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Motorola Inc. (MSI) CEO Greg Brown on Q3 2019 Results - Earnings Call Transcript

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Q3: 10-30-19 Earnings Summary

Press Release *Slides*

EPS of $2.04 beats by $0.08 | Revenue of $1.99B (7.09% Y/Y) beats by $6.93M

Earning Call Audio

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Motorola Inc. (NYSE:MSI) Q3 2019 Earnings Conference Call October 30, 2019 5:00 PM ET

Company Participants

Tim Yocum - Vice President, Investor Relations

Greg Brown - Chairman and Chief Executive Officer

Gino Bonanotte - Executive Vice President and Chief Financial Officer

Jack Molloy - Executive Vice President, Products and Sales

Kelly Mark - Executive Vice President, Services and Software

Conference Call Participants

Tim Long - Barclays

Adam Tindle - Raymond James

George Notter - Jefferies

Keith Housum - Northcoast Research

Ben Bollin - Cleveland Research

Paul Silverstein - Cowen

Brian Yoon - Deutsche Bank

Sami Badri - Credit Suisse

Operator

Good afternoon and welcome to the Motorola Solutions Third Quarter 2019 Earnings Conference Call. All participants will be in listen-only mode. [Operator Instructions] Please note this event is being recorded. I would now like to turn the conference over to Tim Yocum, Vice President of Investor Relations. Please go ahead.

Tim Yocum

Good afternoon. Welcome to our 2019 third quarter earnings call. With me today are Greg Brown, Chairman and CEO; Gino Bonanotte, Executive Vice President and CFO; Jack Molloy, Executive Vice President of Products and Sales; and Kelly Mark, Executive Vice President, Services and Software. Greg and Gino will review our results, along with commentary and Jack and Kelly will join for Q&A.

We have posted an earnings presentation and news release at motorolasolutions.com/investor. These materials include GAAP to non-GAAP reconciliations for your reference. And during the call, we reference non-GAAP financial results, including those in our outlook unless otherwise noted. A number of forward-looking statements will be made during this presentation and during the Q&A portion of the call. These statements are based on current expectations and assumptions that are subject to a variety of risks and uncertainties. Actual results could differ materially from these forward-looking statements. Information about factors that could cause such differences can be found in today's earnings news release in the comments made during this conference call, in the Risk Factors section of our 2018 Annual Report on Form 10-K, and in our other reports and filings with the SEC. We do not undertake any duty to update any forward-looking statement.

And with that, I will turn it over to Greg.

Greg Brown

Thanks, Tim. Good afternoon and thanks for joining us today. I will start off by sharing a few thoughts about the overall business before Gino takes us through the results and the outlook.

So first, Q3 was another strong quarter. We grew revenue 7%, expanded operating margins by 120 basis points and generated $525 million of operating cash flow, an increase of 55% versus the prior year. Additionally, we ended the quarter with our highest backlog position ever of $11 billion, up $1.6 billion year-over-year and up $160 million sequentially. Second, we continue to execute well across all platforms. Our land mobile radio business is on pace for another record year of sales and earnings led by North America. Our video security business had another strong quarter of revenue growth and is gaining traction with government customers and our command center software business is continuing to drive revenue growth and margin expansion in our Software and Services segment. And finally, based on our Q3 results and our expectations for another solid performance in Q4, we are once again raising our earnings per share estimates for the full year 2019.

And with that, I will now turn the call over to Gino to provide additional details on Q3 results and outlook before returning just for some very brief closing thoughts.

Gino Bonanotte

Thank you, Greg. Q3 includes revenue of $2 billion, up 7% versus last year, including $58 million of revenue from acquisitions and currency headwinds of $21 million. Organic revenue growth was 4%. GAAP operating earnings of $413 million, up $119 million and operating margins of 20.7% of sales compared to 15.8% in the year ago quarter. Non-GAAP operating earnings of $509 million, up $57 million or 13% and non-GAAP operating margins of 25.5% of sales, up 120 basis points driven by higher sales in gross margins partially offset by higher OpEx from acquisitions. GAAP earnings per share of $1.51 compared to $1.43 in the year ago quarter. Non-GAAP EPS of $2.04, up 5% from $1.94 last year on higher operating earnings offset primarily by a higher effective tax rate. OpEx in Q3 was $504 million, up $40 million versus last year primarily due to acquisitions. Other income and expense was $39 million compared to $43 million in the year ago quarter driven primarily by a decrease in net interest expense. The Q3 effective tax rate was 23% compared to 18% in the prior year. The year-over-year increase was driven by the recognition of a favorable return to provision adjustment in the prior year.

