currency sales growth in the quarter, which was against very strong growth in the prior year.

Most product lines did well, particularly if you look at it on a 2-year basis. Sales growth in the Americas and China was particularly strong. Our laboratory business is well positioned to continue to gain share. We spent a disproportionate amount in lab on investments in field resources, Spinnaker sales and marketing initiatives and R&D investments. We expect market demands to remain favorable and expect solid growth in the fourth quarter and in 2020, although we face more challenging comparisons after several years of very strong growth.

In terms of our industrial business, product inspection was up in the quarter, in line with our expectations. Our expectation are for relatively flat growth in Q4 given strong prior year and we would expect low- to mid-single-digit growth in 2020. This growth is below our medium-term guidance as the packaged food manufacture end market continues to be mixed. We have not yet seen that large food manufacturers return to full investment mode, particularly with respect to global rollouts. We think this will take some additional time. We are very well positioned in this business, and we believe growth economics are very strong over the medium term given the focus on food manufacturers, on brand protection and expected growth opportunities in emerging markets.

Core industrial did very well in the third quarter with growth of 7% in local currency. We benefited from some project activity in Transportation and Logistics but have good growth even excluding this benefit. We are executing well in core industrial as this business is gaining traction with the Spinnaker sales and marketing initiatives. Underlying market demand is good enough as we expect continued solid results, although this business had growth in Q4 last year of 13%. So they will face a particularly challenging comparison. Outlook for next year is solid, although we would expect growth in China to moderate modestly given a strong multiyear comparisons and slightly more challenging market dynamics.

Finally, Food Retail was down 15% in the quarter, which was worse than we expected. As we highlighted last quarter, this business is impacted by challenging market demand and the timing of customer project activity. We are managing this business for profitability and not for sales growth. We have enacted cost-reduction actions over the last year in light of the challenging conditions. We expect market conditions to remain challenging, but expect the business to return to modest growth next year aided by easier comparisons and new product launches.

Now let me make some additional comments by geography. I will start with Europe, which was up mid-single digits, excluding Food Retail. Lab had growth while core industrial did particularly well. Retail was down significantly. We believe our lab and core industrial markets in Europe are good enough to maintain replacement cycles. Q4 will be impacted by very strong prior year growth, but we would expect reasonable growth in 2020.

Americas had very strong growth in the quarter. Excluding food retailing, Americas grew 9% in the quarter. Lab had very strong growth while product inspection and core industrial had good growth as well. For the remainder of the year, we expect Americas to grow mid-single digits and also expect mid-single-digit growth in 2020. We believe markets will remain solid, but will be impacted by prior year comparisons.

Finally, Asia and rest of the world have solid growth with most business lines doing well. China had solid growth in the quarter with high-single-digit lab growth and mid-single-digit industrial, which was in line with our expectations and impacted by very strong growth in prior year. Our outlook for this region remains solid, but they will continue to face strong multiyear comparisons and a slightly more challenging environment.

One final comment on the business. Service had another quarter of good growth in the period, up 7% in local currency for both the quarter and year-to-date. I will have some additional comments on service shortly. That concludes my comments on the different pieces of the business. As mentioned earlier, we remain confident that our growth initiatives can continue to generate additional market share.

Let me give you a few examples. I will start with sales and marketing in which we are continuing to invest in new tools so field sales reps have more capacity for impactful customer interactions. Digitalization tools are one of the examples, including our new sales tool, the digital library. The library houses a vast array of materials, including videos, cross-selling overviews, customer references, value-selling guides and referrals. All the digitalization tools include field sales mobility solution at our mobile CRM, which allows sales reps to immediately follow up on customer requests and leads. We also utilize e-demos so our sales reps at the customer side can leverage the expertise of a product specialist via live demo. E-demos allow for greater reach as customers from multiple sites can participate and are especially effective for presenting our instruments that are highly complex or application-oriented.

Digitalization is also at the heart of our e-commerce platform, which promotes the ease of doing business and allows for no-touch transactions while also further enhancing our relationship with the customer. Digitalization tools are just one example of how we are helping to ensure our sales force has the most direct interaction with customers with the greatest potential while also enhancing the customer experience.

