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Johnson Controls International plc (JCI) CEO George Oliver on Q4 2019 Results - Earnings Call Transcript

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FQ4: 11-07-19 Earnings Summary

Press Release *10-K* *Slides*

EPS of $0.78 beats by $0.02 | Revenue of $6.27B (-25.04% Y/Y) misses by $-143.75M

Earning Call Audio

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Johnson Controls International plc (NYSE:JCI) Q4 2019 Earnings Conference Call
November 7, 2019 8:30 AM ET

Company Participants

Antonella Franzen - Vice President & Chief Investor Relations & Communications Officer

George Oliver - Chairman & Chief Executive Officer

Brian Stief - Executive Vice President & Chief Financial Officer

Conference Call Participants

Gautam Khanna - Cowen & Co.

Nigel Coe - Wolfe Research

Jeff Sprague - Vertical Research

Steve Tusa - JPMorgan

Julian Mitchell - Barclays

Andrew Kaplowitz - Citi

Deepa Raghavan - Wells Fargo

Josh Pokrzywinski - Morgan Stanley

Operator

Welcome to the Johnson Controls' Fourth Quarter 2019 Earnings Call. Your lines have been placed on listen-only until the question-and-answer session. [Operator Instructions] This conference is being recorded. If you have any objections, you may disconnect at this time.

I would now like to turn over the call over to Antonella Franzen, Vice President and Chief Investor Relations and Communications Officer. You may begin.

Antonella Franzen

Good morning and thank you for joining our conference call to discuss Johnson Controls' fourth quarter fiscal 2019 results. The press release and all related tables issued earlier this morning as well as the conference call slide presentation can be found on the Investor Relations portion of our website at johnsoncontrols.com.

With me today are Johnson Controls' Chairman and Chief Executive Officer, George Oliver; and our Executive Vice President and Chief Financial Officer, Brian Stief.

Before we begin, I would like to remind you that during the course of today's call, we will be providing certain forward-looking information. We ask that you review today's press release and read through the forward-looking cautionary informational statements that we've included there.

In addition, we will use certain non-GAAP measures in our discussions and we ask that you read through the sections of our press release that address the use of these items. In discussing our results during the call, references to adjusted EBITA and adjusted EBIT margins exclude restructuring and integration costs as well as other special items.

These metrics are non-GAAP measures and are reconciled in the schedules attached to our press release and in the appendix to the presentation posted on our website. Additionally, all comparisons to the prior year are on a continuing ops basis excluding the results of Power Solutions.

GAAP earnings per share from continuing operations attributable to Johnson Controls' ordinary shareholders was $0.77 for the quarter and included a net charge of $0.01 related to special items which Brian will address in his comments. Adjusting for these special items, non-GAAP adjusted diluted earnings per share from continuing operations was $0.78 per share compared to $0.57 in the prior-year quarter.

Now, let me turn the call over to George.

George Oliver

Thanks Antonella and good morning everyone. Thank you for joining us on today's call. Before I get into the details of the quarter, I thought I would kick things off with a quick look back at our year to recap some of our strategic initiatives and financial commitments.

Starting with Slide 3, one of the most significant strategic achievements in 2019 was the successful divestiture of Power Solutions and the subsequent capital deployment actions. I am extremely pleased with our execution from start to finish. Large transactions like this never go completely as planned and usually take longer than expected to execute. Our teams effectively navigated the transaction process, monetizing the business with lower-than-expected tax leakage, resulting in net cash proceeds of $11.6 billion.

As we discussed last quarter, we quickly began redeploying the proceeds within weeks following the close of the transaction. Including the use of those proceeds, we were able to meet an aggressive capital allocation commitment, deleveraging our balance sheet, and returning a significant amount of capital to our shareholders.

In 2019, we were able to pay down nearly $4 billion in debt and completed $6 billion in share repurchases, buying back over 150 million shares with just over 17% of our shares outstanding. Perhaps even more important to the long-term strategy of the company, the sale of Power Solutions completed our transformation to a pure-play buildings company. As we move forward, we will continue to strengthen our core, increase profitability and accelerate growth in digital solutions across all aspects of the company.

Our broad portfolio of smart edge devices, connected equipment and systems and cloud-based applications and data analytics capabilities provides Johnson Controls a unique competitive advantage and market-leading position, as customers increasingly seek outcome-based solutions.

The strength of our capabilities combined with our large installed base and trusted customer relationships provides us with unparalleled industry expertise and thought leadership with the most advanced digital innovation. That innovation captures untapped value for our customers and positions Johnson Controls as the preferred partner for their digital transformation.

From delivering better patient outcomes in hospitals to creating better learning environments in schools or defining new exciting fan experiences in the world's most advanced stadiums, we have the unique position to power the goals and missions of our customers.

As we move further into the next phase of our strategy, I was pleased to announce the addition of Mike Ellis to our team in a newly created role, as Chief Customer and Digital Officer. Mike brings an incredible amount of industry knowledge and leadership with a deep expertise in software and connected solutions.

Mike's primary responsibility will be to accelerate our digital strategy and execution across all business units, regions and functions within JCI and ultimately to expand our service offerings. In addition to Mike's announcement, we also made two other significant changes to our executive leadership team during the quarter.