Turning to cash flow, Q3 operating cash flow was $525 million compared to $338 million in the prior year and free cash flow was $465 million compared with $292 million in the prior year. The higher cash flow was primarily due to improved working capital, a settlement payment in the prior year related to a legacy business and higher earnings. Capital allocation for Q3 included $271 million in cash and equity for the acquisition of WatchGuard, $94 million in cash dividends, $60 million of CapEx and we paid off the $400 million term loan used to acquire Avigilon. Additionally, we agreed to extend our strategic partnership with Silver Lake. As part of the agreement, Silver Lake agreed to make a new $1 billion investment in Motorola Solutions and settled the outstanding $800 million aggregate principal investment 1 year ahead of its maturity. The $800 million principal was settled in cash and the premium was settled with $300 million in cash and $5.5 million in shares. The transaction resulted in an overall reduction to our diluted share count in the quarter.

Moving to segment results, Q3 Products and Systems Integration sales were $1.3 billion, up $61 million or 5% driven by the Americas. Revenue from acquisitions in the quarter was $27 million and currency headwinds were $9 million. Operating earnings were $300 million or 22.2% of sales, up 80 basis points from last year on higher sales and gross margins partially offset by higher OpEx from acquisitions. Some notable Q3 wins in the segment include an award from Bell Mobility for the largest Canadian P25 contract in history serving the province of Ontario, $27 million in video security wins in education, a $16 million P25 order from Lee County, Florida, several large awards in mobile and in-car video, including $13 million for the City of Nashville, Tennessee, and $4 million for the Michigan state police and $3 million in fixed video security wins for government customers.

Moving to the Services and Software segment, revenue was $645 million, up $71 million or 12% from last year driven by growth in the Americas and EMEA. Revenue from acquisitions in the quarter was $31 million and currency headwinds were $12 million. Operating earnings were $209 million or 32.4% of sales, up 170 basis points from last year driven by higher sales and gross margin expansion. Notable Q3 wins in the segment include a $78 million dollar P25 multiyear service contract with the state of Michigan extending service through 2029, a $58 million P25 multiyear statewide service contract in North America, and $11 million Command Center Software Suite contract with Glendale, Arizona and a $4 million contract for a 911 system in Bogota, Colombia.

Looking at regional results, America's Q3 revenue was $1.5 billion, up 12% driven by broad-based growth across all platforms. EMEA Q3 revenue was $384 million, down 1% due to large system deployments in the Middle East in the prior year and currency headwinds partially offset by growth in Europe. And in Asia-Pacific, Q3 revenue was $158 million, down 9% or $16 million due to China and currency headwinds. Ending backlog was $11 billion, up $1.6 billion or 17% compared to last year. Sequentially, backlog was up $160 million with growth in both segments. Services and software backlog was up $1.6 billion or 26% compared to last year. Approximately half of the increase was driven by the Americas and half by EMEA. The EMEA growth is primarily related to the ESN and Airwave extensions. Sequentially, backlog was up $34 million due to multiyear contracts in the Americas partially offset by revenue recognition for ESN and Airwave. Products and SI segment backlog was down $39 million or 1% compared to last year, due to two large system deployments during the prior year in the Middle East and Africa partially offset by growth of $134 million in the Americas. Sequentially, backlog was up $126 million driven by the Americas.

Turning to our outlook, we expect Q4 sales to be up 5% to 5.5% with non-GAAP EPS between $2.75 and $2.80. This assumes $20 million of FX headwinds at current rates, a weighted average diluted share count of approximately $176 million shares and an effective tax rate of approximately 25%. For the full year 2019, we now expect revenue growth of 7.25% to 7.5% and we now expect non-GAAP EPS between $7.77 and $7.82, up from our prior guidance of $7.67 to $7.77. This full year outlook assumes $115 million of FX headwinds at current rates, an effective tax rate of 23.5% and a weighted average diluted share count of approximately 176 million shares. We continue to expect full-year operating cash flow to be approximately $1.7 billion.

