Danaher Corporation (DHR) CEO Thomas Joyce, Jr. on Q3 2019 Results - Earnings Call Transcript

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Q3: 10-24-19 Earnings Summary

Press Release *Slides*

EPS of $1.16 beats by $0.01 | Revenue of $5.04B (3.80% Y/Y) beats by $15.99M

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Danaher Corporation (NYSE:DHR) Q3 2019 Results Earnings Conference Call October 24, 2019 8:00 AM ET

Company Participants

Matt Gugino - Vice President of Investor Relations

Thomas Joyce, Jr. - President and Chief Executive Officer

Matt McGrew - Executive Vice President and Chief Financial Officer

Conference Call Participants

Tycho Peterson - J.P. Morgan

Derik De Bruin - Bank of America Merrill Lynch

Vijay Kumar - Evercore ISI

Scott Davis - Melius Research

Doug Schenkel - Cowen and Company

Steve Beuchaw - Wolfe Research

Dan Brennan - UBS

Operator

My name is Kathy and I will be your conference facilitator today. At this time, I would like to welcome everyone to the Danaher Corporation's Third Quarter 2019 Earnings Results Conference Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. [Operator Instructions]

I will now turn the call over to Mr. Matt Gugino, Vice President of Investor Relations. Mr. Gugino, please go ahead.

Matt Gugino

Thanks, Kathy. Good morning, everyone. And thanks for joining us on the call. With us today are Tom Joyce, our President and Chief Executive Officer, and Matt McGrew, our Executive Vice President and Chief Financial Officer.

I'd like to point out that our earnings release, the slide presentation supplementing today's call, and the reconciliations and other information required by SEC Regulation G relating to any non-GAAP financial measures provided during the call are all available on the Investors section of our website, www.danaher.com, under the heading Quarterly Earnings.

The audio portion of this call will be archived on the Investors section of our website later today under the heading Events & Presentations and will remain archived until our next quarterly call. A replay of this call will also be available until October 31, 2019.

During the presentation, we will describe certain of the more significant factors that impacted year-over-year performance. The supplemental materials describe additional factors that impacted year-over-year performance.

Unless otherwise noted, all references in these remarks and supplemental materials to company-specific financial metrics relate to the third quarter of 2019, and all references to period-to-period increases or decreases in financial metrics are year-over-year. All references to individual operating company operating margins exclude the impact of intangible amortization.

We may also describe certain products and devices, which have applications submitted and pending for certain regulatory approvals or are available only in certain markets.

During the call, we'll make forward-looking statements within the meaning of the federal securities laws, including statements regarding events or developments that we believe or anticipate will or may occur in the future.

These forward-looking statements are subject to a number of risks and uncertainties, including those set forth in our SEC filings, and actual results may differ materially from any forward-looking statements that we make today. These forward-looking statements speak only as of the date they are made, and we do not assume any obligation to update any forward-looking statements, except as required by law.

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

Thomas Joyce, Jr.

Thank you, Matt. And good morning, everyone. We're pleased with our strong performance in the third quarter as we delivered 5% core revenue growth and solid core margin expansion. We believe our ongoing investments in innovation and commercial initiatives help to continue building sustainable competitive advantages across a number of our businesses.

We also made meaningful progress on our two most recent portfolio moves, the acquisition of GE Biopharma and the initial public offering of our dental business.

During the quarter, we achieved several important milestones related to the GE Biopharma. Earlier this week, we announced that we signed an agreement to sell certain businesses to Sartorius for a purchase price of $750 million.

The revenue to be divested is approximately $140 million and consists of our label-free biomolecular characterization chromatography hardware and resins, microcarriers and particle validation standards businesses. All of these businesses are part of our life science platform.

While the sale to Sartorius remains subject to certain regulatory approval, it represents a significant step in the GE Biopharma regulatory process. Timing around meeting certain closing conditions such as regulatory approvals can, of course, be uncertain. However, we remain very encouraged by the progress we're making and expect to close the GE Biopharma transaction in the first quarter of 2020.

Additionally, we recently announced that the business will be called Cytiva when it officially becomes part of Danaher. The name is derived from Greek and Latin roots, meaning cell and doing. And everything biopharma customers do relate to the use, growth or analysis of cells.

The name may be new, but the Cytiva logo, or the drop, is actually a reference to the iconic Pharmacia brand of the business going back to the 1960s. Pharmacia was a pioneer in the development of process chromatography and was one of the first businesses to become part of GE Biopharma. We received terrific feedback on the reintroduction of the drop logo as we look to build on its legacy under the new Cytiva brand.

And lastly, we continue to make progress on the financing of the GE transaction. In September, we raised approximately $6.8 billion in euro-denominated debt. We raised this debt at a combined interest rate of less than 1%, with an average maturity of approximately 14 years. We anticipate raising the remaining debt required to finance the transaction prior to year-end.

On September 18, our dental platform, now called Envista, started trading as a public company on the New York Stock Exchange under the ticker NVST. I want to thank Amir Aghdaei and all of the Envista associates for their contribution. We wish them the very best as they embark on this exciting new endeavor.

