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MSA - Q2 2017 MSA Safety Inc Earnings Call

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AUGUST 04, 2017 / 12:30PM, MSA - Q2 2017 MSA Safety Inc Earnings Call

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## PRESENTATION

### Operator

Good day, ladies and gentlemen, and welcome to the MSA Second Quarter Earnings Call. (Operator Instructions) It is now my pleasure to introduce today's host, Paul Uhler, Vice President, Global HR and Corporate Communications. Welcome, Paul, please begin.

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**Paul R. Uhler** - *MSA Safety Incorporated - VP Global HR and Corporate Communications*

Thank you, Annette and good morning, everyone. I, too, would like to welcome you to our second quarter earnings conference call for 2017.

Participating on our call today are Bill Lambert, Chairman and Chief Executive Officer; Ken Krause, Vice President, Chief Financial Officer and Treasurer; and Nish Vartanian, President and Chief Operating Officer. The second quarter press release was issued late last night and is available on the MSA website at [www.msasafety.com](http://www.msasafety.com).

Before I begin, I need to remind everyone that the matters discussed on this call, excluding historical information, are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include, but are not limited to, all projections and anticipated levels of future performance. Forward-looking statements involve risks, uncertainties and other factors that may cause our actual results to differ materially from those discussed here. These risks, uncertainties and other factors are detailed in our filings with the Securities and Exchange Commission, including our most recent Form 10-Q, which was filed on April 28 of this year. You are strongly urged to review all such filings for a more detailed discussion of such risks. Our SEC filings can be obtained at no charge at [www.sec.gov](http://www.sec.gov) or on our website in the Investor Relations area.

MSA undertakes no duty to publicly update any forward-looking statements made on this call, except as required by law. In addition, I need to note that as part of our discussion this morning, we've included certain non-GAAP financial measures. These measures should not be considered replacements for GAAP results. Reconciliations to the most directly comparable GAAP measures are likely available -- likewise available in the Investor Relations section of the MSA website.

That concludes our forward-looking statement. So with that, it's my pleasure to turn the call over to our Chairman and CEO, Bill Lambert.

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**William M. Lambert** - MSA Safety Incorporated - Chairman and CEO

Thank you very much, Paul, and good morning, everyone. As always, I want to begin by saying thank you for joining us this morning and for your continued interest in MSA.

As you saw in our press release issued last evening, we recorded a \$30 million pretax charge related to product liability settlements recently reached, as well as estimated indemnity for all remaining asserted cumulative trauma claims. This charge did not have a cash impact in the quarter. These asserted claims relate to products we sold many, many years ago and were not previously recorded in our reserve. Ken Krause will address this in more detail in his comments. I'll spend my time discussing the performance of the business.

As you saw in our press release that was issued last night, we realized 10% adjusted earnings growth, despite a 2% revenue decline. When looking at our revenue results for the quarter, we saw 2 distinct trends playing out between the industrial areas of our business and the fire service. Across the industrial core products, we saw a growth of 7% in the quarter with double-digit increases in certain short-cycle products, like head protection and fall protection. The order book in these areas continued to show strength through July.

In the fire service, a challenging prior year comparison, combined with softer market conditions, drove a 12% decline in SCBA sales in the quarter, reducing our overall sales by about 4%. I will discuss all of our core product areas in more detail in just a moment here. But first, I'd like to call your attention to a few additional highlights for the quarter.

First, we launched our new state-of-the-art fixed gas and flame detection platforms, the Ultima X5000 and S5000 gas monitors for the energy and the industrial sectors. While there's a longer ordering and adoption cycle in the FGFD market, we are seeing strong interest across the market and already receiving positive customer feedback on this new FGFD platform.

Second, our value-creation programs continue to yield strong results. Quarterly SG&A expense of \$74 million reflects a \$2 million decline from a year ago on a reported basis or a \$3 million decline on an organic constant-currency basis. So yes, while we continue to place significant focus on cost-reduction opportunities and have made substantial progress in that area, we are committed to making investments that drive long-term sustainable growth. And we demonstrated that in the quarter with our recent acquisition of Globe Manufacturing, the leader in firefighter protective clothing, or turnout gear, as it's more commonly referred to in the fire service.

As previously announced in July, we completed the \$215 million acquisition of Globe Manufacturing. In just a bit, I will ask Nish Vartanian, our newly elected President and Chief Operating Officer for MSA, to discuss the Globe acquisition in more detail and give you some insight into our strategic rationale for the transaction. And then he'll turn the call over to Ken for a closer review of our financials.

First, I'd like to take a moment to recognize and congratulate Nish Vartanian on his expanded role as President and Chief Operating Officer. Nish has had a long and successful career at MSA marked by many accomplishments, notably the highly successful acquisition and integration of General Monitors and leading the MSA Americas segment through the G1 SCBA product launch. His leadership skills and deep knowledge of MSA and its end markets over his 32 years with the company, combined with his passion for serving customers, will be critical as we continue to execute growth strategies to capture market share and expand profitability.

So Nish, once again, congratulations to you.