I'd now like to turn the call back over to Greg.

Greg Brown

Thank you, Gino. First, I am very pleased with our Q3 results. It was another quarter of solid organic revenue growth, significant expansion of both gross margins and operating margins. Strong operating cash flow generation of over $0.5 billion and we finished with our highest quarter ending backlog position ever. We also closed the acquisition of WatchGuard, a leader in the in-car and body-worn video. Second, 2019 is looking to be another strong year of growth led by North America, our LMR business is positioned for a second consecutive year of record sales and our command center software and video security businesses continue to perform very well. Given our year-to-date performance and ending backlog, we are positioned for another year of record revenue earnings and cash flow.

And finally, this week at the International Association of Chiefs of Police here in Chicago, we had product introductions that spanned our entire mission critical portfolio including our next-generation LMR Radio APX NEXT, which is broadband enabled for mobile apps designed specifically for first responders. And what struck me the most as they walked our booth, was how the investments in our portfolio have come together, not as point products or separate acquisitions, but as a fully interconnected ecosystem, where mission-critical communications, video security and analytics, command center software and services are operating seamlessly together. And it's the power of these integrated mission critical solutions that has me excited when I think about our future going forward.

So now I will turn it back over to Tim and open it up for your questions.

Tim Yocum

Thank you, Greg. Before we begin taking questions, I would like to remind callers to limit themselves to one question and one follow-up to accommodate as many participants as possible. Operator, would you please remind our callers on the line how to ask a question?

Question-and-Answer Session

Operator

[Operator Instructions] Our first question comes from Tim Long with Barclays. Please go ahead.

Tim Long

Thank you. Maybe just two I will give you together if I can. First on the video side, guys, it sounds like last quarter you were starting to see some traction in the education vertical, I see – do you know you went over a number of video wins kind of across different platforms in the quarter? Could you just talk a little bit about growth there in particularly with the new ban and the NDAA in effect, what are you thinking about growth for that business? And then secondly on the call center software side, it seems like there has been good traction, could you talk a little bit about the trajectory of maybe getting into more piece apps and maybe selling multiple solutions to the ones that you are currently in and how do we think about that adding to the growth for the company? Thank you.

Jack Molloy

Hey, Tim, good evening, it's Jack. I will take the first question related to video. So as we have discussed before, we expect the video business to grow 15% this year. I will tell you, Q3, the performance exceeded our expectations. Specific to education, we had $27 million in orders in Q3. And if you remember Q2 is typically the high points, so we're really pleased with $27 million. We got $1 million order from the University of South Carolina. We had not done a lot in higher ed, so again please there. And then I think the last thing is the Federal Bureau of Prisons, we talked about a year kind of a year to take place for the federal government success and that was well in advance of what we expected and think of that as a platform that will build on. I think all these things are empowered by two things. We made pretty significant go-to-market investments in North America, but probably more importantly, we announced the H5 camera line and the Avigilon Control Center, which are software and analytics package 7.0, focus of attention, unusual speed detection, things like that. So a lot of excitement in the market and I think you will continue to see our momentum from there and turn it over in the second half.

Kelly Mark

Tim, it’s Kelly. On the software part, I will address that. First I will just say, we look at the business, we are very pleased with that. Our orders, our revenue and our backlog growth are all exceeding the market growth rate. The team has done a great job showing the benefits of the suite and the customers are definitely recognizing it. Year-to-date as we think about it, you probably referenced in the past, percent of our orders in the command center that our suite related where we have sold two or more components of our software together or where we have added on to already existing pieces of software and added to that. As we look at year-to-date, we are just over 25%, which is an improvement from what we’ve seen in the past. It’s great to see some notable customer wins, you probably saw us reference a particularly large win with Glendale, Arizona, where they bought a pretty much the entire suite, CAD, records, jail, mobility our vast solution as well and integrated those together and also customers like we see in Latin America with the Bogota in Colombia, where we added on a 911 software system in addition to what they already have in regards to CAD and records that they have. So we are seeing good traction across the board on suites and I am pleased with the progress we are seeing also in the development of what Andrew and team were doing there.

