Allegion plc (ALLE) CEO David Petratis on Q3 2019 Results - Earnings Call Transcript

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Q3: 10-24-19 Earnings Summary

Slides

EPS of $1.47 beats by $0.14 | Revenue of $748.3M (5.17% Y/Y) beats by $10.66M

Earning Call Audio

Allegion plc (NYSE:ALLE) Q3 2019 Earnings Conference Call October 24, 2019 8:00 AM ET

Company Participants

Mike Wagnes - Vice President, Treasurer and Investor Relations

David Petratis - President and Chief Executive Officer

Patrick Shannon - Chief Financial Officer

Conference Call Participants

Andrew Obin - Bank of America Merrill Lynch

Julian Mitchell - Barclays Capital, Inc.

Josh Chan - Robert W. Baird & Co.

John Walsh - Credit Suisse

Jeffrey Kessler - Imperial Capital, LLC

Robert Aurand - Longbow Research, LLC

Deepa Raghavan - Wells Fargo Securities, LLC

Operator

Good morning and welcome to Allegion Q3 Earnings Call. All participants will be in listen-only mode. [Operator Instructions] Please note this event is being recorded.

And I would like to turn the call over to your host today, Mike Wagnes, Vice President of Investor Relations and Treasurer. Please go ahead, sir.

Mike Wagnes

Thank you, Keith. Good morning, everyone. Welcome and thank you for joining us for Allegion's third quarter 2019 earnings call.

On the call today are Dave Petratis, Chairman, President and Chief Executive officer; and Patrick Shannon, Senior Vice President and Chief Financial Officer of Allegion. Our earnings release, which was issued earlier this morning, and the presentation, which we will refer to in today's call are available on our website at investor.allegion.com. This call will be recorded and archived on our website.

Please go to Slides number 2 and 3. Statements made in today's call that are not historical facts are considered forward-looking statements and are made pursuant to the safe harbor provisions of federal securities law. Please see our most recent SEC filings for a description of some of the factors that may cause actual results to differ materially from our projections. The company assumes no obligation to update these forward-looking statements.

Today's presentation and commentary include non-GAAP financial measures. Please refer to the reconciliation in the financial tables of our press release for further details.

Dave and Patrick will now discuss our third quarter 2019 results, which will be followed by Q&A session. For the Q&A, we ask each caller to limit themselves to one question and one follow-up and then reenter the queue. We will do our best to get to everyone, given the time allotted.

Please go to Slide #4, and I'll turn the call over to Dave.

David Petratis

Thanks, Mike. Good morning and thank you for joining us today. Allegion delivered great results in Q3. I'm extremely pleased with the revenue growth and operational performance, which have positioned us well to deliver on our 2019 commitments.

Top-line revenue growth was strong in the third quarter, particularly in the Americas and EMEIA regions. In the Americas, both non-residential and residential businesses saw high-single-digit growth. In EMEIA, we saw solid volume increases across most of the region.

The Americas delivered electronics growth of 10% in the quarter, which was a notable performance, considering the challenging comparable from prior year, where we grew nearly 30%. Strong market acceptance of our new highly-rated Schlage Encode residential lock continues to be robust, and help drive the electronics performance in the quarter.

We were the first major manufacturer to bring a smart WiFi deadbolt to the market, and it has a lot of momentum in the residential channel. We believe our brands, expanded product portfolio, technical partnerships, breadth of channel relationships and a large installed base provide us with a great opportunity to take advantage of the electronics market, as it continues to evolve and grow.

Moving down the slide, Allegion was able to drive price realization and productivity actions, which significantly outpaced inflation. I'm proud of the performance as we saw substantial operating margin expansion, up 220 basis points this quarter.

In the third quarter, we delivered robust adjusted EPS growth at nearly 20%, driven primarily by operational performance along with favorable share count and tax rate impact. We are affirming the full-year revenue outlook, in which we continue to project total inorganic revenue growth between 4.5% and 5.5%.

I'll speak to the individual region outlooks later in the presentation. Last, we are tightening the outlook for our reported EPS going from a range of $4.50 to $4.65 per share to a revised outlook of $4.55 to $4.65 per share. The adjusted EPS outlook is also been tightened by rising the low-end of the range and going from $4.80 to $4.90 per share, to a revised outlook of $4.85 to $4.90 per share.