Envista released their third quarter earnings earlier this morning and will be holding a conference call at 11 AM Eastern Time to discuss those results. We ask that you direct any questions on Envista's business performance through the Envista team.

So, turning to our third quarter results. Sales grew 4% to $5 billion, with core revenue growth of 5% on a consolidated basis and 6% core revenue growth when excluding the results of our dental segment.

Acquisitions increased revenues by 0.5%, while the impact of foreign currency translation decreased revenues by 1.5%.

Geographically, high-growth markets increased high-single digit, with China growing at that rate, while Russia and Eastern Europe both grew double-digits. Developed markets increase mid-single digits, with North America leading the way.

Gross margin for the third quarter was 55.8%, up 40 basis points year-over-year. Operating profit margin was 16.6%, with core operating margins increasing 70 basis points, led by our Life Sciences and Diagnostics segments.

Now for the third quarter results across the portfolio. In Life Sciences, reported revenue increased 6%, with 6.5% core revenue growth. Operating profit margin increased by 60 basis points, with core operating margins expanding 100 basis points.

At segment Life Sciences, we believe we continue to grow above the market as core revenue increased double-digits. We saw strength across most major geographies and product lines as new product introductions continued to contribute meaningfully to core revenue growth.

In particular, we believe [indiscernible] cytometry with the CytoFLEX platform and dry reagents as these innovative product lines are simplifying customer workflows.

Additionally, Labcyte, the automated liquid handling business we acquired earlier this year, is growing double-digits and has exceeded our initial expectations.

Core revenue at SCIEX declined slightly, in part due to a tough year-over-year comparison as the business grew nearly 10% in the third quarter last year. We saw strength in high-growth markets, and that was offset by softness in North America and Western Europe.

At Pall, the team achieved high-single digit core revenue growth as we saw good performance in both the developed and the high-growth markets. The biotech and aerospace businesses saw the largest increases, offset by continued softness in microelectronics.

August marked the fourth anniversary of our acquisition of Pall. Over the last four years, with the application of Danaher Business System, Pall has accelerated core revenue growth, expanded gross margins by greater than 500 basis points to approximately 55%, and increased operating margins nearly 1,000 basis points to above 25%.

Implementing DBS tools has not only enhanced the financial performance, but also improved operational efficiency, expanded commercial capabilities and increased the cadence of innovation across the business.

Turning to IDT. IDT delivered another quarter of double-digit core revenue growth with solid results across all major geographies. By product line, the business saw particular strength in next-generation sequencing and synthetic biology.

In August, IDT continued to expand its product portfolio in the high-growth areas with the launch of a new product, oPools, the longest strands of ready-to-use DNA on the market.

IDT's proprietary manufacturing process allows them to create DNA at the highest quality levels, enabling scientists focused on developing advanced diagnostic tests and treatments, to generate more consistent and reliable results in their research.

Now moving to Diagnostics. Reported revenues increased 6.5%, with core revenue growth of 8%. Reported and core operating profit margins increased by 100 basis points. DBS-led commercial and operational execution drove performance across the Diagnostics platform.

Beckman Diagnostics had its fourth consecutive quarter of mid-single digit core revenue growth, driven by strength in high-growth markets and increases in North America. A key driver of Beckman's improved growth performance has been its increased cadence of new product introductions.

At the American Association for Clinical Chemistry tradeshow in August, Beckman highlighted a number of these recent innovations, including the DxH 900 high-volume hematology analyzer, as well as the DxA 5000 laboratory automation systems.

The DxH 900, with its early sepsis indicator, has been a key contributor in the improved performance in Beckman's hematology business.

In automation, the DxA 5000, which was launched in Europe earlier this year, recently received 510(k) clearance from the FDA. The system's key benefits of detecting pre-analytical sample quality, increasing turnaround time and reducing the number of manual processing steps from 32 to 4 are driving early adoption and great customer feedback.

Turning to Radiometer. Core revenue growth increased double-digits led by strong results in China and Japan as we believe the team drove market share gains in our blood gas and immunoassay product lines.

Leica Biosystems also delivered double-digit core revenue growth, led by North American and Japan. Success at Leica is being driven by new product introductions combined with the implementation of growth rooms, one of our most impactful DBS commercial tools.

Growth rooms enable cross functional teams to collaborate and align actions around the businesses' most critical short and long-term commercial initiatives.

With this focused approach, Leica's core histology and advanced staining product lines delivered mid-single digit core growth or better in each of the last eight quarters.

Finally, at Cepheid, core revenues increased double-digits across all major geographies and product lines. Next month will mark Cepheid's third anniversary with Danaher and we could not be more pleased with what the team has accomplished.

Since acquisition,, the business has grown double-digits annually to nearly $1 billion in revenue. Gross margins have expanded by 1,000 basis points to approximately 50%. R&D investments have increased by over $50 million annually, while operating profit margins have increased from breakeven to approximately 20%.