Service continues to deliver good growth. It was up 7% to date and it accounts for about 28% of the total sales. Versus our direct competitors, service is an excellent competitive advantage as we have one of the largest, most global and best trained service force. Our service force keeps us close to customers and provides insights on how to best serve them.

Global customers are increasingly asking for services to be delivered in a unified, consistent way across regions, countries and continents. To meet this need, we now offer 2 harmonized service levels, standard for noncontract customers where we respond within 3 days during regular hours; and service level agreements, which can be customized up to 4-hour response time and available 24/7. It is hard for our direct competitors to offer such a service level agreement.

We also provide value-added services. A good example is our digital performance verification for our product inspection customers. Targeted to food manufacturers who need to show compliance with safety regulations, this service assesses how an instrument performs according to global food safety initiative standards and provides documentation in digital format that can be assessed -- sorry, can be accessed worldwide by the customers' quality control teams. It is just one example of how we are helping customers execute and document routine tasks and maintain data integrity.

Consumables is another source of good growth for us and now represents about 10% of our total sales. Year-to-date, consumables are up 7%. Pipette tips are a key component of our consumable offering, which we enhanced with the acquisition of Biotix about two years ago.

In addition to sales and marketing and service initiatives, our product portfolio is also an important source of growth. For example, we have developed a comprehensive solution for pipette asset management. A large biopharma company can have up to 10,000 pipettes at 1 site alone. The administrative cost of tracking each pipette's location, calibration status, audit certificates, service times and replacement schedules can be overwhelming.

To help manage this, we have developed a comprehensive solution that combines an asset management software with our unique SmartStand, which holds our pipettes with an embedded RFID chip that indicates when the next service and calibration are due. The software connects multiple SmartStands and tracks and manage all pipette brands and models in the lab. Our solution helps customers save time and increase productivity while providing integrated data and traceability for quality control and compliance. This is just one example of our technology leadership, and we have many more within our product portfolio.

That concludes our prepared comments. We are very pleased with our results in the quarter and year-to-date. While more uncertainty exists in the global economy, we believe we are well positioned to gain share and deliver good earnings growth.

With that, I want to ask the operator to open the lines for questions.

Question-and-Answer Session

Operator

[Operator Instructions]. Your first question comes from the line of Tycho Peterson from JP Morgan.

Ruizhi Qin

This is Julia on for Tycho. So maybe to start off, regarding your commentary on Europe, I think I heard you saying that industrial was particularly strong in that region. We're just comparing to some of the other commentary we've heard from your peers. So could just give us a little more color on that?

Olivier Filliol

Yes. Indeed, we were very happy about the performance. I think it's a reflection of an economy that is good enough for us, but then a very strong execution by the team in terms of the Spinnaker initiatives, in terms of focusing on the right end-user segments. And we had also some good product launches that helped us. So indeed, really a good performance.

What I, however, would also add here, the part of the economy that is particularly weak in Europe is not necessarily one that we have a focus on, so thinking of machinery, automobile industry and so on. These are not the most important industry segments for us.

Ruizhi Qin

Got it. And -- sorry, go ahead.

Shawn Vadala

Yes. It's fine, Julia.

Ruizhi Qin

Okay. And then regarding Food and Retail, I'm just wondering what drove the negative surprise in the quarter. And how has your visibility into that business line has changed? Because I think you previously said that you typically have pretty good visibility a quarter ahead. So just wondering, are there any changing dynamics there that you'd like to call out?

And then as we look at your 2020 guidance, obviously, for lab and industrial, you're still having pretty strong momentum there. So with the 4% constant currency growth, is that all sort of due to food weakness that you're expecting for next year? And what would be the guidance excluding food?

Olivier Filliol

So I will take the first part and then Shawn covers the second part of the question. So back to retail and visibility, indeed, we have a reasonable visibility within the quarter. But our visibility is supported by good diversification across regions and across businesses. And so I think in retail, we certainly have a reasonable visibility to very large projects, but then there is an underlying business that we can't properly predict the whole quarter.