Now back to our core product business and the trends that I've mentioned earlier that had some impact on our second quarter top line results. As I mentioned at the outset, our quarterly revenue declined by 2%, largely driven by lower SCBA sales and fewer shipments of ballistic helmets in Europe. These declines were partially offset by stronger results in industrial-related products, such as head protection, fall protection and fixed gas and flame detection instruments and sensors.

On the April call, we indicated that we were seeing good order flow across our industrial businesses. I'm pleased to report that we continue to gain momentum in the second quarter in these areas. Revenue in head protection, which historically has served as a leading indicator product for us, was up 15% in the quarter compared to a year ago. Our ability to offer best-in-class customization options for our customers drove stronger demand in the U.S., while the launch of the V-Gard 900 Series of hard hats provided a nice tailwind in our International segment.

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In fall protection, we saw overall growth of 16% year-over-year. We continue to convert opportunities across the utilities industry, construction, aerospace and the renewable energy sector. From a product standpoint, we are gaining traction in selling vertical and horizontal systems to utilities in the U.S., and we continue to see robust demand for Latchways Personal Fall Limiters. In fact, we more than doubled our Latchway sales in the Americas segment in the first half of this year. I'm really pleased with how our team is executing in this area and continuing to drive value from the Latchways acquisition.

While we saw a relatively flat environment in the U.S. market for FGFD systems, we did achieve more than 20% growth in FGFD sales in the International segment, primarily driven by strong shipment activity in the Middle East. After seeing double-digit increases in the first quarter in portable gas detection, large orders from the prior year in the U.S. and international are impacting the year-over-year comparisons in portable gas detection. On a sequential basis, portable instruments revenue is relatively consistent from the first quarter of this year. And our incoming orders in this area and in head protection are trending in a way that's similar to the levels that we saw back in 2014 when oil was at \$100 per barrel.

Moving on to SCBA sales in the fire service. We saw some headwinds develop in the quarter with revenue declining 12% from a year ago. Looking back to our second quarter results of 2016, you can see that we realized nearly 20% growth in SCBA sales in the Americas segment and more than 25% growth in International SCBA in that time period. So tough comparisons related to this period a year ago, but we are also seeing some more challenging market conditions in the U.S. fire service. Our confidence remains high that we continue to convert competitive accounts at a rate of about 50%. But it feels the overall market has been softer in 2017 compared to 2016 and 2015. We feel that is only temporary.

Based on the timing and sheer volume of the post 9/11 firefighter grants and the opportunity pipeline that we have identified, we believe that the replacement cycle is ongoing, and we will continue to see elevated demand over the next couple of years. However, as we move away from the pent-up demand we saw at the beginning of the cycle, the timing of replacement and overall market size may be somewhat choppy from quarter-to-quarter. What is encouraging to us is the customer feedback that we continue to receive related to the G1 SCBA, which is evident in our market share statistics.

According to the International Safety Equipment Association, our market share was 46% on a unit basis in Q1 2017. This is nearly 20 points -- this is a nearly 20-point gain in market share from before the replacement cycle began. The G1's advanced features, including the integrated thermal imaging camera, one rechargeable battery and a flexible upgradeable software platform positioned the G1 as the SCBA platform for the future. We continue to see one way ahead for additional market share gains, but as I mentioned a moment ago, market demands may be uneven from quarter-to-quarter moving forward.

Before I conclude my commentary, I wanted to take a moment to recognize a highly valued and respected leader on the MSA team. Recently, Ron Herring announced his intention to retire from the company effective October 1 of this year. Over the past 6 years, as President of MSA International, Ron has provided strategic leadership on transformative projects, such as Europe 2.0. And he has managed through challenging conditions across many of our emerging markets.

Before his time abroad, Ron was responsible for MSA's global engineering and marketing functions, where he played particularly important roles in opening our China R&D center, globalizing our NPD and branding processes and driving the success of MSA's core product focus. It goes without saying that we are all very grateful for Ron's tremendous dedication to MSA and our customers and for his many contributions to our success over more than 3 decades with us. We all wish Ron the very best in health and happiness in his retirement.

At this point, I would like to turn the call over to Nish Vartanian to discuss the Globe Manufacturing acquisition. Nish?

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**Nishan J. Vartanian** - MSA Safety Incorporated - President and COO

Thanks, Bill, and good morning, everyone. As Bill mentioned earlier, I'd like to take a few minutes to discuss our recent acquisition of Globe Manufacturing and the strategic rationale for what we see is a very exciting deal for MSA and Globe.

While we've established a market leadership position in SCBA through R&D investments, we see in Globe a great opportunity to penetrate another large segment of the firefighter personal protective equipment market. Globe is a New Hampshire-based, family-owned manufacturer of firefighter



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protective clothing, which is more commonly known in the industry as turnout gear. In 2016, Globe had revenues of about \$110 million supported by 420 employees across 4 U.S. locations. Over 90% of Globe sales are domestic and the balance is in Canada.