Cepheid highlights another powerful example of how running the Danaher playbook by applying DBS to drive growth and expand margins allows for investments back into the business that helps drive compounding returns.

Moving to our Environmental & Applied Solutions segment, reported revenues increased 0.5%, with core revenue growth increasing at 2%. Operating profit margin remained constant, with core operating margins expanding 10 basis points.

In Product Identification, core revenue declined slightly, driven in part by tough prior-year comparisons at Videojet, partially offset by growth in our packaging businesses.

At VJ, core revenue declined low-single digits on a nearly 10% comparison to the third quarter last year. Despite the results of the quarter, we're encouraged by a positive order growth and expect improved performance in the fourth quarter.

Last month, at the annual PACK EXPO tradeshow, Videojet showcased some of its recent instrument and digital innovations. On the instrument side, Videojet highlighted the VJ 7340 laser printer, featuring the smallest marking head available on the market today and allowing for easy integration into existing packaging lines.

Videojet also released Rapid Recover, a digital solution that automatically troubleshoots and diagnoses printer service issues. This functionality builds on Videojet's market-leading service capabilities and improves customer uptime by increasing first-time fixed rates and avoiding costly investigation time.

In our packaging businesses, which include Esko and X-Rite, core revenue increased at low-single digit rates, continuing the improving trends that we referenced in these businesses last quarter. Developed markets led the way, offsetting some softness in high-growth markets.

Finally, at Water Quality, solid execution across the platform drove mid-single digit core revenue growth on top of a double-digit prior-year comparison.

So, looking at performance by operating company, Trojan core revenue increased double-digits led by North America. The team saw strong performance in the municipal market in both its UV and filtration product lines, driven by high win rates and service expansion initiatives.

At Hach, core revenue increased low-single digits. Strong performance in Europe and North America was offset by declines in China due to a difficult comparison versus 2018 related to China's surface water initiative, Policy 61.

At ChemTreat, core revenue increased mid-single digits, driven by strength in the oil and gas as well as the food and beverage end markets.

In September, many of you attended our water quality platform investor day at Hach in Loveland, Colorado. On that day, we highlighted the key strategic initiatives of the platform. You also saw details on the sustainable business model that's common across Danaher, including strong underlying secular growth drivers, exceptional margin profiles and high recurring revenues.

The team provided examples throughout the day of customer-focused workflow solutions, innovation and go-to-market execution that we believe have led to share gains across Water Quality.

Finally, the day showcased the variety of tools within the Danaher Business System to accelerate the cadence of innovation and drive sustainable long-term results across the platform.

The presentation and webcast are available in the Investors section of our website and I encourage those who weren't able to attend the event to take a look.

So, to wrap up. We're very pleased by our third quarter performance and the hard work the team has put in throughout the year. It's also worth highlighting the steps we've taken over the last several years to transform the portfolio.

Through acquisitions, we brought in fundamentally higher growth businesses with significant consumables and aftermarket positions. Today, we consider 70% of our revenue to be recurring, with much of it being captive to our installed base and mission-critical to our customers' daily operations.

Combined with our significant organic investments in innovation and outstanding team, the Danaher Business System, we're excited about the opportunity through the end of 2019 and beyond.

So, we're initiating fourth-quarter adjusted diluted net EPS guidance of $1.32 to $1.35. We anticipate core revenue growth to be approximately 4.5% which excludes our Dental segment.

We now expect full-year 2019 adjusted diluted net EPS to be in the range of $4.74 to $4.77. Both our fourth-quarter and full-year EPS guidance include the dilution from noncontrolling interest related to the 19.4% of Envista we no longer own.

Matt Gugino

Thanks, Tom. That concludes our formal comments. Kathy, we're now ready for questions.

Question-and-Answer Session

Operator

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

Thomas Joyce, Jr.

Good morning, Tycho.

Tycho Peterson

Good morning. I'd like to start with the Diagnostics strength. You guys continue to put up great numbers there. Can you talk a little bit about how much of this is driven by the new hematology and automation launches? Can you comment on China? We've heard about some hospital issues there for Diagnostics. And here in the US, we did hear Quest the other day talk about vendor consolidation. Just curious how you think you're positioned as we go through that process with DxA 5000. Thanks.

Thomas Joyce, Jr.

Sure. Thanks, Tycho. A lot to cover there, starting with hematology. We've talked over the last several months, couple of quarters certainly, and most recently in my prepared remarks, about the impact of our new hematology product line. I think you probably know, Tycho, it's been in the works really since we acquired Beckman. That particular product line was a product line where we had some real challenges. And these new products, the DxH product line, particularly 900 with the early sepsis indicator, is making a significant difference. We have literally turned that business around from a business where we were not happy with our retention and our win rates to the point where now we're very happy with our retention and our win rates. And we're seeing growth in that business now that is having a material impact on the improved performance that you're now seeing from Beckman overall.