In late July, we announced that Jeff Williams would transition from his role leading our EMEA/LA Field segment to lead Global Products. Jeff's proven leadership abilities and operational expertise will drive improved underlying fundamentals as well as innovation and new product growth.

At the end of September, we announced Jeff's successor in EMEA/LA with the appointment of Tomas Brannemo, who joins us from Xylem, where he led global operations and oversaw key functions across their European businesses. Tomas brings a diverse background in project and service businesses as well as strategy and will play a critical role in driving growth and increased profitability as we go forward.

Also as you may have seen this morning, as Brian enters his last year as Chief Financial Officer of JCI, we have appointed him as Vice Chairman. The Board will begin a process to identify Brian's successor, including an external search to allow for an orderly and smooth transition.

Lastly, I am very proud of what the teams around the globe have accomplished over the course of fiscal 2019 to improve the underlying fundamentals, drive innovation and new product development, strength in talent management and further enhance commercial excellence across the organization, all while optimizing our cost structure.

Now let's turn quickly to our financial commitment and scorecard for the year on Slide 4. I won't spend a lot of time on each of these. But in addition to some of the strategic priorities we just discussed, we met or exceeded each of the financial targets we set at the beginning of the year: strong growth in orders and top line revenue, solid margin expansion, and free cash flow conversion ahead of our guidance.

Turning to some of the highlights for the quarter, starting with orders on Slide 5. We had another quarter of solid mid-single digit order growth despite our most difficult quarterly comp of the year at plus 9%.

Our order pipeline remains robust with an attractive mix of service and a balanced profile of small and large projects. Backlog ended the quarter at $8.9 billion, up 8% organically versus the prior year, which provides high visibility into 2020.

Turning now to Slide 6 for a quick recap of the financial results. Sales of $6.3 billion increased 3% on an organic basis with solid growth across the Field businesses led by high single-digit growth in Commercial HVAC.

Adjusted EBIT of $812 million grew 8% on a reported basis including a $10 million headwind from FX in the quarter. On an organic basis, adjusted EBIT grew 10%, driven by solid 7% growth in segment profit as well as lower corporate and amortization expense.

Overall underlying EBIT margins expanded 80 basis points year-over-year on both a reported and organic basis. Adjusted EPS of $0.78 increased 37% over the prior year with solid operational performance and a significant contribution from the capital deployment actions related to the utilization of the Power Solutions sale proceeds.

Adjusted free cash flow increased 25% over the prior year to just over $1 billion in the quarter. Full year adjusted free cash flow was $1.7 billion representing 99% conversion.

With that, I will turn it over to Brian to discuss our performance in more detail.

Brian Stief

Thanks George and good morning everyone. So, let's get started with the year-over-year bridge of EPS on Slide 7. As you can see our operational performance including synergies and productivity save contributed $0.09 and this was partially offset by $0.01 of investments.

We also benefited in the quarter from the redeployment of the Power Solutions proceeds from both the share count and net financing charge perspective which added $0.12 and $0.05 respectively. And below-the-line items netted to a $0.04 headwind which resulted in fourth quarter EPS of $0.78 which was up 37% year-on-year.

So, let's move to Slide 8 and take a look at segment results on a consolidated basis. You can see sales of $6.3 billion increased 3% on an organic basis and this was led by 4% in our Field businesses. And this is partially offset by some softness in our Product businesses which was flat in the quarter.

I would point out that in Q4; we were facing our most difficult comp from the prior year up 8% in aggregate with every segment facing its toughest comp. Within the Field businesses, total service revenues grew 4% in the quarter which was consistent growth across all three regions.

As you know growing and expanding our service offerings has been an area of significant internal focus and we've now established a consistent cadence of mid-single-digit growth for the past two years. Going forward we look to augment our service growth, enabled by digital solutions to continue driving similar growth level in service. As you know our service business represents just over $6 billion in revenues, which is about 40% of our field revenue base and this provides us with a very profitable, resilient revenue stream as we move forward.

We continue to convert our project backlog in Q4 as well driving install revenue, up 4% and this was solid growth across all regions. Segment EBITDA of $990 million grew 7% organically and this was driven by the volume leverage from the field, strong price cost realization and products and our ongoing productivity and synergy save.

Lastly, Q4 segment EBITDA margin expanded 60 basis points to 15.8%. And as you can see in our margin waterfall, underlying operational improvement contributed 100 basis points. And this was partially offset by some product and run rate sales force investments as well as a minor headwind through pension and other items. So let's review each segment in more detail.

Turning to Slide 9 in North America. North America sales grew 3% organically against an 8% prior year compare and this was driven by continued growth in both install and service activity. The growth was led by strength in applied HVAC and Controls businesses, which increased high single-digits again in Q4.

Fire & Security grew low single-digits with balanced growth in both install and service. I would note that Performance Solutions declined mid-teens in the quarter. This was due primarily to a high teens comp in the prior year.

North America adjusted EBITDA increased 6% and EBITDA margin expanded 40 basis points to 14.9%. This was driven by favorable volume leverage as well as synergy and productivity save.

And as expected the mix headwinds we faced in Q3 this year eased substantially. Although HVAC again outgrew the Fire & Security businesses, putting pressure on mix in Q4, this was offset by higher growth in service.

Orders in North America were very strong, up 7% led by Fire & Security, up strong double-digits and applied HVAC, up mid-single-digits. Orders in Performance Solutions declined 3% due primarily to the timing of some large project awards. Backlog of $5.8 billion increased 8% year-over-year.