Please go to Slide 5. Revenue for the third quarter was $748.3 million, an increase of 5.2%, inclusive of 6.4% organic growth. Currency headwinds offset some of the organic growth. The Americas and EMEIA region were responsible for the organic growth results. Patrick will share more detail on this.

Adjusted operating margin increased by 220 basis points, aided by substantial contribution from price and productivity outpacing inflation. Solid leverage on incremental volume also provided benefit to the margin expansion. Adjusted earnings per share of $1.47 increased by nearly 20% versus the prior year.

As mentioned, the increase was driven primarily by operational performance, along with favorable share count and a lower tax rate. Year-to-date available cash flow is up slightly. With the increased earnings, we have experienced this year, being mostly offset by increased capital expenditures.

Please go to Slide 6. In March, we shared our refreshed corporate strategy with you, which centers on our vision of seamless access. Since that time, momentum and market acceptance continues to build. For instance, smartphones and the connectivity are the norm. This translates to pressure from our customers to meet end-users' demand for a mobile connected life, while ensuring security.

Allegion is well positioned to meet this demand. We see strong uptake with our seamless ID solutions for universities and edge devices, and adoption of Schlage Encode, and in emerging technologies and venturing opportunities. We're confident in the long-term electronic opportunity and see that seamless access and safety lay a solid foundation for our future.

As a reminder, our five strategic pillars that guide Allegion are: Expand in Core Markets, we continue to broaden the core business through existing and new channel relationships, digital demand creation and leading products; Be the Partner of Choice, delivering seamless access means we're intent on leveraging partners and ecosystems to drive growth, which includes using open platforms that integrate well with others; Deliver New Value in Access, our innovation will focus on the user experience for access, as well as working with partners to create unique solutions that increase safety and speed up productivity, we are also intent on bringing new products to market faster; Capital Allocation, Allegion will continue to take a disciplined and flexible approach to capital deployment, one that spans organic investments, acquisitions and shareholder distributions to optimize shareholder returns; last, Enterprise Excellence, Allegion is committed to creating value through productivity, through excellent customer experience and through a culture of safety, health and employee engagement.

Access has been a part of the company's heritage for 100 years and seamless access will define our company going forward. Patrick will now walk you through the financial results and I'll be back to discuss the 2019 outlook.

Patrick Shannon

Thanks, Dave. Good morning, everyone. Thank you for joining the call today. If you would, please go to Slide #7.

This slide depicts the components of our revenue growth for the third quarter. I'll focus on the total Allegion results and cover the regions on their respective slides.

As indicated, we delivered 6.4% organic growth in Q3. We saw strong volumes and solid price realization drive the organic increase this quarter, led by both the Americas and EMEIA regions. Volumes recovered nicely from Q2 levels, as market demand was strong.

Also during the third quarter, currency in EMEIA and Asia Pacific continue to be a headwind on total revenue growth. Please go to Slide #8.

Reported net revenues for the third quarter were $748.3 million, as stated earlier, this reflects an increase of 5.2% versus the prior year, up 6.4% on an organic basis. Adjusted operating income of $173 million increased more than 16% over the same timeframe last year. Adjusted operating margin of 23.1% increased 220 basis points. It represents our highest quarterly adjusted operating margin since spin.

Leverage on incremental volumes, price realization and substantial productivity drove the operating income increased in margin expansion. During the quarter, all regions contributed sizeable margin improvements. Headwinds to margin performance included incremental investments, which had a 30 basis point impact on adjusted operating margins.

Please go to Slide #9. This slide reflects our earnings per share reconciliation for the third quarter. For the third quarter of 2018, reported earnings per share was a $1.21. Adjusting $0.02 for the prior year restructuring and acquisition charges as well as adjustments to provisions related to the enactment of tax reform. The Q3 2018 adjusted earnings per share was a $1.23. Operational results increased earnings per share by $0.24 as favorable price, productivity and operating leverage on incremental volume more than offset inflationary impacts and unfavorable currency.

Favorable year-over-year share count drove another $0.03 increase as we have executed nearly $180 million in share buyback so far this year. A decrease in the year-over-year tax rate improved earnings per share by $0.02. The impact of incremental investments in the quarter was a $0.02 reduction. The combination of interest expense, other expense and noncontrolling interest had a negative $0.03 impact, which was driven mostly by favorable other income in 2018. This results in adjusted third quarter 2019 earnings per share of $1.47, an increase of $0.24 or nearly 20% compared to the prior year period.