Relative to the overall growth of Beckman, however, it's not purely a hematology story. Improvements in our menu across the board, across each of the analytical modalities, improvements in our automation systems – I noted the DxA 5000 which is also having impact, particularly in labs that are really challenged in terms of throughput and skilled labor where we're reducing the need for skilled labor. It's really all of those things combined that are having impact on seeing that consistent mid-single digit growth rate that Beckman is now improving towards. So, I think it's a combination of things.

You asked specifically about China. We're seeing continued good performance in China. Beckman has always had a strong position in China. It's always been a key growth driver for us and it continues to be so. Clearly, it's is a highly competitive market, but we are extremely well-positioned there and continuing to see good growth, very high retention rates and very solid win rates as well.

You asked about vendor consolidation. And if I caught your question accurately, I think the question was related to North America. And assuming I heard that accurately, clearly, there's always an effort across hospitals today to drive cost reductions. Vendor consolidation is certainly a part of that. But, again, as we look at our win rates and our retention rates across our North American business which is, obviously, an important part of the overall profile of Beck Dx, we continue to see both improved performance there and sustained improved performance. And again, that's underpinning that greater consistency of improvement, in fact, throughout the quarter.

So, hopefully, I covered the water front. If I didn't, Tycho, happy to take a follow-up.

Matt McGrew

Tycho, it's Matt. Tom mentioned Beckman in China, but just to give you some context on Diagnostics overall in China because that might have been part of the question as well. So, from a diagnostics perspective, in China, we were double digit core here in the quarter, just to give you some sense of the overall market over there.

Tycho Peterson

Okay. And then, one follow-up on Life Sciences, 6.5% core against a 9.5% comp. That certainly stands out. Just curious how you think about the sustainability of that? A lot of that, I guess, Pall up high-single digit as well.

Thomas Joyce, Jr.

Sure. Tycho, we feel very good about the sustainability of our performance across Life Science. If we step back and we think about kind of Pall side of the house versus Life Science tools, Life Science tools continue to be mid-single digit across the platform. Our underlying businesses like Molecular Devices, like Microsystems, both mid-single digit performance. And then, Beck LS, as I mentioned in the prepared remarks, double-digit performance. So, on the tool side, really good performance. Obviously, a little bit more weakness in SCIEX, but we're very encouraged by the order trends that we see there. So, probably only one spot there that was maybe a little bit weaker. But, overall, I'd say the tool side very solid.

And then, across the Pall business and what we would see is really the biopharma side of Pall, again, very good performance there. A solid market that we see continuing to perform well. Our biopharma exposure is now north of a $1.5 billion, most of that obviously coming from Pall Biotech. Pall Biotech saw double-digit core growth in the quarter. That's six quarters in a row of double-digit core growth. And the order trends look very good. We're also seeing good sustained performance across single-use technologies and gene and cell therapies, which are showing double-digit core growth. Admittedly, some of those are smaller portions of the overall portfolio, but really good performance. And we think those are sustainable positions over time, and building.

Tycho Peterson

Okay. Lastly, could you give us the Pall industrial number?

Thomas Joyce, Jr.

Pall industrial, on the quarter, was…

Matt McGrew

Low-single digits, Tycho.

Tycho Peterson

Okay, thank you.

Operator

Your next question comes from line of Derik De Bruin, Bank of America.

Thomas Joyce, Jr.

Good morning, Derik.

Derik De Bruin

Good morning. Hey, did I catch you correctly, the fourth quarter guidance is 4.5% core growth ex-Dental?

Thomas Joyce, Jr.

That is correct.

Derik De Bruin

All right. Can you sort of walk-through just sort of the market dynamics as we get there? I think that's a little bit lower than what we would've thought on it? I'm just sort of curious what you're sort of like assuming in terms of year-end spending and sort of unpack that, walking through those numbers.

Thomas Joyce, Jr.

Sure, of course. As you know, I think just stepping back a second, we've had eight quarters in a row of mid-single digit core growth. And we think the fourth quarter is a mid-single digit growth rate quarter as well. However, there are a couple of timing dynamics relative to our most recent – to our third quarter versus the fourth quarter. So, particularly in Diagnostics where we saw like a biosystems or radiometer at double-digit core growth rates in Q3, little help from the VIT [ph] impact in Japan, those businesses will moderate a little bit off of that double-digit core growth in Q3. And also, a couple of timing issues relative to the Life Science side where we had a big Q3, particularly for Pall, where they were some large equipment orders across biotech and the industrial side that moved from Q4 into Q3.

So, really, we're talking about a little bit of timing impact there between Q3 and Q4, but we feel very good about our execution, very good about the underlying market dynamics across both Life Sciences and Diagnostics as well as across Water Quality and PID.

And when you then look at our fourth quarter guidance in light of the full year, we're still talking about a full year of 2019 at 5.5% to 6%, and that's very consistent with what we talked about for the last couple of quarters. So, in general, we would characterize that fourth quarter, relative to the third, as likely more to do with timing, but still feel very good about where we'll bring in the full year.