What plays also in the weakness of retail is that the big projects did not come in as expected. And so we experienced that weakness in particular also from that end. We expect, as we did talk on the prepared remarks, retail to continue to be a challenge here for another 1, 2 quarters. It's also because we are managing this business too with profitability and not top line. And yes, I -- it's not a fundamental shift, but we do recognize that this market in food retailing is a challenging market right now. We expect that the latter part of next year will look better for us.

Shawn Vadala

Yes. In terms of the second part of your question, Julia, if I look at 2020 for retail, for the full year, we probably imagine modest growth of low single digit. But during the first half of the year, we wouldn't be surprised if we see it down slightly during Q1 and Q2, but down in kind of like low-single-digit kind of a range. If we look at the full year, excluding Food Retail, not as much of an impact as we would have seen in 2019, but modestly better than the 4%.

And if I just kind of like walk down the divisions or the business areas, lab, we're probably looking at lab in the mid-single-digit range next year. I mean keeping in mind, we have very good momentum in that business, feeling very good about the execution, but just acknowledging we're coming off of several years of very strong growth there. On the core industrial side, probably looking at more low single digit next year. We've been growing very fast in that business since the fourth quarter of last year. As a reminder, the core industrial business grew 13% in Q4 of last year, and we've been at very strong growth levels in the high-single-digit range for most of this year.

And then if we look at product inspection, probably more in the low- to mid-single-digit range next year. This is acknowledged below our longer-term expectations. We still feel very good about the business from a long-term perspective, given our many competitive advantages, but just acknowledging some softness in the packaged food segment.

Ruizhi Qin

Got it. That's very helpful. And then lastly from me regarding China. I think last quarter, you had double-digit lab growth in China and a high-single-digit for industrial. It seems like it has moderated a little bit. So just wondering if there are any comp dynamics that you'd like to call out and how should we think about your outlook for China in the near term? Have there been any changes?

Olivier Filliol

So indeed, there is a comp topic. We had here in China many quarters of very good results, and that starts now to play in. Absent of that, we feel still very good about our business in China. We have an excellent leadership position there. We have, in average, probably a 25% market share, which is about similar to what we have in the group. We have the Spinnaker programs that are executed really particularly also well in China. And we are benefiting from a good diversification of the end-user markets that we serve.

So these are all very strong assets that we bring here, and I feel that our end-user industries that we are focused on are actually still going well in China. So all in all, good, but then we have these comparison topics and, of course, we also see that there are parts of the Chinese markets that are weaker. We are just less exposed, but I'm not pretending that we are totally immune to that one.

Operator

Your next action comes from the line of Jack Meehan from Barclays.

Jack Meehan

Just back on the core industrial business, that's kind -- despite some of the macro commentary, seemed to continue to do well. I was wondering if -- you did mention some discrete projects, which may help the quarter, what would the growth have been like otherwise? And then, Shawn, as we're thinking about 2020, is there any phasing within that low-single-digit outlook you talked about for 2020 as you look at the year for core industrial?

Shawn Vadala

Yes. Jack, I mean, we called out a little bit some project activity in our T&L business. We actually see excellent momentum in that business kind of continuing for the medium term. There are some very interesting things going on in that business for us. So I wouldn't view it as necessarily a onetime topic for next year. But if we exclude that, I don't have that number, but it -- I don't think the number is also that significant on the overall division.

What's been really interesting to us is that the growth in industrial has been extremely broad-based geographically and in a lot of our product categories as well. And I just feel like the -- this focus on the more attractive segments of the market really has gained momentum over the last year. And as I mentioned in my previous comments with Julia, I mean, we grew 13% in core industrial in Q4 of last year and we've really seen strong execution throughout this year.

As I look to 2020, I haven't thought too much about pacing, but I can imagine Q1 might be a little bit lower than the other quarters, could be flat, more flattish to modest growth just given that we have a very difficult comparison in the previous year, but frankly, haven't put a lot of thought into that one and we don't have very good visibility going out that far at this moment in time but, of course, we'll give you an update the next time we talk.