Lastly, we had a $0.07 per share reduction for charges related to restructuring, acquisitions and debt refinancing. After giving effect to these onetime items, you arrive at the third quarter 2019 reported earnings per share of $1.40.

Please go to Slide #10. This quarter revenues for the Americas region were $567.8 million, up 7.1% on a reported basis and 7.2% organically. Organic growth was driven by strong volume along with continued price realization. When compared to Q3 of last year, we experienced high-single-digit growth in both nonresidential and residential, as nonresidential market demand remain strong and residential rebounded nicely from a sluggishness, we experienced in the first half of the year.

Electronics growth for the quarter came in at 10%. As Dave mentioned earlier, we are pleased with this electronics performance given that the quarter was going up against a nearly 30% growth rate compared to last year. Americas adjusted operating income of $175.6 million increased 13.8% versus the prior year period, and adjusted operating margin for the quarter increased 180 basis points.

The increase in adjusted operating margin was driven by leverage on incremental volume along with price and productivity significantly exceeding inflation. Incremental investments were a 50 basis point decrease on operating margins.

Please go to Slide #11. Third quarter revenues for the EMEIA region were $137.8 million, up 2.5% and up 6.9% on an organic basis. The organic growth was driven by increased volume across most products along with solid price realization. Total revenue growth continues to be reduced by significant currency headwinds.

EMEIA adjusted operating income of $12 million increased 17.6% versus the prior year period. Adjusted operating margin for the quarter increased 110 basis points with price and leverage on incremental volume contributing to the increase. Timing of year-over-year investments benefitted operating margins by 80 basis points, as start-up costs incurred in 2018 related to our new Poland facility did not repeat this year.

Please go to Slide #12. Third quarter revenues for the Asia-Pacific region were $42.7 million, down 9.1% versus the prior year. Organic revenue decreased 4.8%. The organic revenue decline was driven by softer residential markets in Australia along with internal revenue transfer of $1.5 million to the other regions. Foreign currency was again a significant headwind for the quarter reducing revenue by more than 4%.

Asia-Pacific adjusted operating income for the quarter was $4.4 million, an increase of 37.5% with adjusted operating margins improving 350 basis points versus the prior year period. The regions saw strong productivity, the results of restructuring actions taken last year and acquisition integration, which offset the 70 basis point headwind from incremental investments.

Of note, 2019 Q3 operating income includes a $1.1 million favorable recovery of previously remitted non-income tax, which had a 260 basis point favorable impact on Asia-Pacific margins in the quarter.

Please go to Slide #13. Year-to-date available cash flow for the third quarter 2019 was $230 million, which is an increase of $1.4 million compared to the prior year period. The increase was driven by increased net earnings mostly offset by increased capital spending. Working capital as a percent of revenues increased in the third quarter and the cash conversion cycle was also slightly higher.

We continue to remain committed to an effective and efficient use of working capital, and we will continue to evaluate opportunities to both minimize investments in working capital and increase available cash flow. Lastly, we are affirming our full year available cash flow outlook range of $410 million to $430 million.

I'll now hand the call back over to Dave for an update on our full year 2019 outlook.

David Petratis

Thank you, Patrick. Please go to Slide #14. As you can see on the slide, and was mentioned earlier we are affirming our revenue outlook for the total company. The consolidated outlook for total and organic revenue remains at a range of 4.5% to 5.5%, although we're adjusting within the regions.

In the Americas, we continue to see positive fundamentals in our nonresidential verticals led by institutional markets, which we believe, will continue to remain solid for the near-term future. In residential, we saw Q3 rebound from the sluggishness we experienced during the first half of the year. In addition, we expect the general positive trend for electronic products to continue for the foreseeable future, and believe we are well positioned to take advantage of this long-term trend. Therefore, we are slightly increasing the revenue outlook for Americas.

For the EMEIA region, we expect continued currency pressures for the remainder of the year and have taken down our outlook for total revenue. However, organic revenue remains unchanged. In Asia-Pacific, we expect the softness in the Australian markets to continue, particularly around residential end markets. We also expect unfavorable currency impacts to continue. As such, we are lowering the outlook for both reported and organic growth in the region.

We are also updating the earnings per share outlook, raising the low-end of both our reported and adjusted EPS ranges. Our reported EPS outlook is now at a range of $4.55 to $4.65 per share, with adjusted EPS at a range of $4.85 to $4.90. This represents adjusted EPS growth of approximately 8% to 9%.