Derik De Bruin

Okay. That's helpful. And just out of curiosity, you talked a little bit about Western Europe and what's going on there, and specifically just wondering if some of the bioprocess strength you've seen or some of the stuff you've seen is potentially related to pull forwards in – because people are worried about Brexit and stuff. We've heard that from other companies recently that there may be some spending patterns that we've seen this year, can you talk about anything you're seeing in the European trends and sort of how that market is shaping up into the close?

Thomas Joyce, Jr.

Sure. We are not seeing any sort of unusual procurement behavior in that regard in Western Europe. Europe, overall, across Q3 was performing at about a low-single digit rate. That's down a little bit clearly from the first half. We've seen a bit of softness in certain pockets, like at Videojet, a bit at SCIEX and a bit at like a Microsystems.

As we look at where those pockets of softness, I think they really speak to some of the overall macro softness in Europe because when we unpack where some of the differences are between the first half and the second half, it largely looks to be around instrumentation and equipment, some of the larger capital spend, some of the OEM customers, for example, in the packaging world, those are the areas where we some of that softness. So, I would attribute that low-single digit performance in Europe a little bit more to the macro softness in Europe than I would some – any unusual procurement behavior going on one way or the other.

Derik De Bruin

And that's stuff that's not sort of have been into the research labs, it's more the industrial…

Thomas Joyce, Jr.

That's right. Those are the areas that would speak a little bit more to the industrial side of the house. Admittedly, we're not – with our low percentage of the portfolio that's literally industrially exposed, we're not a terrific proxy, but we can certainly see a few of those pockets, whether it's in North America or in developed Europe where some of that macro slowdown exists. But again those are pretty small pockets.

Derik De Bruin

Great. Thank you.

Thomas Joyce, Jr.

Thank you.

Operator

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

VijayKumar

Thanks for taking the question, guys. And congrats on a nice print here. So, Tom, maybe one big picture question for you to start off with. On a pro forma basis, when you look at the assets, some of the comments you made on DBS and how underlying growth for acquired business have improved, if I just look at the numbers, the core Danaher is, call it, a mid singles core. Ex-Dental, that helps your core. And now GE comes in with DBS, this seems to be a solid mid singles. And even if macro were to soften going forward, it seems like that mid-single digit, that stable, strong, mid-single digit piece that should be pretty much intact. So, I'm just curious on that pro forma growth outlook on how you guys are looking at it?

Thomas Joyce, Jr.

Well, Vijay, first of all, I think your summary of the portfolio today is an accurate one. We've made tremendous progress in the evolution of the portfolio towards establishing that mid-single digit growth performance. And I think we've done that with businesses that have demonstrated, over time and over cycles, their stability in driving that consistent kind of growth performance.

Now, some of that comes from being in terrific markets with leading positions in those markets, but it also comes from the nature of the balance of sale whereby, as I mentioned earlier, with 70% of our revenue roughly being recurring revenue, largely in the form of consumables that are captive to the instrumentation and with the addition of service and other associated aftermarket, the combination of being in great markets with leading businesses and that strong aftermarket consumables position is what gives us confidence that we built a portfolio that is designed to be sustainable over macro cycles.

Now, that doesn't mean that we are completely immune, as I just mentioned about a couple of soft spots here and there that could be geographic or could be where we have a little bit of exposure to a more industrial-oriented market. But in general, we've built a portfolio to that effect.

And, yes, the addition of the GE Biopharma business is but one more significant step in reinforcing that kind of market position. So, we feel very good about that looking forward into 2020 and beyond.

VijayKumar

That's helpful, Tom. And, Matt, one quick one for you on this fourth quarter guidance. It looks like the guide implies a solid market expansion in Q4. One, am I right in my math on that solid margin expansion and maybe comment on where this is coming from, OpEx versus IGM?

Matt McGrew

Yeah, it's probably going to be a little bit of both on the gross margin side and the OpEx. But the way that I kind of think about – I think you're right, Vijay. I think the way that we kind of think about the Q4 guide, especially with some of the noise in there with the NCI and the FX, we're kind of talking about 4.5% core growth, kind of a normal solid 35% fall through. And really, that NCI headwind of call it a couple of pennies is really the only change here that we've sort of made to the guide, if you will. But, yeah, I think you're right, we anticipate having pretty good fall through like we normally would expect here in the fourth quarter. I suspect it will be a little bit on the gross margin side and probably with that comes the operating leverage as well.

VijayKumar

Thanks, guys.

Thomas Joyce, Jr.

Thanks, Vijay.

Operator

Your next question comes from the line of Scott Davis with Melius Research.

Thomas Joyce, Jr.

Hi, Scott. How you're doing?

Scott Davis

Great. It's easy covering your company. Every quarter, you put up decent numbers and not exactly sure what you make and what you sell, but it's working.

Thomas Joyce, Jr.

Scott, you know we love to make life easy for all of the visitors on this call. One of our goals, among many.

Scott Davis

I don't know if I might be the last industrial guy left, but you're not going to get rid of me that easily.

Thomas Joyce, Jr.

That's okay. Welcome back. What's up today?