So let's move to EMEA/LA on Slide 10. Sales in EMEA/LA grew 4% organically with service up 4% and install up 5%. Growth was positive across most regions except for the Middle East where we continue to see pressure. Europe grew mid-single digits in the quarter led by low double-digit growth in our Industrial Refrigeration business and both Fire & Security and HVAC and Controls grew low single-digits.

In the Middle East, revenues declined mid-single digits as solid growth in our service activity was more than offset by continued softness in HVAC, project installs and Fire & Security. In Latin America revenues increased mid-teens with growth across most lines of business led primarily by strength in Fire & Security.

EMEA/LA's adjusted EBITDA increased 17% and EBITDA margin expanded 80 basis points to 11.7% and this includes a 40 basis point headwind for FX. Underlying margins increased a strong 120 basis points in the quarter as favorable volume and productivity and synergy save more than offset the run rate impact of our previous salesforce additions.

Orders in EMEA/LA increased 3% which was led by continued strength in Latin America across both install and service. And orders in Europe grew low single-digits in the quarter. Backlog ended up 1.6 -- backlog ended at $1.6 billion, up 10% organically.

So, let's move to APAC on Slide 11. APAC sales grew 7% organically led by higher demand for project installs which grew 9% in the quarter. Install activity was led by continued strength in our core HVAC and BMS platforms with sales in China up low double-digits.

Sales for our core service offerings grew 4% in the quarter including low double-digit growth in China. APAC adjusted EBITDA margins did decline 1% with margins down 100 basis points to 14.2%. Favorable volume leverage was more than offset by higher install mix as well as expected margin pressure.

APAC orders were flat in the quarter as our strong service order growth of 13% was offset by high single-digit decline in install orders. And I would just note this was due primarily to order delays as a result of the unrest in Hong Kong and ongoing China trade disputes. Backlog in APAC increased 4% year-over-year to $1.5 billion.

Overall, it's clear that the environment in APAC is very competitive and the economic conditions in some areas remain uncertain. Nonetheless given the actions we've taken in fiscal 2019 to drive growth in our service base and also improve the quality of installed jobs and our project execution, we are confident in our ability to grow the topline and improve profitability in fiscal 2020.

So, let's move to Global Products on Slide 12. Global Products growth in the quarter was flat organically versus a strong 9% compared to last year. As we discussed on our Q3 call, we did expect a decline in North American Resi HVAC due to a 20%-plus prior year compare as well as our strong Q2 and Q3 performance this year and resulting Q3 quarter end channel inventory levels.

Having said that the unexpected softness for us was in APAC residential which as a reminder relates to our Hitachi joint venture. This softness resulted in a three percentage points headwind in overall Global Products organic revenue growth for the quarter.

The decline in our Hitachi business was due primarily to market conditions in Japan and Taiwan. And just as a reminder we have market-leading positions in both these countries which together make up over two-thirds of Hitachi's revenue base.

So, let's turn to the individual platforms within Global Products. We saw BMS grow low single-digits with double-digit growth in Fire Detection and mid-single-digit growth in Controls. Security products were relatively flat year-on-year.

Overall sales in HVAC & Refrigeration Equipment businesses declined less than 1%. Global Residential HVAC declined low double-digits in the quarter, driven by the expected weakness in North America and the previously mentioned softness in APAC. Light commercial unitary grew high single-digits in the quarter with North America, up mid-single-digits.

IR equipment declined mid-single digits in the quarter against a tough prior year compare which was in the upper high teens. VRF had a nice quarter with low double-digit growth and our applied HVAC Parts and Equipment business grew high single-digits reflecting continued strength in our chillers business and the indirect channels for North America and Asia.

And finally, Specialty Products grew mid-single-digits and strong demand for our fire suppression products, particularly in North America. Product segment EBITDA increased 7% and EBITDA margin expanded 130 basis points, as the underabsorption on lower volumes was more than offset by positive price/cost and the benefit of cost synergy and productivity save. Incremental product and sales force investments were also a slight headwind. Looking to fiscal 2020, we expect sales for Global Products to be in the low single-digit range in Q1 and in the low to mid-single-digit range for the full year.

So let's move to corporate on Slide 13. I continue to be very pleased with the progress we make and overall corporate cost reductions. As you can see corporate expense was down 6% year-over-year to $89 million and this was driven primarily from the benefits of synergy and productivity save as well as the ongoing actions we're taking to reduce cost as a result of the Power Solutions divestiture.

On Slide 14, free cash flow. We reported Q4 cash flow from continuing ops of $800 million. If you exclude the $200 million in one-time cash outflows in the quarter, adjusted free cash flow was up 22% to slightly above $1 billion for Q4. For the full year, we delivered adjusted free cash flow conversion of 99%, this reflects solid performance on trade working capital improvement and continued discipline around our CapEx management actions.

As we look to fiscal 2020, we see adjusted free cash flow conversion of approximately 95% and this excludes $300 million of remaining one-time cash outflows and the $600 million tax refund we've talked to you about in previous quarters, which we expect in the first half of fiscal 2020. As a result, our GAAP free cash flow will exceed our adjusted free cash flow in fiscal 2020.