As Patrick stated, we are affirming our cash flow outlook range of $410 million to $430 million. The outlook updates the expected investment spend to a range of $0.11 to $0.13 per share. The full year adjusted effective tax rate is being updated to approximately 15.5% with a favorability experienced in Q3 mostly offset in Q4. We are updating our outlook for outstanding diluted shares for the full year to approximately $94.3 million, reflecting the buyback activity completed so far this year, and including expected share repurchases for Q4.

Please go to Slide 15. As a brief summary of Allegion's Q3 performance total revenue grew 5.2%, organic revenue grew 6.4%, adjusted operating margins were up 220 basis points, adjusted EPS was up nearly 20%. In Q3, we delivered our highest quarterly revenue, operating margins and earnings per share.

Allegion has an operating system of operations that continue to strengthen the foundational elements of both safety and innovation. The system combined with strong brands and channel relationships has been a hallmark of our performance since spin and certainly helped us deliver the third quarter results.

Thank you to every member of the Allegion team. Your commitment to excellence strengthens our future.

Now, Patrick and I will be happy to take your questions.

Question-and-Answer Session

Operator

Yes, thank you. We will now begin the question-and-answer session. [Operator Instruction] And the first question comes from Andrew Obin with Bank of America Merrill Lynch.

Andrew Obin

Yes. Good morning.

David Petratis

Good morning, Andrew.

Patrick Shannon

Hi, Andrew.

Andrew Obin

Just a question, we got a lot of questions I think regarding the fourth quarter guide and given the organic performance in the quarter. Was there any pull-forward of revenue from fourth quarter into third quarter? And I apologize. I joined a little bit late. But just conservatism about organic growth, specifically in Americas in Q4, given the performance in the third quarter?

David Petratis

So, I would characterize Q3 extremely strong growth, as indicated 7% organic growth. Really good performance, both in the non-res and residential segments. No real pull-forward of activity. I would say, business improved a little bit kind of as we progressed throughout the quarter, which was good to see.

But just as a reminder, we did increase our full-year guide on organic revenue growth, given the Q3 performance. And so, that's baked in there. Our year-to-date organic growth, Americas is at 6%, and our full-year guidance is kind of within that range. And so, still expect a good Q4 going forward and we'll finish the year strong relative to top-line performance.

Andrew Obin

And then, just a follow-up question. One of your competitors highlighted on their conference calls that they are starting to see sort of signs of markets slowing. I wonder if they were referring to your census data. But you guys are – I think are quite a bit more upbeat. What kind of visibility do you have over the next 12 to 18 months? Thank you.

David Petratis

So we are solid, positive, upbeat on the economy. As I look at the positive factors, consumer confidence, low unemployment, state and local tax revenues which are a key for our business, low interest rates and tightness in the housing market. I don't know why you could not be positive about the view going forward.

I was looking at future activity for bond issues. In the State of Texas there is 84 bond issues on the ballot. I just see a trend and need in the economy for investments on both residential and non-residential and feel positive about the outlook.

Andrew Obin

Got you. Thank you.

Operator

Thank you. And the next question comes from Julian Mitchell with Barclays.

Julian Mitchell

Hi, good morning. Just wanted to ask about the residential business, you did have a good acceleration there in the third quarter. Whether you see that growth rate as sort of a blip, because you were starting a bunch of initiatives or whether you think that because of all your sort of self-help measures in resi, you can drive a good mid-single-digit-plus growth rate in the quarters and years ahead?

David Petratis

David Petratis

I think if you compare our first-half residential performance, which I believe was plus 4, was respectable in a soft patch in the market. We also had some self-help there or correction that we were doing in the channel. The market improved in Q3, that's reflective. I think the best opportunities going forward in res will be multifamily, that continues strong.

I think single family, which is important to us is going to continue to plot along. It's not getting significantly better. You add electronics on top of that with some of our leading products, our high star ratings, our connectivity and the first WiFi embedded lock. I think it sets us up for continued solid performance in that segment.

Julian Mitchell

Thanks. And then, just my second quick one would be around the implied sort of operating margins in Q4. We've had some questions this morning around, it looks as if that implies a softer margin performance than what you saw in the third quarter, just based on the full-year guide. Just maybe any comments you could provide on that fourth quarter margin trend year-on-year, any big headwinds or tailwinds you'd call out?