Jack Meehan

Yes. That's fair. And then on the gross margin, so up 60 basis points year-over-year. I think that's the best progression you've had in a while. Can you walk us through some of the moving parts with FX, tariffs and pricing, just what the drivers of that were?

Shawn Vadala

Yes. Sure. Again, no, very pleased with the margin expansion in the quarter, also came in line with what we had expected at least. Price realization did well. It was about 2.5%. Again, that was probably a little bit better than what I was thinking when -- the last time we would have spoken. That would have had a benefit of about 100, 110 basis points on the margin. Kind of offsetting that was the gross impact of the tariffs of 50 basis points. And so I think those are really the 2 items that -- to call out. There was certainly a lot of things offsetting each other that were smaller in nature going either way, but nothing worth really mentioning.

Operator

Your next question comes from the line of Dan Brennan from UBS.

Daniel Brennan

Olivier, just back to geographies or, Shawn, just for a moment. Just I don't think you mentioned this, but just how do we think about China and Europe, specifically, as you look at the fourth quarter in 2020? I think it may have been asked earlier, but I'm just kind of -- think about, yes, the comps are a little bit easier for 2020, but just trying to get a flavor for how you're kind of modeling it.

Shawn Vadala

Yes. Right now, -- yes. Thanks, Dan. So right now, for Q4, we're looking at probably more mid- to high-single-digit growth. But as we look to 2020, right now, we're assuming mid-single-digit growth. I would imagine the lab business will do better, maybe high single digit but probably a more cautious view on the industrial business, not that we're particularly seeing anything in our business, but just given the overall environment there that's kind of how we're thinking about it right now. Like every year with China, there's always upsides and downsides and things can change quickly.

Daniel Brennan

Got it. And then I'm sorry, for Europe, Shawn, I don't know if you gave those numbers for 2020, just wondering how you think about it.

Shawn Vadala

For Europe, right now, we're thinking probably low single digit in Europe, and then just to be clear, for Americas, mid-single digit.

Daniel Brennan

Got it. And then, Olivier, I know you talked about the global economy and kind of where we're at. You guys are kind of powering through with the exception of Food Retail. But just kind of your sense for 2020, I mean the guide of 4%. Is it there anything you see? Are there -- I mean like what indicators do you watch because you've been kind of highlighting the risks for about 4 or 5 quarters and yet, with exception of Food Retail, the business has held in well. So I'm just wondering about -- it seems like you're warning that something may come, but maybe it won't come. So just can you give us a flavor for what are some of the indicators you're watching?

Olivier Filliol

All the indicators that we have internal still look favorable. I think we commented before, we have in retail and in the packaged food area some end markets that are more challenging. But absent of that, all our KPIs that we have internally, leads growth, all that stuff looks favorable. We are very pleased about the team being focused on execution. We see good results of our sales and marketing programs. So that's unchanged. And we feel good.

I think the overall economy, we look at PMI metrics, we look at economics, and we want to take that in our consideration. And in that sense, we continue to talk about also clouds, economic clouds. I think that was one word that I used a year ago. And I would still apply it here. But it's not that we see something particularly worrying or that the clouds get really dark here. Yes, in that sense, not anything that is so different to what we experienced the last few quarters. And we always said, the economy needs to be good enough for us to grow, and we feel the economy is good enough.

Daniel Brennan

And then maybe one final just on Food Retail. I know it's a small part of the business, but is it -- so in 2020, it gets better from a comp basis. And then as you look out, are there fundamental issues or kind of benefits that will improve do you feel like with the supermarket industry or the other parts of the industry you're serving just given the pressure from the Internet?

Olivier Filliol

I think the challenges will remain, but we will have adjusted to that. The comparisons will become easier, of course. But we have been also proactive in restructuring parts of this business, and we will have the benefit of that behind us. That's also one of the reasons why we feel like the second part of next year will be better. And that should position us well also for the future.