Similar to MSA, Globe has been protecting the health and safety of firefighters for a very long time. 130 years to be exact. Over that time, Globe has been an industry-leading innovator, introducing many of the materials, designs and construction methods that are now commonplace in turnout gear today. One of Globe's latest innovations is an athletic inspired line of turnout gear called ATHLETIX, which features lightweight breathable fabrics that allow for maximum range of motion. Including ATHLETIX, Globe carries approximately 10 different styles of turnout gear, each offering different features, performance materials, styles, customizable options and price points. Given their broad range of turnout solutions, Globe appeals to both metropolitan and rural fire departments and allows them to find the best fit for firefighters of all shapes and sizes.

To give you a better idea of the market opportunity, industry research indicates that the North American market for Firefighter PPE approximately \$750 million to \$800 million in total size. Market includes turnout gear, SCBA, fire helmets, fire boots and gloves. Turnout gear is the largest segment of the market, close to 50%. And Globe is the market leader in this area.

While we're discussing market dynamics, it's worth noting that the turnout gear business does not operate with the same buying cycles as SCBA. The turnout market growth rates over the past several years had been relatively consistent in the low to mid-single-digit range. And the product is replaced much more frequently than SCBA. The maximum product life allowed by NFPA standards is 10 years for turnout gear. In practice, the lifespan depends on the type and amount of field use for the garment. But generally speaking, the typical or average useful life of turnout gear is more like 3 to 5 years compared to the life cycle of SCBA, which is typically 10 to 15 years. So while SCBA revenue can be cyclical and closely linked to replacement cycles, the turnout gear business is more of a consistent revenue stream over the long term.

Our strategic rationale for the acquisition centers on expanding our leadership position and providing head-to-toe solutions in a key customer segment, North American fire service. Helping to keep firefighters safe has been the long-standing element of MSA's mission. Now by offering turnout gear, in addition to SCBA and fire helmets, this acquisition broadens our core product portfolio in an end market where we have deep history, knowledge and strong brand equity.

I should also note this transaction positions us to respond to a prominent industry trend: The significant mindset shift regarding firefighter health and wellness. This trend is driving a need for multiple sets of turnout gear and more frequent product replacement. With Globe now under the MSA umbrella, it goes without saying that we will be well positioned to meet those needs as well as any potential increase in product demand related to this heightened focus. As Bill and Ken have indicated in the past, we're fully committed to making investments that -- to drive value for our shareholders, and that's exactly what we anticipate with this latest acquisition.

With that, I'd like to turn it over to Ken for his financial review. Ken?

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**Kenneth D. Krause** - MSA Safety Incorporated - CFO, VP and Treasurer

Thanks, Nish, and good morning, everyone. I'd like to take some time to walk you through our financial results and to provide more insight into the drivers of performance. Additional information will be available when we file our Form 10-Q with the SEC.

Let's start with a few highlights. The industrial sector continues to gain traction. Industrial and market-related core product revenue was up 7% in the quarter. And we continue to see good momentum in fall protection and head protection products, both up over 15%. While fixed gas and flame detection is starting to show growth as well, up 11% in the quarter.

Gross profit was up 40 basis points year-over-year. And while we saw a favorable product mix in the quarter, we were also able to expand product margins across many of our core areas in the quarter.

SG&A expense was down \$2 million on a reported basis for the quarter and \$5 million for the year-to-date period. On a constant-currency organic basis, excluding cost-related acquisitions, SG&A is down \$3 million in the quarter and \$7 million for the year-to-date period. We're tracking very well against our full year cost savings target of \$10 million.



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Free cash flow continues to be healthy, and conversion was over 100% of net income in the quarter and over the past 12 months, even excluding the success we had in collecting our insurance receivables over the past year. The stronger cash flow and profitability that we have seen over the last year provided us with the opportunity to increase our dividend by 6% in May; while at the same time, servicing debt going from 2.5x debt-to-EBITDA, following the Latchways acquisition to 1.2x at the end of the quarter. We are well-positioned to use our excess capacity for growth investments like the Globe acquisition Nish just spoke about, which I'll provide more details on in just a bit.

We continue to make great progress in collecting our insurance and notes receivables as well. We collected \$22 million in insurance proceeds in the quarter, bringing our total year-to-date collections to \$110 million. As I've discussed on the calls for several quarters now, we have had great success settling disputed insurance with a number of our carriers. Of course, the other side of the insurance receivable is the underlying product liability. As you saw in our press release issued last night, we recorded a \$30 million pretax charge related to product liability settlements that we have reached in August of 2017, as well as estimated indemnity for all remaining asserted cumulative trauma claims. This charge did not have a cash impact in the quarter.

These asserted claims relate to products we sold many, many years ago and were not previously recorded on our reserve. However, we learned more about a significant number of claims throughout the second quarter, including the nature and extent of alleged injury, product ID and other facts that have provided us with the foundation to estimate our potential liability associated with the asserted claims.

This charge impacted our GAAP earnings by about \$21 million after tax or \$0.53 per diluted share. At a high level, the charge at the income statement reflects the total increase to the reserve we took, which was \$84 million, net of expected insurance collections and brings our total cumulative trauma reserve to \$93 million.

Breaking down the \$84 million increase to the reserve, about \$75 million of that is related to product liability settlements reached in August that allowed us to resolve a significant number of claims. By settling these claims, we have more certainty around our cash outflows related to this area in the coming years. We will pay \$25 million towards these settlements in the second half of 2017 with the balance to be paid equally over 7 quarters or about \$7 million per quarter starting in the first quarter of 2018 and ending in the third quarter of 2019.