David Petratis

Yeah. Well, let me first maybe comment on a little bit more specifics on Q3 operating margin performance. So as indicated, really strong across the board. All regions showing fairly significant margin improvement. We did benefit, if you kind of look at the price, productivity, inflation dynamic, extremely favorable.

Inflation, you may recall last year was at a peak in Q3. And so, the comparisons were easier, if you will, and that gap was extremely favorable in the reported results in Q3 this year. We won't see that favorability as much reflected in Q4. And therefore, the margin profile expansion won't be as strong in Q3.

However, I would say, just given the anticipated continued strength in the overall markets, revenue growth, et cetera, we will have good operating margin improvement year-over-year with margins continuing to expand. And our full-year expectation, again, is like an 80 to 100 basis point margin improvement full year. So still anticipate strong operational performance in Q4 to finish out the year.

Patrick Shannon

Hey, just one point of clarification. Julian. The number Dave quoted for residential, that was year-to-date for the resi growth.

Julian Mitchell

Understood. Thanks very much for the help.

Operator

Thank you. And the next question comes from Deepa Raghavan with Wells Fargo Securities. Please go ahead, Deepa. Your line is open. Is your phone on mute perhaps?

Very well, we'll move on. The next question is from Josh Chan with Baird.

Josh Chan

Hi, good morning, and congrats on a strong quarter.

David Petratis

Thank you.

Josh Chan

I wanted to ask about sort of the – your confidence in terms of the Americas outlook. I wonder if you have kind of internally tried to reconcile some of the softer kind of data points versus what you are kind of seeing in your business in terms of non-res overall growth. And just kind of curious, what kind of conclusion you might have come across? And then also, what kind of verticals, in particular, are you seeing that strength into the rest of the year and 2020, I guess?

David Petratis

So a lot packed into that. I think you've got to look at the macro noise and take heed of that. Again as I look at the macro, I see a lot of positive out there, including, again I'll emphasize state and local tax revenues. Then you've got to square that with what's the level of our backlog, code activities. I'd remind you, Josh, that construction backlogs still remain at over 8 months, that's healthy. Residential inventories, historic low from my perspective at 4 months. And then, look at our activities for quotes, we like what we see going forward, that continued solid progression of the business. You have to temper that with electronics, which we think positively influences. So we're confident in what we see over the next 9 to 12 months.

Josh Chan

All right. That's good to hear. And my follow-up is on the investment spending. I noticed that you kind of took the investment spend down a little bit for the year. I wonder, if that's a little bit of a shift in terms of thinking? Or just – is that more timing or anything to read into there?

David Petratis

Nothing really to read into that, more of a timing item. When we look at the end markets, there are still many opportunities to continue to invest in our business, particularly around channels, demand creation, new product development, this Internet of Things platform connectivity seamless access, there is a host of activities that we can continue to invest and that we believe will continue to accelerate our top-line performance. And so we'll continue to look at those opportunities and give you more kind of specifics relative to 2020 going forward. But there is a lot of activity and things we can continue to invest and continue to drive our business forward.

Josh Chan

Okay, great. Thank you for your time.

David Petratis

Thanks, Josh.

Operator

Thank you. And the next question comes from John Walsh with Credit Suisse.

John Walsh

Hi, good morning.

David Petratis

Good morning, John.

John Walsh

Hey, congrats on a strong operational quarter as well. I guess, two questions. One, thinking about pricing, obviously, we knew it was going to step down given the comparison of what we saw in the first half of this year, but it was better than I thought. So one, I was curious if that's kind of mix related or if you're actually realizing better capture on price than maybe you would have anticipated?

David Petratis

Nothing out of the ordinary, I mean, you hit it right in terms of – sequentially, the pricing was down, but pretty much in line with our expectations. The teams across the board, I would say, particularly in Americas and Europe continue to execute extremely well on price realization and capturing what they can. Particularly in the nonresidential segment, as you know, resi a little bit harder to get price, particularly in the big box arena, but performance has been good and we'll continue to drive it going forward and capture what we can given the strong markets.

John Walsh

Got you. And then, obviously, good cash performance, cash built quarter-over-quarter kind of what are your expectations or visibility into capital allocation decisions, whether it be M&A or share repurchase or others?