Operator

Your next question comes from the line of Vijay Kumar with Evercore ISI.

Vijay Kumar

Olivier, just maybe one on the 20 comments you're making. If I understand it correctly, what you're saying is we want to be cautious but you haven't seen any deceleration in either industrial or food versus what you're seeing right now. This is more of a cautious tone you're just taking, but from an actual trend that you're seeing so far, you haven't seen any deceleration. Is that a fair comment?

Olivier Filliol

Yes. That's a fair comment. And in contrary, I would say, what we are seeing year-to-date in the business, absent of product inspection and food retailing, we are very pleased that we have not seen a slowdown in the momentum from -- so it's yes. And this is true for all the relevant KPIs. So not just kind of the reported sales we -- growth activity, leads generation and all that stuff.

Vijay Kumar

That's helpful. And then maybe one on the assumptions around '20. It looks like just based on at the EPS, maybe there's some moderation in margin expansion for next year, not sure if this is FX or what kind of FX you're assuming. Maybe any comments on incremental margins next year?

Shawn Vadala

No. I mean, I think when I look at our guidance for margins, I feel actually pretty good. From an operating profit margin perspective, there might be a little bit of currency noise there. But excluding currency, we're looking at operating margin expansion of about 90 basis points, which is closer to the higher end of our typical guidance of 70 to 100 basis points. When I look at the incremental margins, I mean, we're looking at 40 -- north of 40%. And when I look at the gross profit margin level, it probably is in the 40% to 50% kind of a range. So overall, yes, we feel pretty good about our margin expansion story.

Operator

Your next question comes from the line of Steve Beuchaw from Wolfe Research.

Stephen Beuchaw

I wanted to ask just one housekeeping question for Shawn, and then a couple on customer dynamics for either Shawn or Olivier. Shawn, I wonder if you could just speak to the tariffs impact that you have embedded in the guidance for 2020. Just operationally, how and where is that manifesting? And then I have a couple on customer dynamics.

Shawn Vadala

Yes. Sure. Thanks, Steve. So for tariffs right now, the direct impact of the tariff is about a 0.5% headwind to EPS next year. And just to maybe proactively address the currency it's probably -- well, close to a 1% headwind next year as well, too.

Stephen Beuchaw

Sorry, but the question was with tariffs, is it -- what is it about the tariffs? Is it about redomiciling something operationally? Or is it a direct -- more direct impact?

Olivier Filliol

No. No. It's a direct impact. It's the costs that we incur because we import products out of China. To recall, a significant part of our production is based in China and then we export. And when they arrive in U.S., we have tariffs that apply to that. And the -- always the assumptions that we use on these calls is what has been communicated, and we are not taking any speculation of what might change or not.

Shawn Vadala

Yes. Just to be clear, we're assuming the 25% rate on the enacted tariff stays in place.

Stephen Beuchaw

Okay. Perfect. So then two on customer dynamics, and then I'll jump back in queue. One is on pharma. You guys have pretty substantial exposure to pharma as a customer base. Can you talk about what you've seen in terms of demand trends there and what the assumption is for 2020?

And then on China, I appreciate the comments about the operating environment. Certainly, they're making a lot of sense. I just want to make sure that in your narrative when you are not calling out any more challenging tender dynamics or local competition or local preference, any of those items, just to make sure you're indicating that you're not seeing any of that.

Olivier Filliol

Yes, thanks. Let's start with life science or pharma. Actually, why I say life science, that's the way we look at our business. We don't particular narrow it down just to be pharma. Also, our life science business has big pharma, CROs. We include also biotech companies. So it's relatively broad-based. This is about 30% of our revenue. And it has been a market that is doing well for us. We have very good competitive positions. We have -- this is an end use these competitive differentiations that we have, and there are also additional beneficial things happening like data integrity, which is becoming more important also. So it is a very good end-user industry, going well for us globally. And what's important to us, at the end of the day, it's a market that is still nicely diversified because we have not just big pharma; it's small and big and it's across geographies. And historically, what we have seen is there were times when big pharma was restructuring in the West, but then you saw a lot of CROs coming up in the East. And we have benefit from that and I -- looking forward, I see that underlying diversification, that is also beneficial for us, but we certainly count strongly on life science industry. We continue to invest in it. And it's certainly one of the markets that we expect us to continue to win market share. The second question, Shawn, do you want to take that one or...