Tim Long

Okay, great. Thank you, guys.

Operator

The next question is from Adam Tindle with Raymond James. Please go ahead.

Adam Tindle

Okay, thanks. Good afternoon. I want to start by obviously acknowledging a lot of positive to highlight here in the quarter. But Greg, I am going to be brave here and try to paint a narrative that I know has holes in it, but just get it out there, because I know you won't be shy to respond. You recently announced the new APX NEXT devices that incorporate broadband capability, FirstNet Interoperability and didn't think there was you were seeing much of the use case for broadband and mission-critical radios and I know that LMR has been doing well, but product backlog is down year-over-year for the second quarter, now. I know Americas is up, but video is doing well and some additional inorganic contribution. So some thought that this is an indication that perhaps broadband and FirstNet is starting to and going to continue to have an impact on the core LMR business, I think you understand the narrative that's painted there, so just want to give you an opportunity to respond to that?

Greg Brown

Yes, Adam. Thanks for the question. I don't think the introduction of APX NEXT has anything to do with a narrative that would suggest LTE or specifically FirstNet taking a more prominent role, but specifically cannibalizing LMR. As you know, Adam, we haven't seen that in the past. We still don't see that now. Backlog is up, you know that year-on-year and sequentially. By the way, it's also worth noting that the backlog is up, despite some significant FX headwinds that we didn't articulate. But with what Molloy's team is doing on LMR and the introduction of APX NEXT, which we're excited about and maybe Jack could say a few words about the feature set. Software connect and seamless roaming between LMR and LTE actually we believe extends LMR. It's not an encroachment of LTE. It makes LMR, it makes APX NEXT. It makes private networks even more compelling, and I think that's represented by the statewide upgrades that we had this year that were almost 2x the volume of previous periods. But I just don't see it that way and I think FirstNet is complementary to LMR, just like in the UK, ESN is complementary to Airwave, but I just don't see any cannibalization or chilling effect. By the way, just, since we're talking about FirstNet, as you know, I think, Adam, it has a de minimis impact of revenue for this year. We would see equally minimal revenue contribution from next year.

Jack Molloy

Yes, maybe just to piggyback on top of that, I think this is an important point. As a service or the recurring revenue component of APX NEXT, will actually be contracted through the customer directly to Motorola. And that will be three different things. It will be, obviously, Greg talked a little bit about the SmartConnect, the ability to extend LMR capabilities, for instance if it was somewhat from the Cook County Sheriff's Office that was at a conference in Miami. They have capability to connect back to the network, but two of the the other really important features are called SmartLocate, which essentially provides paying to every – depending on the situation every 3 seconds to 15 seconds, location device of an Officer critical for Officer safety, but maybe the most important and underrated thing is a feature called Smart Programing, which will essentially take what used to take weeks or months to program radios and essentially provide an out-of-the-box experience. So really what we're doing is to Greg's point, extending the LMR P25 network, but leveraging some of the broadband technology to do complementary technologies. The other thing to hit on is the APX NEXT is actually a premium device. So if we think about the APX family that is, quite candidly been the most successful product in the history of this Company. This will be kind of the Cadillac, if you will, or the premium tier and we should think of that is kind of taken three to five years historically. We have a new fleet three to five years to start making – when we start to see the sales pivot to APX NEXT and the next gen of those. So hopefully that answers your question.

Adam Tindle

Yes, very helpful. And it sounds like there is some potentially attractive economic models that could be associated with it as well. Maybe just as a quick follow-up Gino, product and SI operating margins look like, if I am backing into the 2019 guidance correctly, maybe toward the low end of the 22% to 23% range for 2019, and hoping that maybe just double click on that because I know it's perhaps not exactly like-to-like, but products gross margin and gross profit are up healthily, and operating margin and operating profit are lagging that growth a little bit. I know you have a number of acquisitions weighing, probably some opportunity there. So maybe just some color how we can think about operating leverage in that segment moving forward? Thank you.