David Petratis

I would say, we continue with our strategy. We think, there is opportunities are to wring some cash out on inventories. We invested in 2019 with some of the moves that we made globally. And I'm extremely pleased on how we executed on that moves. Our move from

Turkey to Poland that some ERP consolidations that never hit the press that we're executing in a high level, we put some additional inventory in place that will wring out of the system. As we think about capital deployment, the M&A pipeline continues to be robust, prices are high. We remain disciplined and we continue to be active in terms of some stock repurchases.

John Walsh

Thank you. And If I can just sneak one more in here if you don't mind. Just thinking about the electronics growth rate, I mean, you have – you did have a very difficult compare, you have an easier compare in Q4. You had been doing 20% to 30% growth-on-growth and it really ticked up this quarter. Anything to call out there? Or how we should think about that growth rate going forward, just given the very strong growth-on-growth?

David Petratis

Our growth in electronics has been robust over the last several years. It's hard to put up 30% growth a year-ago and top that, so the numbers are getting bigger. The opportunities are also remaining, I think, compelling. If you remember at Investor Day, 40 billion openings in the world, connected devices, technologies, our approach to open protocols with connected capabilities continues to open up opportunities. We think, we understand the growth of these markets on a global basis and it will continue to be a positive driver for Allegion.

Patrick Shannon

Yeah. But you characterized it right. If I can add that the comparisons get a little bit easier, particularly in Q4, but kind of low-double-digit is kind of how you should think about it going forward.

John Walsh

Great. I appreciate it. Thank you.

Operator

Thank you. And the next question comes from Jeff Kessler from Imperial Capital.

Thank you. And the next question comes from Jeff Kessler from Imperial Capital.

Jeffrey Kessler

Thank you. At the recent GSX conference. I've spent a lot of time with Brad, going through the way the company has – is essentially changing its sale, it's go-to-market with customers, trying to get a more holistic [Technical Difficulty] selling product by product. If you could – I'm wondering, if that has played into the efficiency and the margin improvement that you've seen in the last couple of quarters?

David Petratis

So you're breaking up a little bit there, but I'll try and hit that. The conversations you had with Brad. I think, number one, partnerships is one of our strategic objectives here. Working with people, the big integrators whether it's CBORD, whether it's Bosch, Siemens, we think we bring a unique approach to that. I think, second is a heavy focus on customer satisfaction and quality through the value stream. I'd like to think that from when we first work with an architect to when we install, we can be the best provider through that stream. And it's – any time you've got an industry like ours that's got a mechanical heritage and we're introducing electronics and connectivity the high role. There is opportunity to differentiate ourselves.

And I'm confident Brad talked about this, but it's really around customer satisfaction and partnering with tools like Overtur, making sure our connected devices install seamlessly on the customer campus or activity with the best products. This is our strategy.

Jeffrey Kessler

Okay. And as far – I know, I'm breaking up a little bit, because I have problems with this phone. I apologize for that. And just as a follow – a specific follow-up to that. In going to market, how have you been able to use your open market stance compared to – eventually compared to your major competitor and being able to develop the partnerships you were talking about? And indeed, being able to convince people, more and more people to use Overtur, because you do have an open system. Are you finding that there is any resistance to that? Or is that open system – does that open system allow you to be able to talk to the – your channel a little bit easier?

David Petratis

I believe with our position and strategy to be open gives us an advantage. It's also a key that we're flexible there. We'll have customers that want control, they want closed systems. And it's really having that flexibility with our customers that were not going drive one connected strategy that we leave that to the customer and we adapt to that. I think this is important around things like identity and we're intentional in creating differentiation there.

Jeffrey Kessler

Okay. Thank you for that. Identity, I think, is probably going to be a step, one of your next steps going forward down the line. I mean, it would be just a natural evolution for you.

David Petratis

[indiscernible].

Jeffrey Kessler

Just a comment on my part. Okay. Thank you very much and congrats on the quarter.

David Petratis

Thank you.

Operator

Thank you. And the next question comes from David MacGregor with Longbow Research.

Robert Aurand

Hi. Rob Aurand on for David this morning. Last quarter, you had discussed taking actions to remove bad actors in the e-commerce channel. You're protecting pricing for residential locks. I guess can you talk about the success of that? Is that channel cleaned up now? Is there more actions to take? Or did your more bad actors just take the place of who you cleaned up last quarter? How is that playing out?

David Petratis

I'd say our work in terms of just some good maintenance in the channel is behind us. The introduction of e-commerce over the last few years creates a little bit of a situation like the Wild West. You can have things appear on eBay or storefronts can pop up. It's part of the natural evolution. But, yes, we think that's behind us. And I think reflective of some of the growth we saw in the quarter.