Scott Davis

So, I've got two questions for you, Tom. The first is just the asset sales. Maybe a little bit of color around how this – was this a compromise with the regulators, was this something the regulators requested, was it US regulators or was it more globally geared? Just a little bit more color on that.

Thomas Joyce, Jr.

Sure, Scott. Well, when we initially announced this deal, we did it with the clear understanding that regulators were going to do what obviously they would do in a deal of this magnitude, and that that would be done across the span of regulatory bodies from the US to Europe, other countries and certainly to China. And so, eyes wide open that those reviews would take place and that there was always a prospect that there could be a small portion of the GE portfolio or the Danaher Life Science portfolio that the regulators may have questions about.

And so, the sale of the businesses that we announced earlier this week to Sartorius was really a function of what we believe were very constructive discussions with regulatory bodies across the world and with a clear understanding of what the rationales were from their perspective as well as ours, and this is simply something that regulatory bodies along with us came to the point where we thought – where both parties thought that this made sense. And so, it really was a series of globally-oriented conversations and made sense to take that step.

Scott Davis

Okay. Good color. And then, just since it's the four year anniversary of the Pall deal, just curious to see kind of some of the deltas in the model. Where have things come out versus revenues or things come out versus margins? Doesn't have to be exact numbers, but the pluses and minuses. And kind of at the end of the day, are you going to make the double-digit return promise, assuming things continue in 2020? Once you hit that year five, approaching year six, are you on target to hit the original targets that you laid out?

Matt McGrew

Yeah, Scott. It's Matt. So, I think if you kind of look back at maybe the two core metrics, if you will, that we sort of talk about with deals, if you think about core growth at Pall, so when we kind of bought Pall, I would say it was more of a low-single digit core growth business, in that over the course of, let's say, last, I guess – like you said, four years here, the team has done a really good job at kind of taking DBS – in particular, DBS on the growth side and the innovation side and really changing that fundamentally to be more of a mid-single digit plus type growth rate. So, I think you've seen a significant progress on the top line.

As far as kind of OP goes, I think when that business came in, it was kind of a high teens type of OP. Today, we sort of own that business at, call it, a 1000 basis points better than that. So, we've made really good progress on kind of the team coming in there and taking out some of the costs that we knew were there. I think, if you remember, we talked about kind of a cost target at the initial that was kind of $300 million. I think we took that up even to $350 million ultimately. So, from an ROIC perspective, I think that so far as we stand here, I would stay that that exceeds where we thought we would be.

Scott Davis

Okay. Well, congratulations on that. Thank you, guys.

Thomas Joyce, Jr.

Thanks, Scott.

Operator

Your next question comes from a line of Doug Schenkel with Cowen.

Thomas Joyce, Jr.

Hey, Doug.

Doug Schenkel

Hey, good morning, guys. So, I guess, first a question on interest rates. So, the interest rate on the Eurobond was under 1%. Recognizing you still need to issue the rest of the debt and probably a good chance it's going to come in at a rate that is at least slightly higher than the Eurobond, it still seems like you're going to have some upside relative to the deal model you shared with the investment community originally. So, by our math, every 50 basis points of lower interest rate translates into about $0.10 of earnings upside. Does that seem reasonable and should we expect you to let this flow through or is there likely to be some reinvestment?

Matt McGrew

Yeah. I think the numbers that you're quoting on the Eurobond are accurate, obviously. I don't think – and we do still need to do the US deal here. And like you said, I suspect that will probably be at a higher rate, but we will get to that in the fourth quarter.

I think as far as kind of trying to think through the deal model, I think I would say, at this point, we are not trying to update, if you will, kind of the GE accretion. We're, obviously, going to have some moving pieces here. You're going to have a little bit of a headwind, though modest, from the divestitures that we just announced on Monday. Obviously, just talked about likely some favorable financing costs so far on the Eurobond deal. Also, likely to have a business in the GE Biopharma business that when it – it's had a pretty good year here in 2019. So, I think the way to think about it is we will kind of holistically pull all of that together for you when we do update the guide, so that we can kind of incorporate all of that at one time.

Doug Schenkel

Okay. Thank you for that. And very quick follow-up related to the deal as well and following up on the last question on divestitures. Based on where you are in the regulatory process and the fact that you did announce those divestitures earlier this week, how would you characterize the probability that additional divestitures could be required from here on out?

Thomas Joyce, Jr.

Well, Doug, as you saw in the announcement – first of all, those divestitures are pretty modest on a relative basis at $140 million. So, less than 5% of the revenues that we are going to acquire. But, of course, the regulatory process is a fluid one. So, while we believe this was a significant – a major step towards approval, at this point, we can't comment on this any further. It was an important milestone. But as we commented, we don't expect either this deal to close, nor the actual formality of those approvals to be completed until the first quarter and, therefore, closing immediately following that. We can't comment any further about any prospects for any further actions.