The remaining increase to the reserve reflects estimated indemnity on all other asserted cumulative trauma claims. We are now fully reserved for all asserted cumulative trauma claims. We do not have a reserve, however, for unasserted or IBNR claims. And in the second half of 2017, we will follow our normal process related to assessing incurred but not reported claims.

I'd like to point out the fact that the cash impact of the payment -- for the payment of cumulative trauma product liability claims has been reflected in our cash flow statement for more than a decade as such claims were paid. Due to our ongoing success with respect to collected dispute -- collecting disputed insurance, we currently estimate that we have sufficient cash flow streams that should help fund this liability. Insurance-related receivables approximate \$186 million today. And going forward, we intend to utilize cash flows from collections on our insurance receivable to fund the recent settlements and future payments on asserted claims to the extent available.

Now let me walk you through the quarterly financial results. Constant currency sales were down 2% in the quarter. As Bill mentioned, softer conditions in the SCBA market in the current year and a difficult comp in ballistic helmets both weighed on our results. These 2 areas reduced overall sales by about 6% in the quarter. Both offsetting the declines in SCBA and ballistic helmets were strong improvements in the industrial sector, notably within head protection and fall protection, increasing 15% and 16%, respectively. The order book continues to be solid in these areas, particularly fall protection.

While incoming orders continues to be healthy in portable gas detection after posting a strong Q1, we were up against a tough comparison in this area during the second quarter. In fact, Q2 2016 was our strongest quarter for portable gas detection a year ago, reflecting 14% year-over-year growth.

While demand for short-cycle industrial products continues to gain traction, we also saw strength in FGFD this quarter, which grew 11% on large order shipments out of the Middle East. And during the first half, we saw orders come in ahead of our internal plan. Overall, we are pleased with the order pace in FGFD.



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Looking at noncore sales, which approximates just over 15% of total sales in the quarter, we continue to see weakness in ballistic helmets. You might recall, we had a large contract in 2016, notably across Europe. And that has and will present a headwind in noncore revenue again in the third quarter.

Gross profit continues to be a bright spot in our results, finishing 40 basis points higher than a year ago. While mix is more favorable, we also saw good underlying performance with improvements across a broad number of product groups in the quarter.

SG&A expense was down 2% or \$2 million from a year ago on a reported basis in the quarter. And as I mentioned at the beginning of my commentary, constant currency organic SG&A is down \$7 million year-to-date. We've seen solid improvements in our cost structure, driven by our value-creation programs.

For example, going back a few years in the first 6 months of 2014 before we began our focus on value creation, our SG&A expense was 30.7% of sales. In the first half of 2015, SG&A was 29.2% of sales. And by 2016, we had started executing on restructuring programs. And you saw SG&A come down to 26.9% of sales. In 2017, excluding costs associated with acquisitions, our SG&A was 26.5% of sales. That's over 400 basis points of operating leverage gained in 3 years through SG&A reductions. Looking forward, we continue to plan for \$10 million of cost savings in 2017 as a result of the steps we've taken to reduce our cost structure.

While we continue to evaluate additional streamlining opportunities moving forward, we remain highly committed to making investments that drive growth and market share gains in our core product areas, like R&D. We funded those activities at 4.1% of sales in the quarter. We are also leveraging up to invest in growth opportunities, like the Globe acquisition, as Nish discussed in his commentary. I'll talk more about the financials related to the deal in just a moment.

Back to the income statement review. Quarterly GAAP operating income was \$14 million, reflecting the product liability charge I discussed a few minutes ago. Adjusted operating income, excluding this charge, restructuring and currency exchange losses was \$48 million or 16.5% of sales, relatively flat from a year ago. But it's important to note the strategic transaction costs associated with acquisitions were dilutive to quarterly operating margin by 60 basis points and dilutive to year-to-date operating margins by 50 basis points.

Our tax rate this quarter was impacted by the product liability charge that we reported in the quarter and the windfall tax benefit associated with stock compensation I spoke about in the first year. Excluding the impact of the windfall benefit, we expect the full year adjusted ETR to approximate 30% to 31%, showing nice improvement from a year ago as we continue to see improvements in the geographic profile profitability.

We had quarterly GAAP earnings of \$13 million. And on an adjusted basis, earnings were healthy, up 10% to \$33 million or \$0.85 in the quarter compared to \$0.79 in the same quarter a year ago.

Operating cash flow was \$50 million in the quarter compared to \$24 million in the same period a year ago, continuing to reflect our ongoing progress in collecting our insurance receivable, partially offset by higher cash use for accounts receivables related to an uptick in sales in June. As I indicated on the April call, we had expected to receive between \$20 million and \$25 million of insurance proceeds for the remainder of 2017. And in the second quarter, we've received \$22 million of that cash from our insurance carriers.

Net of settlements paid, inflows related to product liabilities in the quarter were \$10 million compared to net outflows of \$27 million in this quarter a year ago. Additionally, we expect, at least, \$25 million of cash flow to be received in 2018 and expect additional amounts to be received in later years.