Shawn Vadala

Yes. I think the second question was in China, any local preference. I think the short answer is we're not experiencing that like some of the other peer-group companies are. In China, we're very much viewed as a local company. We've been there for over 30 years. We employ a lot of people. We make a lot of products there, very strong reputation in the market. If anything, we would be probably secondly viewed as a Swiss company in China as opposed to an American company.

Olivier Filliol

And so bottom line, we don't have any disadvantage here or we don't see any problems coming up or so. I think contrary, I would say we have a trend in the Chinese market where quality really matters and people are, in that sense, willing to pay premiums also for Western brands, so we feel good about that.

Operator

Your next question comes from the line of Derik De Bruin from Bank of America Merrill Lynch.

Derik De Bruin

So just a question, just sort of thinking about some of the past brands when we saw you give relatively conservative balance and then sort of like beat that. Is -- when we look for next year and you look into it, was there any sort of like pockets of where people didn't buy in lab and industrial because they were worried about tariffs or worried about trade? I'm just basically saying is like do you think there's some catch-up spending to be done in 2020? Is there -- thinking about what happened back in the 2016, '17 time frame when you had the catch-up trading, what the -- when your China industrial business was down so much, just wondering if that dynamic will repeat for next year.

Olivier Filliol

No. I don't -- I think we referred that in the past as pent-up demand. I don't see that. And I see it -- and I say so because I don't see that we are experiencing a particular [indiscernible] declining here or -- we are expecting that the economy remains about the same as it is now. And I used the term also before "good enough." So the good enough actually implies that there isn't customers holding back and then we would expect a pent-up the following year.

And in terms of our guidance being conservative or so, I would say we did it in the same -- similar way as last year. Of course, to our guidance there are upsides and downsides, but I don't feel that we are more conservative or more bullish than last year.

Derik De Bruin

Great. That's helpful. And then just -- I mean, I realize that you're guiding based upon what the current political situation looks like. But if the tariff situation between the U.S. and China goes away, does that -- or normalizes, does that impact your ability in any way at all to sort of like how you would get pricing for next year, i.e., would you not get as much pricing because you took some this year?

Olivier Filliol

So if tariffs would go away, I would see an upside in our EPS and our margins. I feel like we kind of keep the current pricing power that we have. There are a few things that would -- we would reverse. But in general, there is a significant upside to EPS if the tariffs would really go away and particularly, because I would think that currencies might also change everyone there. But what I would not automatically assume is that the top line would improve because of that. Again, I don't feel we lost business because of the trade war. Yes.

Operator

Your next question comes from the line of Steve Willoughby from Cleveland Research.

Stephen Willoughby

A couple for you. First, I guess, Shawn, just a few housekeeping items. I apologize if you did mention it, but have you -- did you provide specific operating margin, tax rate and share count guidance for next year?

Shawn Vadala

I think so. But I don't mind going over it again. In terms of operating margin, we're looking at margin expansion excluding currency of 90 basis points. In terms of tax rate, we're assuming we maintain our rate of 20%. And in terms of weighted average shares, we're estimating just over $24 million -- I mean 24 million shares.

Stephen Willoughby

Yes. And then just a follow-up question maybe for Olivier. The product inspection business, if we take a little bit longer-term view, going back a few years, it was a business that consistently grew in the double-digit range. And it's been closer to flattish or low-single-digit growth over the last 2 years. I understand that some of these customers are under financial pressures, but just wondering what your view is on kind of the longer-term potential growth in this business as I wasn't sure how much of the sales from customers are discretionary versus more kind of driven by regulation.