Doug Schenkel

Okay. Totally understood. Maybe just a couple on the quarter. First, on Diagnostics, core margin expanded 100 basis points and was ahead of our forecast. Could you talk through some detail on that performance? And specifically, I'd be curious how Cepheid margins are progressing and how growth improvement at Beckman is really contributing to this performance?

And then, just on Pall, it seems like the bioprocessing market is growing broadly at a very strong 15-plus percent rate based on what some of your peers have reported over the last few days. I think you noted that Pall Biotech grew double digits. Is it reasonable to believe that you're growing Pall Biotech at least at that 15% plus level that we're hearing from others? Thank you.

Thomas Joyce, Jr.

Doug, I'll take the Biopharma piece first and Matt will jump back in on the Dx margins. Yes, the simple answer is, what you are hearing from other sources around the growth in the bioprocessing market overall as being a double-digit growth rate market and a very attractive one, and one by the way that we and obviously others believe is sustainable in terms of its growth prospects, we at Pall are clearly benefiting from that and taking advantage of that opportunity to drive that kind of growth. We did put up double-digit growth within that business, and that's across obviously our filtration business, which is fundamental to biologic drug production, but also includes growth in the really innovative ends of the spectrum around Biopharma which is really around single use technologies which are becoming increasingly important as biological drugs are being produced in smaller and smaller batch sizes for unique patient populations, as well as in the growth areas around cell and gene therapy, which while being somewhat nascent today are going to be significant growth drivers in the future and we are participating in that growth today with outstanding products and I think a series of new products that will be coming over time that we're very excited about.

Matt McGrew

Yeah, Doug. As far as the Dx margins go, in particular in the quarter, I think we had a pretty good performance generally speaking out of all of the businesses, but I would call out both like a biosystems and radiometer. Those are some of our higher margin businesses and, obviously, both of those growing sort of in the double-digit core growth. Certainly helps the margin performance. But, overall, I think it was pretty good with a little bit of a boost here from those businesses that had been kind of sort of high-single digits here year-to-date, turning in kind of a low-double digit performance in the quarter. So, I think that's a big ramp of it.

As far as Cepheid's margins go, again, it's sort of similar to the Pall story. I think the team there has done a fantastic job of really balancing growth, while also focusing on the margin side of it. And they've done a really nice job of kind of embracing DBS and leading from the front. And today, I think when we bought it, it was sort of a – maybe a breakeven type business from an OP perspective. And today, those margins are, call it, 20% or so from an EBITA [ph] perspective.

Thomas Joyce, Jr.

Thanks, Doug.

Operator

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

Steve Beuchaw

Hi. Good morning and thanks.

Thomas Joyce, Jr.

Good morning

Steve Beuchaw

I had just a couple for Tom and then one for Matt. Tom, I wonder if you wouldn't mind unpacking the number at SCIEX a little bit. I'd say prospectively, you mentioned that you saw some really good trends on orders. It would be helpful to know a little bit more about what you're seeing. And then, for the quarter, SCIEX is a little bit unique relative to some tools businesses, in that you have a clinical exposure. It would be nice to hear how you saw the relative trends in that business between clinical, some of the core applied markets where you have a good presence. And then, to the extent you have any comment on what you're seeing on pharma on the R&D, that would be really helpful.

Second question is just more of a global question on municipal and broader government project demand. You're uniquely well positioned to have a view on how that's tracking.

And then, I'll go ahead and, Matt, ask you just one. And more of a prospective, big picture question. You have a lot of moving parts in the model given that we're divesting Dental and we have GE coming into the fray, looking for the majority of 2020. Can you just talk prospectively about the impact on earnings and cash to the extent you can, associated with those transitions? If you can give us any update on the thinking, so we know how and maybe some of it's below the line to think about those items going forward. Really appreciate the help here.

Thomas Joyce, Jr.

Sure, Steve. Thanks. So, let's start with SCIEX. You heard my comment accurately that while SCIEX was down slightly in the quarter, we are, in fact, encouraged by the order trends that we're seeing and we do in fact expect some improved performance in the fourth quarter.

When we look at the quarter itself, third quarter, we clearly were up against a tough comp. SCIEX, so I think I mentioned was up nearly 10% in the third quarter of last year. So, certainly, a bit of a challenge from a comp standpoint. But we did see some – outside of that, some softness in North America. A little bit of that was timing of some larger deals in the second half between Q3 and Q4, but also – and this does get a little bit into some of the market segments that you asked about. We are seeing the consolidation of some small and midsize reference labs, and that has created a bit of a headwind there.

You asked about specifically the clinical market, and SCIEX has certainly had a position in clinical over time, but over the last couple of years, we've seen a number of challenges in that market that are not unique to SCIEX. Just broadly defined challenges around changes in reimbursement and guidelines around pain management, for one example. And, certainly, the impact both across small and midsize labs are related to those challenges in clinical.

So, SCIEX was really built on the back of tremendous strength and depth of technologies and capabilities around pharma. Small molecule certainly originally and more recently around large molecule positions. And those positions continue to be reasonably good, particularly biopharma which, obviously, is a growth segment. Core small molecule pharma was much more modest in its growth globally. Academic was actually – remain pretty good really across North America and China. And I think, overall, we think SCIEX is going to continue to be a leader in that market, a real innovator and one where, over time, we'll see a pickup after third quarter.