Gino Bonanotte

Sure. Adam, yes the guidance suggests the lower end of that 22% to 23% range. It's important to note that gross margin is above, slightly above our expectation for the full year. So really the impact is opex related to the acquisition and frankly related to some legal expense related with the Hytera IP lawsuit ongoing this year. So those are the two issues. I'm very pleased with the gross margin, it's opex will get after the acquisitions and again legal expense until that trial is resolved or that action is resolved. We'll continue to include that in our guidance. We're very pleased with the performance – gross margin performance.

Adam Tindle

Yes. Thank you.

Operator

Your next question is from George Notter with Jefferies. Please go ahead.

George Notter

Hi, thanks a lot guys. I guess I wanted to kind of drive toward inorganic growth rate for backlog. You mentioned there was an FX impact there. I know it's pretty substantial last quarter, but I'd be curious on what that number actually was? And then WatchGuard, I would imagine also maybe gave you a bit of backlog benefit there. Also, I was wondering what kind of contribution that might have had? And then I assume the two Middle East deals from a year ago are not backlog affecting as I look at year-on-year compares?

Gino Bonanotte

Yes, that's correct. So there are a couple of things there to unpack the – the FX adjustment that Greg mentioned was $115 million sequential, unfavorable FX adjustment. Getting back to your question on the organic growth rate of backlog, so that was the extent of the adjustment. The second question?

Greg Brown

Was a WatchGuard question?

Gino Bonanotte

Yes. And that's really minimal backlog George. It's kind of a run-rate business with very little backlog, so not much of an impact at all to our backlog.

George Notter

Got it. And then I'm sorry, the year on – can you just tell me the FX impact on a year-on-year basis

Gino Bonanotte

Its $200 million, George.

George Notter

Okay. So backlog organically, I think grew nicely over 10% year-on-year, is that roughly ballpark?

Gino Bonanotte

Yes.

George Notter

Great. Okay, super. Thanks a lot.

Operator

Your next question is from Keith Housum with Northcoast Research. Please go ahead.

Keith Housum

Good afternoon, guys. Hey, just want to explore a little bit the difference in the growth rates between Europe and North America. I would see North America is on fire now for the past two years or so, if not a little longer. Is the difference in the growth rates more macroeconomic driven or is it more based on the portfolio you have there? And then perhaps you guys touch on the growth or the opportunity with the video segment now with Avigilon and WatchGuard and what your opportunity is outside of the US?

Jack Molloy

Okay, Keith. So I think the question was really around EMEA versus North America. Yes. North America, just from a scale – go-to-market scale points of presence, it's obviously our strongest market, it's up – Q3 was up 7% in terms of constant currency and I think as Greg articulated in the open its strength across the board. It's strength in our LMR business, strength in the command center software business and our services business and obviously we had a very good quarter in our video business. EMEA is actually for – in the third quarter, we're actually up 2% inorganic constant currency. So some of the things we felt are obviously the headwinds – we've had some FX headwinds there, but it was just in Europe, two weeks ago at our partner conference, and there are some challenges in certain countries. But I would dimensionalize Europe is still relatively steady state, where we're seeing the most pressure internationally is actually in Asia-Pac and to kind of put that into context, it's 8% of our overall revenue. So not very material, but at the same time we're seeing macro – we're seeing some macro level issues. China is very small in terms of what it means from a revenue component of our country, but within the region, we're seeing some contingents that have actually slowed some things down in certain areas. I'd also offer that when I look at the APAC business, a lot of this is on us and meaning it's on me and and our team in terms of ability to understand the process a little bit better, where we might have some macro level issues, because budget issues, we've got to see through those and we've got to execute better as well. But as it applies to Europe, it's not as strong as North America, obviously, but it's fairly steady. APAC is really where we've seen the primary weakness as the years rolled out.

Keith Housum

Great. And just kind of expanding on that question, can you just touch on your opportunities with Avigilon and WatchGuard outside of the U.S. and is that a factor helping to drive some of the growth in the U.S. comparatives the EMEA?