So let's turn to the balance sheet quickly on Slide 15. Net debt was up slightly in Q4 as we redeployed some of the Power Solutions cash back into share repurchase, which as you can see was nearly $900 million in the quarter.

Before turning it back to George for a look at our fiscal 2020 guidance, I do want to provide some commentary on two significant special items that are outlined on Slide 16. We recorded a non-cash pre-tax loss of $626 million related to our year-end mark-to-market adjustments and this results primarily from lower discount rates associated with our year-end pension and OPEB calculations. Additionally, we recorded a non-cash $586 million tax benefit related to the favorable tax audit adjustments that we saw in the quarter.

So with that let me turn it back over to George.

George Oliver

Thanks Brian. Before we open up the line for questions, I want to provide you with our outlook for 2020. Let's start by walking through the waterfall chart on Slide 17. Overall, we expect low to mid-single-digit organic revenue growth which will drive approximately $0.15 of earnings. Additionally, we will have the continued benefit of synergies and productivity savings which we will realize over the course of the year and will contribute an additional $0.15 of earnings.

As Brian mentioned last quarter, we are moving forward with a plan to continue repurchasing our shares. We expect to deploy approximately $2.2 billion of Power Solutions sale proceeds during the course of fiscal 2020 which is expected to result in an incremental benefit to earnings of about $0.33. This assumes we continue to hold the remaining $1 billion of Power Solutions sale proceeds on hand.

There is -- other small items result in a $0.04 headwind. These items net to our fiscal 2020 EPS guidance range before special items of $2.50 to $2.60. This represents earnings growth in the range of 28% to 33%. And the full details of our guidance is included on Slide 18.

Our guidance is based on strong underlying EBIT growth of 8% to 12%, driven by solid top line performance and synergy and productivity benefits. Lastly, as a portion of the benefit related to the deployment of the Power Solutions sale proceeds will benefit fiscal 2021, I wanted to provide an updated framework for how our earnings are expected to progress as we move forward.

As you can see on Slide 19, the incremental run rate benefit of proceeds deployed in 2020 and a reduction in corporate cost is expected to contribute an incremental $0.06 of earnings. This takes our fiscal 2020 EPS to a range of $2.56 to $2.66 on a run rate basis. This would be prior to the deployment of the remaining $1 billion of Power Solutions sale proceeds as well as any operational growth or benefits from additional capital deployment in 2021.

Over the last two years, we have made significant progress in aligning our portfolio, improving our underlying fundamentals, and reinvesting back into the businesses. As we move forward, it is all about execution and controlling what is in our control.

Although we are watching the macroeconomic environment closely, we feel good about our position entering fiscal 2020 as our backlog provides us visibility in our Field businesses, our service business tends to be more resilient, and we continue to benefit from self-help and our capital deployment. We remain focused on driving execution and delivering for our customers and shareholders.

With that, let me turn it over to our operator to open the line for questions.

Question-and-Answer Session

Operator

We will now begin our formal question-and-answer session. [Operator Instructions] The first question is coming from Gautam Khanna, Cowen & Co. Your line is open.

Gautam Khanna

Hey thanks. Good morning guys.

Antonella Franzen

Good morning Gautam.

George Oliver

Good morning.

Gautam Khanna

So, George I was wondering if you could just talk about the applied HVAC pipeline? What are you seeing in terms of front log if you will projects RFPs, what have you? Any slowdown yet to speak of in that domain?

George Oliver

No. I mean as you've seen we continue to execute very well in the commercial HVAC space. When you look at our revenues in the quarter we're up 8% with strong growth for both applied equipment and service and that was spread across North America and APAC. We've had light commercial unitary up mid- to high single-digits. And a lot of that has been a result of the new products we've been launching with our rooftop products.

If you look at orders, the orders show a 3% in the quarter but that's off a strong plus 9% last year. So that's important to note. And when you look at where that's occurring it's pretty broad-based. So then if you go and look at our pipeline on projects, we continue to have a very strong pipeline that we're working pretty much across the globe and converting and that has given us confidence with the backlog we have going into 2020 and the continued progress we see - continuing maybe a little bit lower on our growth rate mid- to single-digit here through the course of 2020. But I believe that that gives us confidence that we're going to be positioned here to deliver on the commitments we made here in 2020.

Gautam Khanna

Okay. And just a quick follow-up. On consolidation, you guys have kind of earmarked $1 billion for M&A. I just wondered if you could update us on your pipeline there? And do you think there's going to be any broader consolidation, any bigger moves in the space? And just your thoughts on how things might shake out with Ingersoll becoming an independent climate company and CCS spinning. Any thoughts on that? Thank you.

George Oliver

Yes, Gautam. Let me just give you my perspective. I think in any industry there's always opportunity for consolidation. But I think it's been clear based on what we've been doing with the reinvestments we've been making in products with the work that we're doing to build out our channels globally that we're focused on continuing to execute for our customers, being able to build strong pipelines of potential orders converting and ultimately executing.

And I think, as we look at the future and a lot of this is tied to what we talked about with the Chief Customer Digital Officer that we've added, we see an incredible opportunity to take a very strong portfolio and position ourselves to be able to outperform on a go-forward basis. And so that's our focus.

When we look at M&A, we certainly are working pipelines as we look at our each of our product businesses and our regional footprint. And we're opportunistic looking at opportunities that would strengthen our organic investments. But the focus for us is continuing to execute, delivering strong performance and then continuing to do bolt-ons as needed.