Robert Aurand

Perfect. And then just on pricing, I mean, you're still saying strong price realization in the third quarter. I guess with raw material prices coming down, how do you see that playing out going forward?

David Petratis

I would say, and you know this relative to our industry, we'll continue to push price. Even a couple of years ago in a deflationary environment, which were, in that today to the extent of input cost being a little bit lower year-over-year, we can still probably push price a little bit, given the strong market demand. And we will do that and remain competitive.

And so, you wouldn't see necessarily the full year-over-year price increase that you will see for the full year 2019 going forward. But nonetheless, you should expect continued price realization in the broader market.

Robert Aurand

All right. Thank you for taking my questions.

Operator

Thank you. And next we have another question from Deepa Raghavan with Wells Fargo Securities.

Deepa Raghavan

Hey, good morning. I apologize if this question was asked already. But, so can you talk about the progression of the quarter by months? If you can talk if it was progressively better, worse, or you think it was as expected? That's my first question.

David Petratis

I think a normal third quarter, we've got operating systems here that we try and track how we move through it. It's the peak of the summer construction season. And I think things behave normally.

Deepa Raghavan

Okay. Was there any pull-forward of demand in Q3 from Q4? I mean, you've kept your guide basically, even though Q3 kind of outperformed. So just curious, what are some of the puts and takes we should be thinking about as we think through Q4? Or is there – you just want to bake-in some conservatism, because there's still a lot out there in macros that you probably can't forecast precisely.

David Petratis

I would characterize it as not any specific pull-forward of activity, i.e., specific actions. I would say Q3 came in better than originally anticipated when we were together 90 days ago, but again, still anticipating a relatively strong performance in Q4 going forward.

Deepa Raghavan

Got it. Okay. So just, is there a tax give back in Q4? Sorry, that's...

Patrick Shannon

Yeah. So that's a good point. And Dave mentioned it a little bit relative to the full-year guide. So as indicated, our effective tax rate for Q3 came in better than anticipated. That turns negative on us in Q4, so that you have a much higher tax rate in Q4 relative to the year-to-date tax rate, which today stands a little bit south of 15%. So with the full year of 15.5% you can kind of work the math. And so that's going to be a pretty big headwind for year-over-year comparability in Q4.

Deepa Raghavan

Got it. My final one, sorry. So what is the normalized price…

Mike Wagnes

And, Deepa…

Deepa Raghavan

Yes.

Mike Wagnes

Deepa, we're going to ask you to get back in queue. We have to get to other callers.

Deepa Raghavan

No worries. Thank you. Yeah, thanks so much. Yeah.

Operator

Thank you. And at this time, I would like to return the floor to Mike Wagnes for any closing comments.

Mike Wagnes

Sorry. Why don't we let Deepa, since she is the last question? Launch it far away, Deepa.

Operator

Okay. Just one moment, let me reactivate her line. One minute, please.

Deepa Raghavan

Hi. Can you hear me? Hey, hi, can you hear me now?

Mike Wagnes

Sorry about that.

Deepa Raghavan

Yeah. No, no, no worries. Just one on pricing here, I mean, pretty strong pricing trends. I think this got asked a couple of different ways already. But what's the normalized price range? Do I start – do we start to bake in like more 1% to 2% price range going forward? Or – it just seems like pricing is at this point in time a little peakish. You may have the commodity tailwinds and everything. But just given, how do we think about it in a normalized range? And that's my final question. Thank you so much.

Patrick Shannon

Yeah. I think about around 1%, maybe a little bit north of that. But that would be kind of a normalized type of level.

David Petratis

I would also say, we'll continue to push Allegion to be disciplined in pricing. We're seeing wage inflation. I think it's important that our team think about those pressures and make sure that we're responsible in going out there and winning our business, driving strong productivity equations and continuing to make sure that we're compensated for the value that we create I think with our customer relationships.

Deepa Raghavan

Got it. Thank you so much.

Operator

Thank you. And at this time, I would like to return the floor to Mike Wagnes for any closing comments, please.

Mike Wagnes

We want to thank everyone for participating in today's call. Please contact me for any further questions and have a great day.

Operator

Thank you. The conference has now concluded. Thank you for attending today's presentation. You may now disconnect your lines.