Jack Molloy

Yes. So I think we have – in two different things. In Avigilon, we have opportunity in terms of – we've got to increase the number of routes to market internationally, that's in Latin America, that's in Asia Pacific and that's in Europe. The work is being done there to really get the product on more shelves. They were – when we acquired Avigilon, they were relatively – their focus was rightfully so in North America. And we've got to bring more scale to then both with our sales force and our distribution partners. That's the first thing. Secondarily, WatchGuard has also been relatively a North America phenomenon. We actually picked up a body worn camera through the Vigilant acquisition, a company based out, who had acquired a company based out of Scotland that actually has a very nice solution internationally at a better price point. So we're going to look at both of those options to take the body worn camera in international, but WatchGuard is really a North America Solution as it stands today.

Keith Housum

Great, thank you.

Operator

Your next question comes from Ben Bollin with Cleveland Research. Please go ahead.

Ben Bollin

Good afternoon and thanks for taking my question. Could you talk a little bit about the public sector sales process within command center and surveillance, specifically I'd be interested in your thoughts on the average duration of the process? Any generalities for how relative deal sizes would compare, like traditional LMR deal to the same type of customer? And any high level thoughts you have on the overall competitive landscape right now based on some of the preliminary stuff that you guys are doing?

Jack Molloy

Absolutely, Ben. I will start this is Jack and I think the first part of it is a selling process. And I'm going to – Kelly is going to jump in to provide some color. The selling process in terms of the command center software is actually a fairly lengthy cycle, meaning it's typically anywhere from minimal a year to two years. There is a high level because it's a 24/7, a highly intense environment and you've got a customer base, meaning dispatchers in our high stress environment. There's a lot of demonstrability and particularly as they navigate software changes, there is a lot of features that may be were legacy features that we have to kind of deal with because it certainly affects their operating procedures in the command center. So they're typically long, and I think a credit to the inorganic and organic activity that Kelly and Andrew and team have done, frankly the deal sizes are getting larger. And I think as Kelly articulated, we've grown the level of suite services – the suite sales, which have contributed to that. Kelly, I think you want to – anything you want to add to that?

Kelly Mark

Yes, just on the competitive component. You know, look, if you look at the external view across any number of market studies out there, referenced as market growing around a high single-digit growth rate and as we referenced in the past and it has continued to play out, our software business is growing in double digits. So we're very pleased with what we're seeing in regards to the growth of the business. I'd also add competitively. I think as you probably saw at IACP, we've made a number of announcements around some additional components of our software – command center software portfolio. I'm very happy about what we're doing. Also, one thing I'd highlight is the records portfolio and what we're doing there. As we all know, in the command center, one of the biggest things that they deal with is just the inundation of data, pictures, video, voice that they have to handle in that records platform that we announced. It's something that our customers are very excited about because it provides to have an opportunity with one records platform to be able to manage data that comes in from any variety of sources. So it's not just managing body-worn video or 911 calls, it's being able to compose all the data that comes into the command center and be able to manage it. So competitively we view that as something that is really unique part of our software portfolio that no one else can emulate. So very pleased with what we're seeing there and the customer receptivity and the feedback we're getting from them has been really great and it shows in the results.

Ben Bollin

And as a follow-up, looking at the broader business, you talked about some of the uncertainty, maybe some more macro in APAC. Do you have any thoughts on a broader macro perspective? As it relates to commercial LMR and then will not upgrade Greg any update to the broader 2021 framework discussion you've provided previously? Thanks guys.

Greg Brown

So there is no updates to the broader 2021, approximately 9 and 10. Remember, it wasn't guidance, it wasn't prescriptive it was directional. My phrases up into the right and it contemplates both operating the business and continued inorganic activity. From a 2020 standpoint, we're not going to guide the specifics as you would expect that will be reserved for our February call. But as I sit here today, kind of high level top-line revenue growth, I think about roughly 4%, which is consistent with what we said this year. Consistent with what we said last year and again overall from a drivers standpoint across all three platforms, LMR and video security and command center software, I feel pretty good about it. By the way, just one other dimensionalize it's worth mentioning, it may seem a little tactical, but worth reminding. As you all think about 2020, remember Q1 specifically is always our lightest quarter. Q1 of this year was a record quarter that included $40 million of federal revenue in Q1 of '19 that we do not expect to repeat in Q1 of 2020. So high level dimensionalize events continued solid growth, obviously a solid backlog position, no change to the 9 and 10 in 2021 and I think the Jack and Kelly and the team and quite frankly, all the people at Motorola continue to do a great job and I appreciate their efforts.