Gautam Khanna

Thank you.

Operator

The next question is coming from Nigel Coe, Wolfe Research. Your line is open.

Nigel Coe

Thanks, good morning.

Antonella Franzen

Good morning.

Nigel Coe

George, it sounds like you [indiscernible] your voice sounds bit creaky. So hopefully answer to the questions here. So maybe just talk about pricing broadly speaking. Obviously Asia Pac is a bit more challenging but how are you seeing pricing across the board, especially with raw materials starting to move to and then maybe just comment on price costs and how that shaped up this quarter versus expectations?

George Oliver

Nigel, I'd go back, if you look at the last two years we had a headwind in 2018. And we began to overcome that headwind at late in that year. And that positioned us well for 2019 where we got -- when you look at our top line it was roughly two or three points of the top line growth in 2019. And that contributed to a positive price/cost in 2019.

Now that being said, as we've set up for 2020, we continue to make sure that we're staying disciplined from a pricing standpoint. And that we're projecting that on the topline, it will contribute about 1% to the overall topline. So, that combined with our productivity and the like will continue to offset inflation and we'll continue to be price cost positive as we go through 2020. It is important to note that with that price the impact to the margin rate is relatively neutral in 2020.

Nigel Coe

Yes, great. Thanks George. And then Brian I wanted to dig into some of the cash flow items for next year. So, you're flagging $0.3 billion of one-time outflows just maybe just talk about that. And then the tax refunds obviously as-expected, but does that came up that item?

And then on the conversion question to what extent is pension income putting pressure on that conversion next year? And then the final point I know there's four points here. There's a large outflow this quarter in disc ops, just wondered if you could just discuss that as well. Thank you.

Brian Stief

So the large outflow in disc ops this year relates to the tax payment that was made associated with the gain on the Power sale. As it relates to the $600 million tax refund, we've kind of been flagging that for several quarters now. We do expect that in the first half of 2020. We're hopeful it's December-January timeframe. But I mean that because of the size of it as we've talked about previously had to go through committee with you. So, we do expect that to come in in the first half of 2020.

And then the $300 million of outflow that we're flagging really relates to prior cash costs -- or current cash cost of prior restructuring charges as well as the ongoing activities that we have to support the $150 million of synergies that we're going to generate related to the $900 million target we've got through fiscal 2020 that we've talked about previously. So, was there one other question there?

Nigel Coe

Sorry yes. The pension income. To what extent is that putting some pressure on conversion?

Brian Stief

Yes, I mean pension income provides some pressure for us as does the joint venture dividends being less than our equity income, but we also get some benefit from our amortization as well. But net-net, I think when we look at our free cash flow conversion target next year at 95% as I think about how that improves on a go-forward basis to get closer to 100%, I would say there's two areas. One would be to close the gap between equity income and our joint venture dividends that we get on an annual basis. And secondly, I still think there's some improvement in trade working capital that will come through continued efforts of our cash management office team around the globe.

Nigel Coe

Okay. Thank you very much.

Operator

The next question is coming from Jeff Sprague, Vertical Research. Your line is open.

Jeff Sprague

Thank you. Good morning everyone.

Antonella Franzen

Hi Jeff.

George Oliver

Good morning Jeff.

Jeff Sprague

Good morning. Could we dig in a little bit more George into synergy and productivity? And I'm kind of sure at this point of the game just getting a little blurry on what's synergy and what's productivity, but I'd be a little more explicit on what it is you still have yet to capture? What is kind of embedded in that number? And I'm sure you're never going to stop seeking productivity but will this bring that program to a close in 2020?

George Oliver

Yes. So as Brian laid out, we are still positioned here to deliver very strong synergy in addition to productivity here in 2020. On a go-forward basis, when you look at our cost base and our ability to be able to get continuous productivity on that cost base, normal productivity would generate about 30 basis points of net margin expansion

And so our goal is to continue to keep strong pipelines of opportunities to reduce the structural cost. And then from a process standpoint with everything that we do whether it be in our manufacturing product businesses or within our field installation and service business, really driving strong operational improvements on a continuous basis going forward. And so our -- when we project beyond 2020, we're still going to have a very strong pipeline for productivity to continue to expand margins.

Jeff Sprague

And George just looking at backlog I think it goes a little bit to one of the earlier questions, right? Some of the macro indicators for whatever they're worth, right? Dodge starts the ABI, the put-in-place data all is kind of wobbling here. And it really hasn't shown up in your orders or really any of your peers' orders yet. I just wonder, if there's any additional insight you could share on maybe what you think the disconnect is there and your visibility to convert backlog as you look into 2020?

George Oliver

So I would start Jeff by the macro indicators when you look at ABI or Dodge forecast, they do suggest they are a little bit lower but they have stabilized. And when you look at some of the areas where we have strength, obviously institutional, we still believe that that has yet to peak in some of the end markets that we support there. And I think that's driving a lot of the order pipeline and the conversion of that pipeline.

So what I would tell you is that when we projected the year in 2020, we're starting with a nice backlog. We have suggested that the order rate will slow a bit to kind of low mid-single digits based on what we see in the pipeline today. And the two combined is what gives us confidence that we are positioned to be able to deliver kind of low to mid single-digit growth throughout the year.