For the year-to-date period, we've collected about \$110 million of insurance proceeds. While that activity has certainly helped our cash flow and allowed us to delever quickly, our underlying cash conversion has been strong at over 100%. Our debt balance at quarter end was \$270 million, reflecting debt payments of \$28 million in the quarter and \$125 million in the first half.

At June 30, our leverage was at 1.2x EBITDA compared to 1.8x at year end 2016. We have a strong history of leveraging up for accretive acquisitions, including our most recent acquisition of Latchways, where we levered up to 2.5x and realized earnings accretion of \$0.13 per share in year 1.



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Through our evaluations of inorganic investments, we determined that the acquisition of Globe reflects a solid opportunity to use the balance sheet to drive value. The purchase price for this transaction, which closed just a few days ago, was \$215 million or 9x trailing EBITDA. And we financed it with our revolver, which carries an after-tax interest rate of less than 2%.

We expect the acquisition to be accretive to GAAP earnings by \$0.10 to \$0.15 per share and accretive to adjusted earnings by \$0.20 to \$0.25 per share in the first 12 months of ownership. Note that Globe's revenue was about \$110 million in 2016 and their EBITDA for the last 12 months was about \$24 million. Pro forma debt-to-EBITDA approximates 2x.

From a strategic and financial standpoint, this acquisition is a great value generator for MSA shareholders. Globe expands our core product portfolio in an end market where we have a deep history and knowledge, contributes earning accretions in the first 12 months and creates a cash flow stream that further enabled us to support our capital allocation priorities, including growth investments, dividend payments and debt service.

Before I turn the call back over to Bill, I wanted to make a few concluding comments. The revenue comparison was challenging in the quarter, but it is encouraging to see industrial products on a continued upward trajectory. Double-digit increases in head protection and fall protection, both short-cycle industrial products that tend to serve as leading indicators, are positive signs as we head into the second half. We still are planning for mid-single-digit total revenue growth for 2017 and low single-digit growth on an organic basis.

Our cost savings programs continue to yield strong results. On an organic constant-currency basis, SG&A is down \$3 million in the quarter and \$7 million in the first 6 months. The team is doing a great job in increasing efficiency and productivity, and you're seeing the benefits of those efforts in our streamline cost structure and higher incremental operating margins.

Our cash flow increased significantly in the quarter, and we have delevered from 1.8x EBITDA at the end of '16 to 1.2x at the end of the quarter. Our strong cash flow in the first half positions us well to use our balance sheet to drive value with the Globe acquisition, which we secured for a purchase price of \$215 million or 9x trailing EBITDA. An attractive multiple for strategic transaction, that is expected to contribute between \$0.20 and \$0.25 per share of adjusted earnings in the next 12 months.

In the second quarter, we became largely self-insured for cumulative trauma product liability claims. As a result, you will see product liability outflows hit the income statement in the future. Again, actual outflows have always been in our cash flow statement for more than a decade, but now both reserves and settlements paid will be reflected in earnings.

And as we discussed in our disclosures for several quarters now, we expect it to be largely self-insured in the near term. While the exact point in time when this transaction would occur was always difficult to predict because it relied on so many different factors, it did occur in the expected time frame. Furthermore, we are better positioned to fund these liabilities due to our recent success in settling disputed insurance. We currently have \$186 million of notes and insurance-related receivables. We have recorded \$110 million of insurance proceeds year-to-date and expect \$25 million of collections for 2018 with more collections in 2019 and beyond on the \$186 million of insurance-related receivables. We will use inflows from the insurance proceeds to fund the recent settlements, as well as future payments on asserted claims to the extent available.

As a result, we do not expect this liability to have any material impact on our current capital allocation priorities. Overall, we are positioned very well heading into the second half. We've made good progress in improving our cost structure and cash flow and investing in acquisitions like Globe to grow our business. Furthermore, our capital structure provides us with the ability to continue to invest in additional growth opportunities going forward.

With that, I'll now turn the call back over to Bill for some concluding commentary. Bill?

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**William M. Lambert** - MSA Safety Incorporated - Chairman and CEO

Sorry about that, Ken. I had my phone on mute. I apologize. But thank you, Ken.

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Despite the challenges on the revenue line related to SCBA, I'm encouraged by the continued strength that we are seeing in industrial products and the fact that we were able to generate double-digit earnings growth and strong cash flow in the quarter.

Looking forward, macro indicators are generally encouraging across many of our end markets. The U.S. manufacturing ISM Index HIT its highest point in 3 years in June, allowing manufacturers to add jobs. As many of you know, the key benefit of increased employment levels in industrial end markets is reflected in our order pace and head protection, portable gas detection and fall protection. Utilities continue to invest in grid modernization. And we are making inroads in supplying Latchways fall protection systems to these customers.