Olivier Filliol

Just to clarify, we might have had quarters with double-digit growth, but we are more high single digit. And the high single digit, sometimes in quarters, we can have a very big project and therefore, it can be the double digit. But medium term, long term, I expect us to have this mid- to high-single-digit growth in product inspection. It is driven because we have really an exceptional strong market position. We are the only one that will -- or have a lead in all the core technologies. So including check weighing methods, x-ray and vision inspection. We have a fantastic service network that customers really value. And we are really a partner to global accounts to -- for global rollouts. And these global rollouts are driven by requirements to protect the brand.

It is regulation-driven but indirectly. In a sense, the regulation specifies how recalls need to take place. And that incurs a lot of cost and, again, also damages to brands when you need to do recalls. But it's up the different accounts to decide how they protect themselves. And we certainly feel that installing our instruments at the end of a packaging line is the best insurance and allows to really protect the interests of the company and provide the best quality to customers.

Operator

Your next question comes from the line of Paul Knight from Janney.

Paul Knight

Olivier, could you talk about the particular products that you are driving this accelerating growth in lab products as 2020 rolls out?

Olivier Filliol

I wouldn't narrow it down to any particular product. We talked about this on past calls, that we have the most modern product portfolio in lab that we have ever had, but this across all the product lines. So this is true for pipette, this is true for analytical chemistry, this is true for our automated chemistry, it's also true for our lab balances. So it's the whole portfolio.

It's not things that I would say only benefits us in the last 2 quarters. This is an ongoing thing. We benefited last year and we're certainly going to benefit next year. In our business, as an individual, new product doesn't really move the needle. It's the sum of things and having this technology leadership that allows us to win new customers and also allows us to raise prices, gives us this pricing power.

Paul Knight

And then what is pricing power a year? Is it 100 bps, 200 bps, low single digits?

Shawn Vadala

Yes. Going forward -- I mean, Paul, of course, this year, we did very well. We're 2.5% year-to-date. We've been north of 2% in the last couple of years. As we kind of guide, we typically think about 150 bps. As I look at next year, 150 to 200 basis points is probably a reasonable range.

Paul Knight

Okay. And then lastly, you had mentioned earlier that consumables were 10%. How much is the software content now and service content of Mettler-Toledo?

Olivier Filliol

So service is 23%. And then we have -- it's 10% from consumables, that's why we say we have about a 1/3, which is really recurring. And both have been growing very nicely this year, about the 7% range.

Paul Knight

Okay. Congratulations.

Olivier Filliol

Thanks.

Shawn Vadala

Thanks.

Operator

[Operator Instructions]. Your next question comes from the line of Brandon Couillard from Jefferies.

Brandon Couillard

Olivier, just curious if you could share an update on Stern Drive with us and perhaps quantify the net savings from that program in '19 and the incremental opportunities you see in '20.

Olivier Filliol

Yes. So it has really good momentum. Happy to -- that you raise the question because yes, it's one of the contributors to our margin expansion. We have really all the producing organizations across the world engaged in this. We really see benefits in terms of productivity on the shop floor. We see benefits in material costs. We have very good new additional initiatives of sub-projects also for next year. You might recall at an earlier call, we mentioned that we have about 300 sub-projects on the Stern Drive, and we have a similar number of projects also going into next year.

In terms of results this year, we're very happy about this and so, in that sense, achieving our target. And I expect about the same benefit over next year from the program. And to highlight, we look at Stern Drive in a similar way as to Spinnaker. It's a journey, i.e., I expect this to be incremental every year, and I wouldn't be surprised if in 10 years, we are still going to talk about Stern Drive on this call.

Brandon Couillard

Very good. And then, Shawn, could you give us the CapEx number for '20?

Shawn Vadala

The CapEx number for '20, just 1 second, Brandon. Just under $110 million.

Operator

That was our last question. At this time, I will now turn the call back over to the presenters.

Mary Finnegan

Thanks, Mike, and thanks, everyone, for joining us this evening. As always, if you have any questions, please don't hesitate to reach out. Have a good evening, everyone.

Operator

Ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may now disconnect.