Certainly we're watching this closely and making sure that from a cost standpoint that we're going to do what's necessary to adjust as needed. And what I would say is that for us, our service business is about a little better than $6 billion globally. And if you've seen our progress in the last two years, we've been able to sustain our growth rate up over 4%.

So we were short of 4% two years ago. And then this past year we're north of 4%. And our goal is that we believe with the installed base that we have that we've built that there's still a tremendous opportunity to build our service business. So at the same time that we're watching the big project in that pipeline and making sure that we're going to be able to adjust appropriately as this plays out, we also are working hard to be able to execute on our service strategy that we believe that if it does soften much we're going to be positioned well with our service franchise to be able to try to make up to some of that softness.

Jeff Sprague

Great. Thank you.

Operator

The next question is coming from Steve Tusa, JPMorgan. Your line is open.

Steve Tusa

Hey, guys. Good morning.

Antonella Franzen

Good morning.

George Oliver

Good morning, Steve.

Steve Tusa

Can you just talk about what you're seeing specifically in China on kind of the larger equipment and services side? Things there for everybody seem to be holding up pretty well. You guys are obviously continuing to lead the pack there to a degree on your growth. So, any color on -- is there any timing here in the next 18 months or this is going to slow down? Is it some project phasing concerns? Or are things -- think things are pretty robust there for the next -- for the foreseeable future?

George Oliver

Yes, let me frame-up China for us Steve. China overall is about 6% of our total company, about $900 million of that is in the Field and $400 million is in Global Products. When you look at the Field business, China is an important market for us in Asia-Pac. It's about 35% 40% of the Asia-Pac region. And we are seeing -- as you said, we are seeing good revenue growth. We had low double-digit organic growth here driven by HVAC equipment as well as our ability to be able to expand our service here in the quarter. And I believe that we are now lapping the tough backlog that we had in margins on a go-forward basis.

Now, that being said, we -- as I was just -- I just spent over a week there, met -- I was in Shanghai, I was in Chongqing. I was in Chengdou and working with the teams and meeting with customers and meeting with the local governments. And I have to admit I left feeling really good that the work that we're doing, we're continuing to make progress. We're positioning our capabilities appropriately to capitalize on the infrastructure, expansion, and the like. And so I don't -- I'd say it's going to continue to grow.

It my temper a bit based on what's happening here with some of the trade wars and the like, but overall, I have to say I feel good about the growth in the China market. We're also going to make sure that we stay competitive not only from a cost standpoint, but in how we create value with the type of projects we go after, but that's my current view Steve.

Steve Tusa

Great. Thanks a lot for all the detail and the comprehensive answer. Thanks.

Operator

The next question is coming from Julian Mitchell, Barclays. Your line is open.

Julian Mitchell

Hi good morning and congratulations Brian on the Vice Chairmanship.

Brian Stief

Thank you. Thank you.

Julian Mitchell

In terms of I guess my first question just looking at the EBIT margin guide fiscal 2020, so it's up 60 to 80 bps with some corporate cost reduction within that. Just wondered when you're thinking across the four segments, do we think about that expansion being sort of APAC margins flattish and the other three in 2020 being up say 50 bps? Is that the right way to think about the segments in 2020?

George Oliver

Yes. So, when we look at -- well, let me give you a high level that obviously we're positioned here to expand margins as we've guided 40 to 60 basis points and -- for the total year. And that's going to be pretty much we'll see expansion across the Board. It's -- we're going to get better leverage out of our Global Products. And so as we look at our Global Products, we're going to be closer to a 70-plus type basis points.

And then our Field-based businesses kind of the -- where we're seeing good leverage here is the work we've done in EMEA/LA being a little bit better. The one that's going to be -- the lower margin is going to be North America roughly about 30 or 40 basis points. And that's purely when you look at the total -- when you look at how we achieve the margin expansion, we get about 20 basis points on volume mix. We pick up about 50 basis points on synergies and productivities. And then we are pressured a bit on a total year with APAC as well as some other pressure we have within the overall portfolio. So that's what gets us in total. Now when you break that out into as I said North America, a little bit more pressure there because of the mix of HVAC versus Fire & Security, as well as the headwind that we've had in the retail business continuing because of the pressure that we see there in the end market that we're serving. And so overall, it's -- we're going to see improvement across the board. But the strength will be driven by Global Products as well as the EMEA/LA continued performance of EMEA/LA and then beginning to recover here in APAC.

Julian Mitchell

Thank you very much. And then my second question just around that Global Products residential revenue aspect. So you had as you said down low double-digits revenue in Global Resi HVAC in Q4. Just wondered if you could give a bit more color around the Asian piece? You talked about Japan and Taiwan being culprits. Is there something going on market share-wise there? I think numbers in Japan have been okay. So I just wondered what your outlook was on that Asian piece within Global Resi HVAC?

George Oliver

Sure. So let me frame it up here Julian, when you look at Global Products organic revenue growth being flat in Q4, let's start that it was off of a plus nine last year. And that we did expect a decline in North America Resi, given that a year ago we had 20-plus percent growth.

And when we -- coming into the quarter we knew that there was going to be distributed inventory levels that we're going to have to be burnt off. Now what was softer as Brian talked about was the APAC residential business. And just to frame that up it's about $1.8 billion in annual revenue. It's primarily the Hitachi JV and that -- with the strength and the position that we have in Japan and Taiwan.