Ben Bollin

Thank you.

Greg Brown

Thank you.

Operator

Your next question is from Paul Silverstein with Cowen. Please go ahead.

Paul Silverstein

Before I ask questions, I just want to clarify in your response to the previous question, Greg. I thought at one hand end you were giving guidance on the other hand, I think I heard you say 4% revenue growth for next year. Was that the 4% that you cited was that specific to 2020, but...

Greg Brown

Yes, what I'm not being prescriptive on that specifically on EPS in operating cash and others, but it's just meant to signal more or less to Ben's question our view on our expectation of continued growth. We do expect growth. We do expect organic constant currency growth. We do expect cash flow growth. But just to give you an anchor point and a reference point. Yes, as I sit here today, the kind of view of top line was about 4%, very consistent with this year and what we said this year and what we said last year.

Paul Silverstein

I appreciate that. I might have two questions. One is a broad question, I apologize, visiting a number of questions earlier in the call. And then a specific question, the broad question is to the extent that video hardware analytics and monitoring along with margins have been the two or I think certainly are two of the key upside opportunities and focuses for the Company. Can you give us any sense of the opportunities from here over the course of the next year in terms of how much more you can do in driving margin upside as well as of WatchGuard and Avigilon in terms of how far how fast that revenue can grow? I recognize you address the things you need to do in terms of outside of the U.S. and their go-to-market etc., but any quantification you could provide? And then the specific question would be, you just referenced U.S. federal passing, a number of companies this quarter cited very strong U.S. federal revenue in the fiscal year-end. Can you characterize what you're seeing out of U.S. federal?

Greg Brown

Why doesn't Jack take U.S. federal first?

Jack Molloy

Yes, so U.S. federal, we've – it was not only – we talked about the strength of the North America business and you wouldn't have a good Q3 without a very strong federal quarter, but I would also offer, it's been Mark McNulty and federal team has had a very good year in 2019. It's everything from devices to systems to services and it really spans a continuum of law enforcement agencies in the Fed's civil agencies as well as our Defense bases in the Communication Systems we supply to them. So proud of what the team accomplished in Q3, but really, we have had a very solid 2019.

Greg Brown

And Paul just overall, on your question of kind of the overall business, we do expect cash flow and operating margin expansion to continue against the specifics coming on the February call. I think that's largely going to come out of software and services. I think Kelly and Andrew and his entire team have done a great job on platforming the business, getting efficiencies of the business, integrating the suite. The percentage of suite purchases and orders is slightly incrementally higher than what Kelly referenced earlier. We talked about an operating margin in that segment, software and services on the last call of 30% to 31%, that's going to look like, more like 31% for full year '19. Do we expect that can improve in 2020? We do? And Kelly and Andrew will provide me and all of us with the specifics on 2020, but also what I would say is the areas that we're playing in. Video security, where we've targeted to grow 3x the market, all in 15% versus 5% and as Jack referenced in Q3 we were strong in Q3, and we still believe will grow at 15% for 2019 and that continues. On command center software, it's performing in the high teens and again for now we expect that to continue. So – and that's against the backdrop of an addressable market of all of these businesses land, mobile, radio, video security and analytics and command center software of an addressable market we size that about $39 billion for 2020. So I think there is room to run. I think Molloy and Kaczynski are executing very well with the Avigilon acquisition and the other video assets. That is we aggregate and go to market in an integrated way, we'll continue that performance and I think command center software and services, which we don't talk as much about though that too is continuing to run very well. So there is opportunity. There is a sizable addressable market, you know the numbers that we're growing and command center software and video security, I think land mobile radio including SI and services all in will continue to move forward. By the way, we will also consciously move more and more land, mobile, radio product to land, mobile, radio infrastructure as a service which will improve stickiness, improve annuity revenue in that segment and overall solidify the profile of our position competitively. So, I feel good about where we are and how we're executing. There is always a lot more work to do, but this is a solid quarter, it's going to be, it should be, we expect it to be a record year in '19. And then we'll update you on all the specifics with those metrics in 2020.