On the energy side, while we've seen a slight pullback in oil prices in the past couple of months, oil continues to trade in the same relatively tight band that it has been in for more than a year now. Other indicators, such as rig count, continue to point toward improvement in the industry, albeit slower than it was with the current rig count trending about 45% higher than this time a year ago and 15% higher than at the end of 2016. The strength we are seeing in industrial products provides optimism in these areas for the second half, but we continue to stay balanced in our outlook due to softer conditions in the SCBA market and in certain international regions. We look forward to integrating the Globe acquisition and continuing to make investments that drive profitable growth for our shareholders.

I want to thank you for your attention this morning. And at this time, we will be happy to take any questions that you may have. Please remember that MSA does not give guidance and that precludes most discussion related to our expectations for future sales and earnings. Having said that, we will now open the call up for your questions.

### QUESTIONS AND ANSWERS

#### Operator

(Operator Instructions) Our first question is from Edward Marshall, Sidoti & Company.

#### Edward James Marshall - Sidoti & Company, LLC - Research Analyst

Bill, I just want to follow up on the last question. You said certain international regions you're cautious about. Can you give me a list of what those regions are?

#### William M. Lambert - MSA Safety Incorporated - Chairman and CEO

Sure, Ed. It's primarily in the European segment where we're not seeing some of the growth that we had anticipated to see over there. Much of that is related to lower SCBA demand in the European region. The Middle East is a little bit choppy right now, but we're seeing some very nice performance out of Southeast Asia and very strong performance out of China. So those aren't the regions that I'm too concerned about. And South America continues to perform quite well against expectations in our plan.

#### Edward James Marshall - Sidoti & Company, LLC - Research Analyst

Got it...

#### William M. Lambert - MSA Safety Incorporated - Chairman and CEO

We lost you. Ed, you got cut off.

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**Operator**

(Operator Instructions) Our next question, Stanley Elliott from Stifel, Nicolaus.

**Stanley S. Elliott** - *Stifel, Nicolaus & Company, Incorporated, Research Division - VP and Analyst*

You guys mentioned some uptick and some orders in June. I heard head protection. I heard fall protection. That's probably what, like 15%, 20% of business. What other markets are you guys seeing or order momentum, particularly in the exit into July?

**William M. Lambert** - *MSA Safety Incorporated - Chairman and CEO*

Well, I think as Ken indicated -- Stanley, this is Bill. Yes, I think as Ken indicated in the call, I mean we saw good order growth in head protection and fall protection. We saw sales in the second quarter, up 15% in both of those areas. FGFD continues to run strong. We saw sales up 11% in the quarter there. And in the portable gas detection instruments area, we continue to see good performance and good incoming order flow. The challenge there from a sales reporting basis is just against the comparables from a year ago where the comps were very strong in the second quarter where we had large orders, both internationally and domestically, for portable gas detection. SCBA is the one area that we just saw some choppy performance that was unanticipated, but we don't think it's going to last. And we don't have a diminished outlook for what we see in the way of the replacement cycle. Nish or Ken, do you want to add to that?

**Kenneth D. Krause** - *MSA Safety Incorporated - CFO, VP and Treasurer*

Yes, Bill, the only thing I would add is on the FGFD side, it has been a bit of a nice surprise for us. It's trending slightly ahead of our internal plans. And to see 11% sales growth in that business globally was really nice to see, in addition to the slight uptick in growth in the Americas, which we all know has been relatively oppressed market, energy market for some time. So that's been a -- that has certainly been a bright spot for us as we head into the third quarter, Stanley.

**Stanley S. Elliott** - *Stifel, Nicolaus & Company, Incorporated, Research Division - VP and Analyst*

And on kind of the fixed gas piece, is it too early to start seeing sales improvements from some of the new products that were just launched? Or is this just kind of market recovery that we're seeing?

**William M. Lambert** - *MSA Safety Incorporated - Chairman and CEO*

Well, I think it's a little bit too early to attribute these increases in sales to the new products that we've just recently launched. Those products are getting a very nice reception in the marketplace, but this is more of a slower cycle market in the sense that, A, it's very capital dependent on projects; and B, in this type of area where you're protecting very expensive assets, there's a trial period and an approval process with the end-use customer not necessarily with the approval agencies, which we do have approvals for the products but with the customers. So the customers want to try this product out, these new technologies out. And so it's a much slower uptick or uptake, I should say, on these new technologies as we bring them to market. But the response so far has been very positive, and we're very optimistic of what these new products can do to the FGFD product line.

**Stanley S. Elliott** - *Stifel, Nicolaus & Company, Incorporated, Research Division - VP and Analyst*

And lastly, Bill, you mentioned kind of choppy unanticipated on the SCBA side. Could you guys give us a little more color on what happened with that? And then maybe what is -- what do we need to see to get that market recovering?



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**William M. Lambert** - *MSA Safety Incorporated - Chairman and CEO*

Nish, why don't you discuss the flow of AFG funds in the U.S. and how those were delayed for a full month out of that second quarter and the impact that, that had?