The overall decline, it was a low-teen decline. That impacted as Brian said three points of our global products growth. Now if you break it out into Taiwan and Japan, the decline in Taiwan were partly due to a mild summer. We had -- distributors had to burn through their inventory as the cooling season was coming to an end in our fourth quarter. And then as we look at it today, we see the inventory levels to be back to normal at the end of September.

Recognize that we have about a -- we do have a very strong share position in that market. And so we do believe on a go-forward basis we're going to be positioned well and continuing to maintain share.

In Japan, we had a very strong first three quarters ourselves in Japan. And then the market decline began to occur in Q4. And so with that we saw our distributors burning off inventory. And I think right now I just came back from there. I spent a few days with our team there. What I would say is that the inventory levels are back to where they need to be.

We are a little bit concerned about continued softness here in Q1. So we're going to watch that closely. I would tell you from my visit and the deep dive that I've done on all of our investments, I feel really good about the business with the investments we're making and being able to maintain a very strong position in these markets. And so that's kind of the way I see it today but we are going to see a little bit of pressure here in Q1 because of the Japan market.

Julian Mitchell

That’s great. Thank you.

Operator

The next question is coming from Andrew Kaplowitz of Citi. Your line is open.

Andrew Kaplowitz

Hey, good morning, guys.

Antonella Franzen

Good morning.

George Oliver

Hi, Andrew.

Andrew Kaplowitz

George in Building Solutions North America you mentioned mix issues Q4 versus Q3 as service is better. But put a really large EBITDA improvement 40 basis points versus last quarter, which I think was down 90 despite Fire & Security growth still being lower than HVAC. So can you give more color into the improvement? I know you just said that retail pressure didn't really go away. Did it abate at all? Or was it really just a better service mix or maybe better sales force productivity?

George Oliver

So there's a lot of -- let me try to frame this up, so you can kind of put the pieces together. Overall, as you said, we had a lot of pressure in the previous quarter with mix and the like. And now in the fourth quarter we were 40 basis points year-on-year improvement.

When you look at the breakdown of that volume and mix was about 20 basis points. We're seeing good volume come through continued volume. We're seeing very strong productivity savings and cost synergies, which was up 40 basis points. There is a little bit of a headwind on pension. And then there's -- we're almost done with the headwind that we've seen in sales investments.

And so when you walk that through that's where which ultimately achieve the net 40 basis points year-on-year. And so it's -- we're obviously watching this closely as we get into Q1. We are looking and making sure that on a year-on-year basis we're a continued -- positioned to continue to expand.

I believe that right now it's going to be somewhat flat because of the way the mix is going to come through and some of the pressure that we're seeing in retail. But we're going to continue to focus on driving strong productivity and cost savings while we're executing on the growth.

Antonella Franzen

And Andy, the only thing I would add as a reminder is just keep in mind that in Q3 for North America, part of that decline really had to do with the really strong performance we had in the North America retail business in Q3 of 2018. And we didn't have that same dynamic here in our fourth quarter.

Andrew Kaplowitz

That's helpful, guys. And then George can you talk about the Fire & Security markets in particular? I think you mentioned that Fire & Security products growth was good. Your field orders have hung in there reasonably well. But how much of it is sort of the markets being strong? I know fire detection generally has been pretty strong. How much of it is sort of self-help over the last few years for you guys in markets like security and digital improving the business versus the market? Are you outperforming the market?

George Oliver

So let me start Andy by breaking it out into products and field. And so if you look at our Fire & Security products, we were up although it prints 2% but that was on a low double-digit prior year compare. So, on a two-year stack, we're still doing extremely well with our product businesses.

Now if you dig into that fire detection was up 7% and that's a result of both reinvestment in new products, continuing to expand our channel and the sales force and then ultimately being able to convert backlog. The security was flat. Now that's on a very tough comp also year-on-year. I believe it was high teens

And we are continuing to invest and position ourselves with the right products and mix and how we want to compete in security as it relates to our overall -- when we look at our digital solutions, the importance of having that product mix within the portfolio.

And then the last is our fire suppression business continues to perform very well. I believe that we continue to gain share. We're up mid-single digits pretty much and that's pretty broad-based across the globe. When you look at our -- the Field businesses, we're up 4% and that's both install as well as service and it's broad-based.

It's across all three regions. There's been a big -- like I spoke earlier about our focus on building services. We continue to focus on how we build out our service capabilities. But overall I would say that we're performing -- we are performing at above the market with both our product and technology businesses as well as how we're executing projects and service.

Andrew Kaplowitz

Thanks guys.

Operator

The next question is coming from Deepa Raghavan, Wells Fargo. Your line is open.

Deepa Raghavan

Hey good morning all. Would you say at this time your Field backlog -- just given your Field backlog and your visibility into fiscal 2020, now your visibility is at least three quarters out? Or you think that's lower perhaps you declining? And any color on how that visibility splits across regions?

George Oliver

Yes. It's pretty -- what I would say is the -- if you look at our order rate in 2019, right, we had a good pace of order growth throughout the year. It was driven by pretty healthy end-market demand, pretty much across the Board, some softness in the Middle East and a few soft spots, but overall, pretty broad-based across all three of our regions.