You asked about the municipal market. And our exposure to the municipal market or the government market is, for the most part, associated with our Water Quality platform. And in that case, the term municipal is probably more appropriate to our position really than any broader governmental construct, at least in the US. And what we've seen most recently in the US and in Europe would be that municipal spending has generally been pretty consistent. And that's what's driven the mid-single digit growth rates that we put up at Water Quality across the US and Western Europe. And that applies certainly to Hach, it applies to Trojan and a bit to ChemTreat, although ChemTreat tends to be more associated with applied markets.

In China, where we continue to see good performance for our Water Quality platform, albeit against a very tough comp associated with what's called Policy 61, which we noted in the prepared remarks, that market is continuing to be an outstanding market. And, yes, it is largely associated with government or, in particular, environmental ministry oriented regulations, such as Policy 61 which drove an increased level of monitoring in surface waters across China last year. That will continue to be a positive dynamic across water quality. So, right now, we see pretty consistent and steady performance around both municipal spending in the developed markets as well as a little bit more governmental orientated attention to environmental issues in the high growth markets.

Matt McGrew

And, Steve, as far your kind of – your question on the moving pieces with GE and Dental, I think maybe the way I think about it is sort of that, from an EPS perspective, obviously, Q4, there's no GE impact. And we talked a little bit here earlier about all the moving pieces that are there and, obviously, as we get a little closer to close, we will update all of that for 2020. But as far as Q4, obviously, nothing to think about.

As far as Q4 goes for EPS for Envista, the NCI, I kind of put a placeholder of maybe $0.02 in there for the NCI for the fourth quarter. And then, as far as kind of cash flow goes, I think that was your next question. If you think about, we sort of talked about GE coming in at maybe roughly $1 billion worth of cash flow and Envista will kind of be out there, I think, talking to you guys about their own 2020 cash flow projections when they get a little closer. So, I don't want to kind of speak for them, but I think you can kind of pencil in that GE have call it a billion and we'll let Envista talk about 2020 cash flow when they talk to you guys later today.

Steve Beuchaw

Okay. Great details. Really appreciate the time here.

Thomas Joyce, Jr.

Thanks, Steve.

Operator

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

Dan Brennan

Thank you. Great. So, maybe a question just on Q3, Q4. Tom, I think you mentioned a few times, maybe a little bit of timing benefit or timing push out. And, obviously, with the size of Danaher, I'm sure there's always lots of small shifts. But just wanted to understand, was there a more pronounced timing benefit this quarter? And maybe could you just help us then think about – implicit in your fourth quarter guide, how do we think about kind of Life Science, Diagnostics and kind of EAS?

Thomas Joyce, Jr.

Sure, Dan. Yeah, I think perhaps a little bit of timing issue between Q3 and Q4 here and the margin would have been a little bit more pronounced than what we've seen. But I think if you look at the fundamentals underneath each one of the platforms, Life Science, Diagnostics and EAS, each one of them continued to perform quite well. Again, our exposure to the macro environment is somewhat limited in the sense of being a good proxy for an industrial slowdown. We don't have a lot of industrial exposure left. And so, we generally feel very good about how the overall platform will perform going through the fourth quarter and how we're set up for 2020.

Dan Brennan

Okay. Great. And then, you kind of touched upon my kind of second part of the question. Maybe could you help us think about, like maybe between your 70% recurring business on instrument side of the house, were there – you mentioned earlier in the call that there's a bit of pressure there from what you're seeing globally. It's a question we get a lot, like differentiating between Danaher and other players in the broader tool spaces, the global economy is getting softer. So, how do we think about kind of your instrument kind of growth rate kind of as we look out here with PMIs being a bit weak and the global economy slowing? Thanks, Tom.

Thomas Joyce, Jr.

Sure. Here's one sort of way to think about it, Dan, using some specific numbers. If you look at the third quarter, our consumables business was up, call it, 6% versus the equipment side of the house, which is up more like 4%. And so, if you think back to the last couple of quarters, those have been closer to even – about equal equipment versus consumables. Here you see the consumables number continuing to be quite strong and the equipment number being a little bit softer. And I think that's probably the best way to look at what is underneath some of the softness that I talked about that may be impacted by the macro environment across a business like Videojet, for example, or SCIEX or possibly like a Microsystems, probably to name three examples of businesses where the equipment side of the house is a higher percentage of the balance of sale than on average across the portfolio.

Dan Brennan

Great. Thank you.

Thomas Joyce, Jr.

You bet.

Operator

We have reached the allotted time for questions. I will now turn the call back over to Matt Gugino for closing remarks.

Matt Gugino

Thanks, Kathy. And thanks, everyone, for joining us. We're around all day for questions.

Operator

This concludes today's Danaher Corporation's third quarter 2019 earnings results conference call. You may now disconnect.