**Nishan J. Vartanian** - *MSA Safety Incorporated - President and COO*

Yes, Stanley. So we've got a nice pipeline of business. So we obviously have good clear line of sight to which fire departments are doing evaluations. And they're coming up on the end of their life cycle and getting in line to replace their SCBA. So we just saw, as the AFG funds were released and there was a bit of a slowdown in that, fire departments kind of paused in their purchasing process to see if they would get some funds. And then if they would not get funds, then they regroup and go back to the city fathers and try to get the funds in that manner. So we saw a bit of a slowdown in the market due to that, have a bit of a pullback on some of the purchases. But as Bill mentioned in his comments earlier, we're doing quite well in the marketplace. We -- the market share remains very strong at 46%. The conversion rate is about half the business where we continue to win. And the pipeline looks very much the same. We've got really good level of confidence in what we see with orders coming in, where that trend continues. And so we're confident that the level, the purchasing level of SCBA will be at this elevated level for the balance of the year and into next couple of years. So we're confident with the market going forward.

**Operator**

Next question from Rick Eastman, Robert W. Baird.

**Richard Charles Eastman** - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

Bill, Ken, Nish, just a last follow-up. Nish, you did comment about the, maybe the purchase level being in elevated level for SCBA kind of the second half. I mean when you look at last year, we had really strong comps in the first half. We have really easy comps now in the second half. So just kind of running out with the AFG funding, should we and should you expect to see again growth in SCBA in the second half against the easier comps and now with maybe funding released? Is that a reasonable assumption?

**Nishan J. Vartanian** - *MSA Safety Incorporated - President and COO*

Yes. We had a weak third quarter and a lot of it was tied to the AFG funding, very similar to this year. And then the fourth quarter was stronger as fire departments released the orders and we shipped in the fourth quarter. A lot of that will be time to -- tied to the timing of receiving the order and then also the percentage of departments, who are looking for certain accessories or add-ons, such as logo-ed cylinders. Logo-ed cylinders present a little bit of a pipeline issue for us where we're about 10-week delivery on that. So we start to butt up into the end of the year on some of those orders. So it's just a matter of timing of those orders. Bill talked about the choppiness of the business. When a fire department replaces, they replace everything. And so that business tends to be a little bit lumpy. So we could have a good second half versus a year ago. It's just a matter of the timing of some of these orders, getting them in the door and then getting them shipped back out.

**Richard Charles Eastman** - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

And how's the demand from an order standpoint? Or maybe just a channel feedback from your distributors there for the G1 with the integrated tick? Is that -- have you've seen an uptick in orders, interest? Maybe comment on that.



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**William M. Lambert** - *MSA Safety Incorporated - Chairman and CEO*

Yes. So that's actually a little bit better than we anticipated. We're slightly ahead of our internal targets on the iTIC with the G1. Some departments, a few departments, a handful buying those for all of their SCBA. Some others are buying one for every 4 units. They have one on every truck. And we have some departments looking at upgrades. So the reception of that has been good.

**Richard Charles Eastman** - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

Okay. And then just a question around, I hate to focus on the noncore business, but if you remove the noise around the ballistic helmet contract and strengthen that last year, is the noncore piece of the business, is it just kind of flat-lining? Or is there anything in there to focus on? Because obviously, it hurts the consolidated revenue number. But I'm just curious if you just make that adjustment, Ken, is noncore kind of flattish? Is it running out flattish?

**Kenneth D. Krause** - *MSA Safety Incorporated - CFO, VP and Treasurer*

Yes. It's choppy, but it very much is tied -- the success and failure in that core business is very much tied to the ballistic helmet business, which is extremely choppy, as you know. And so if you take that out, it's more of a flattish sort of number that you're seeing coming through the noncore business. And some of that, I just want to emphasize here, as we go forward and bring on Globe, that noncore business becomes an even smaller part of our business. So that's something that we just need to keep in mind as we move forward.

**Richard Charles Eastman** - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

I see. And then just one question around the settlements going forward, Ken. I think you had referenced now that this reserve established and then also being self-insured, so the GAAP P&L will move around based on payments. And also you saw the payment number. A payment number would run through, what, SG&A? And then a collection number runs through other income? So was there -- are you -- yes?

**Kenneth D. Krause** - *MSA Safety Incorporated - CFO, VP and Treasurer*

Yes, let's just pause there. It can be complex. So if we have a payment on a reserve that we've already taken, obviously it will come right off the balance sheet. So there'll be no P&L implication now for anything that we've already reserved as part of the second quarter accounting. If we have changes to the reserve, of course, changes either in our estimate or on the reserve, of course that would flow through the GAAP P&L. The insurance coming in will not go through the P&L. It's essentially a recovery of the insurance receivable that we've already booked. So -- but from a pure cash flow perspective, cash coming in and going out, it should, on an overall basis, be relatively closely aligned.

**Richard Charles Eastman** - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

Okay. And you would be able to kind of, "adjust out" any claims paid that were not reserved for?

**Kenneth D. Krause** - *MSA Safety Incorporated - CFO, VP and Treasurer*

That's exactly right...

**Richard Charles Eastman** - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

Will you show that...



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**Kenneth D. Krause** - MSA Safety Incorporated - CFO, VP and Treasurer

You would see that. If we have a claim that we would pay, Rick, that wouldn't be reserved for, you would see that come through the GAAP earnings number. We would certainly adjust for that as part of our adjusted earnings just like we have for some time. We've been self-insured for certain product liability claims, and we've accounted for those claims in the past as part of an adjustment. And we would continue to follow that same practice going forward.