With the work that we've been doing in expanding our salesforce as well as our service technicians, I think at the end of the day, we're positioned well now to be able to convert that. And if you look at the mix of projects, it's a balanced mix of small, mid, and large-sized projects.

And so what we do is we take that backlog and we look at how it's going to convert over the next year, much of which is in backlog. And with the continued -- as I said earlier, with the idea that there might be some -- a little bit of pressure here to maintain our mid to upper single-digit order growth that we've seen in the last two years, we're suggesting that might be more of the low to mid order growth that we're putting into the backlog that that's what then pretty much ties to our organic revenue growth of low to mid-single-digit for the year. And so again that's something we'll watch closely, but we are starting the year with a healthy backlog.

Deepa Raghavan

Got it. My follow-up would be on cadence of month. Can you talk about how the quarter progressed? I mean did momentum strengthen or weaken in any of your geographies or any of your Products or Field businesses? Thank you.

George Oliver

The -- just a clarification on that. So, how the quarter -- the quarters progressed through 2020?

Deepa Raghavan

No, the month -- and in the quarter how did your F Q4 -- fiscal Q4 progressed by month. Did you see increasing momentum as in or momentum decreasing in certain verticals or certain geographies?

George Oliver

Yes. I mean when we look at our businesses and it differs a bit. But typically the third month of the quarter is where a lot of projects close and a lot of the shipments get made. So, there is a little bit of an anomaly here on a quarterly basis where the third month is always our strongest which ultimately was the case in the fourth quarter.

So, I don't believe that there was any change in the profile of how the quarter played out with what we expected. I think we did see as we knew as the quarter played out that from a residential standpoint that was a little bit of where we saw additional softness from what we were expecting when we started the quarter. But that was probably the only spot that as the quarter played out, it didn't play out as we would have normally expected.

Brian Stief

Yes, I think the cadence in Q4 of fiscal 2019 was very similar to the cadence of the monthly in Q4 in 2018. So I don't think there was anything unusual at all.

Deepa Raghavan

Got it. Thank you for the color.

Operator

The next question is coming from Josh Pokrzywinski, Morgan Stanley. Your line is open.

Josh Pokrzywinski

Hi, good morning all.

Antonella Franzen

Good morning.

Brian Stief

Good morning.

Josh Pokrzywinski

Just wanted to follow-up on -- I think something has become a bit more topical recently, maybe more of the applied space than anything else. This whole concept of refrigerant upgrades, more energy efficiency, it seems like something that the whole industry has been talking about for decades on end. That's really starting to come into its own. George could you size for us, how much of the business is really around some of these kind of energy efficiency upgrades versus something that's more break-fix or maybe new install focused and how that's been doing?

George Oliver

Yes. So while there's a couple of different questions, I guess embedded in that question. When you look at what we do today, certainly as we're bringing new products to the market they are more efficient. They're in higher demand. And ultimately there's a payback from an energy standpoint. So I think consumers and even from a B2B standpoint when you're -- when we do a performance solutions, we bring our new equipment. It delivers energy efficiency. We deliver value and ultimately we get paid for that value.

I think for all of us we are anticipating -- there's a lot of pending legislation around HFC refrigerants. And ultimately what's that going to mean? We're taking a very active role and we support bipartisan federal legislation being introduced that gives the EPA authority to phase down the high global warming potential of HFC refrigerants in a manner that's consistent with the Kangalee amendment in the Montreal protocol.

That being said is we want to work with the industry as a whole in -- with a consistent approach to the HFC transition rather than a patchwork of individual state laws, targeting different sectors or having different transition date. So all of the investments that we've made is -- in our R&D is to develop new low GWP product platforms. A good example is our YZ chillers in anticipation of these regulations.

And so we're very active in the industry, making sure that as we project what's going to happen here from an efficiency standpoint, making sure that we're delivering the highest efficiency, as well as being able to drive the regulation appropriately. That's what our commitment is. And we believe that that would benefit our customer’s, shareholders as well as the environment.

Josh Pokrzywinski

And then just a follow-up. If I remember back to the Tyco days and I think early in the integration there were parts of the products business, I think around oil and gas that showed a little bit of surprising cyclicality that were a drag on the business. I think today those are probably some markets that are a little choppy themselves. Is that something that's still in the portfolio? Did some of that leave with Scott? Maybe just kind of update us on how that's performing relative to the whole?

George Oliver

Yeah. So the -- what remains is our fire suppression business has a strong position in the oil and gas space with high hazard technologies that they bring. And so -- and as we said earlier that business is actually continuing to perform very well. And when we look at our field based businesses, obviously, we restructured a lot of those businesses in the downturn. And we've been very careful in how we grow those businesses on a go-forward basis, capitalizing on where we believe the opportunities are and ultimately where we don't want to play. So, our footprint is much smaller than it was back then without the Scott Safety business as well as the way that we've restructured our field businesses over that time period.

Josh Pokrzywinski

Got it. It’s helpful. Thanks for the color.

Antonella Franzen

With that operator I'd like to turn the call back over to George for some closing comments.

George Oliver

Yes. Just to wrap up here today, I want to thank everyone for joining our call this morning. We have made a tremendous amount of progress this year. And we'll build upon that momentum in 2020 as we laid out our guidance and I am looking forward to seeing many of you soon. So operator that concludes our call.

Operator

That will conclude today's conference. All parties may disconnect at this time.