Paul Silverstein

I appreciate the response. Thanks Greg.

Operator

The next question is from Brian Yoon with Deutsche Bank. Please go ahead.

Brian Yoon

Hi, thanks for taking the question. I wanted to follow up on the prior answer you had for a baseline of 4% revenue growth in 2020. Can you talk about the levers there? So what do you think could drive better than expected, top-line? Is it an uptick in video security adoption or new product intro and is there anything we should be aware of that could pressure revenue growth from that baseline?

Greg Brown

I think, look at this point, I think it's just a prudent way to plan the business as we look at 2020. Molloy, talked about – North America has been great and the execution across pretty much all platforms. He talked about a little bit of international, more specifically Asia-Pac, where we see budgets being pushed out. I don't think its deals lost. Now Asia-Pac is 8% of our overall revenue in '19 and as you know, China is now about 1.5% of revenue for us. So it's not significant. The issue though is, as the China economy slows down, does it have a contagion effect in some other adjacent or neighboring theaters in the region. It may, but also as Jack said we on the execution side can do a better job in terms of forecasting specificity and understanding budget cycles and what's available. So I think it really is just the best way in the prudent way we think to plan the business, video security in Q3 was stronger than our expectations. So are there areas that we could perform stronger against that view of course, there are potentially there are, but at this point, we think this is the right way to think about it, dimensionalize it again as I sit here today.

Brian Yoon

Okay, great. Thank you.

Greg Brown

Thank you.

Operator

The next question comes from Sami Badri with Credit Suisse. Please go ahead.

Sami Badri

Hi, thank you. The first question has to do with products, just SI, and I want to understand beyond the big lumpy deals. The way you generate some of those revenues, could you give us any idea on the type of radios that were sold? Are these higher mix? Are you starting to see the installed base refresh their products? If there is a cycle where are we in that cycle or are some of the growth being driven by Avigilon products on the hardware side, can you just unpack this a little bit more for us, so we can go through it?

Jack Molloy

I'll – hey Sami, it's Jack. Two things, so for the third quarter, what we've seen from Products and SI, it's both. Actually to your point, Avigilon, albeit Avigilon had a very good quarter so we're going to see some of that. As we think about the LMR products that are in there, we had, we had strength really frankly in devices. So that's APX devices, the APX family of which we just announced, kind of the next generation or the APX NEXT. And that strengthened the U.S. government, U.S. public safety state and local, as well as the federal government, which I just articulated had a very good quarter. Gino, I don't know if there's anything you'd like….

Gino Bonanotte

Yes, I think – I think you answered your Jack. it's really on the product side, strength across the board in Q3, there wasn't one area that was exceptional. No large deal in there that drove the results, it was broad-based, actually across all platforms, but across all the product segment.

Jack Molloy

The commercial – the commercial business was actually up 3% in North America in Q3 as well, so just like a – just pretty much strength across the board.

Sami Badri

Got it. Thank you. And then just a follow-up question regarding Avigilon and some of the more software/artificial intelligence related capabilities that the software actually has, where are we in the integration cycle for specifically those capabilities into the broader command center suite?

Kelly Mark

Sami, I'll take that. In regards to Avigilon, one of the things that we've done, we're very pleased about is, we've immediately taken the Avigilon portfolio and to the extent our public safety customers are using Avigilon, we have already integrated into our command center suite. So, one of the products, which you probably saw us announce earlier in the year is CommandCentral Aware. The CommandCentral Aware is a product which helps gives our customers a consolidated view in the command center of a situation including location of officers, information related to the 911 call, any inputs around license plates and in addition to that, to the extent they access Avigilon cameras, they can have that feed into the command center. So it's not just Avigilon, we work with a lot of other video suppliers out there because it's important as being in the command center, that being kind of the central point where situations are controlled that we can interface to others. But of course interfacing to Avigilon is something that we incorporated earlier this year. It's just one of the examples of the integration components that we provided through the command center.

Sami Badri

Great. Thank you.

Operator

This concludes our question-and-answer session. I would like to turn the conference back over to Tim Yocum for any closing remarks.

Tim Yocum

Thanks for joining guys and we look forward to talking to most of you soon. Take care.

Operator

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