**Richard Charles Eastman** - Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst

I see. And just one last question for Nish. When you think about Globe here and pulling and bringing Globe into the overall business, is there an opportunity for their turnout gear outside the U.S.? I know you mentioned Canada a little bit. Or is that, again, somewhat provincial market? In other words, if you wanted to do turnout gear in Europe, it's probably a different acquisition.

**William M. Lambert** - MSA Safety Incorporated - Chairman and CEO

Yes. We're going to explore some international opportunities. We think that there may be some pockets where -- for Globe. Globe brand is very strong on a global basis. People recognize it as a high-quality product. But the reality is to get into the market in a big way in Europe, you would have to do some local manufacturing or in a different location. So we're going to certainly explore opportunities, but that's not a big part of the thesis behind it.

**Operator**

Next question from Walter Liptak, Seaport Global.

**Walter Scott Liptak** - Seaport Global Securities LLC, Research Division - MD & Senior Industrials Analyst

So to follow up on Rick's question about the noncore and just to get a clarification. You said it will be smaller, but is there still going to be a tough comp in the third quarter?

**Kenneth D. Krause** - MSA Safety Incorporated - CFO, VP and Treasurer

Yes. In my prepared comments, Walt, I had mentioned that. As we finished the year last year, we certainly had -- we had some large shipments of ballistic helmets coming out. So as I indicated on the commentary, we do expect the ballistic helmet business to present some headwinds into the third quarter.

**Walter Scott Liptak** - Seaport Global Securities LLC, Research Division - MD & Senior Industrials Analyst

Okay, great. And then just to follow up on the concerns about the headwinds in Europe. I wonder if we could just get a little bit more color on how that -- how you guys became aware of the weakness. Was it something that showed up just recently, like in June? Or was there kind of a progressive slowing throughout the quarter? How was July doing, et cetera?

**William M. Lambert** - MSA Safety Incorporated - Chairman and CEO

Yes. This is Bill. I think that what we've seen in Europe has been a general slowness throughout the year, Walt, so it's not something that happened all of a sudden in the month of June, as you indicated. This is something that we have just not seen some of the traction there that we had hoped



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to see. And it's primarily to some of the fall protection installers that we have in North Europe associated with the Latchways acquisition. If we really peel it part, it has -- it's related to the installer performance. It's not quite where we thought it would be on Latchways. Now as I indicated, overall, fall protection was up 15% in the second quarter. So we were more than able to offset that decline in performance for North Europe. And the other area of performance that we did not see that we had anticipated in seeing was stronger SCBA performance in Europe. Now the comps there are quite difficult versus a year ago because we had some nice large orders. But we did see some slowdown on the SCBA front in Europe where, by the way, we don't sell the G1 SCBA. That SCBA is primarily in America's product. It's not really meant for the European market other than as a platform product. It has technologies and it has a price point that is just not favorable to the European market.

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**Kenneth D. Krause** - *MSA Safety Incorporated - CFO, VP and Treasurer*

The only thing I would add there, Bill...

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**Walter Scott Liptak** - *Seaport Global Securities LLC, Research Division - MD & Senior Industrials Analyst*

And just kind of a follow-on...

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**Kenneth D. Krause** - *MSA Safety Incorporated - CFO, VP and Treasurer*

I'm sorry, Walt. The only thing I would add on Europe business, just to put it in context. The European business is performing a bit below our expectations. But on a sequential quarter basis, we -- it's relatively flat. So it's not necessarily falling off any more rapidly from the first or the second quarter. It's still very much intact. I think we did something like \$60 million or \$65 million in the first quarter and \$60 million or \$65 million again in the second quarter with -- I think the core business was up low single digit on a sequential quarter basis. So it is performing below our expectations. We're a little disappointed with it. But on the flip side, it's -- we're not seeing further deterioration from a first to second quarter basis.

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**Walter Scott Liptak** - *Seaport Global Securities LLC, Research Division - MD & Senior Industrials Analyst*

Okay, got it. And as a follow on to Bill's comment about Latchways, the growth that you're seeing in the Americas is great. And I just wonder about the sell-through. Are going direct or through a distribution channel? And if it is distribution, can you parse out channel fill versus sell-through to customers?

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**William M. Lambert** - *MSA Safety Incorporated - Chairman and CEO*

Nish, maybe you could provide commentary on that with regard to the Americas where we've seen such strong growth. In the International and European parts of the business, Walt, we are using the traditional channels of distribution that Latchways had as well as expanding it into some of our industrial channels. But that has not gained quite the level of traction that we have in the Americas. The Americas has really taken off as we pulled that product line into our indirect channels of distribution. But Nish, why don't you provide a little more context on that?

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**Nishan J. Vartanian** - *MSA Safety Incorporated - President and COO*

Yes. We've had a lot of success through distribution. It's really the distribution sales and the success has been leveraging some of the other products that we have. So we've got a great position with the V-Gard and our hardhat line of products, and obviously, portable gas detection, with a broad range of distribution throughout the Americas. And we have good access to distribution. And they've really grabbed hold of and have run with the personal fall limiters that we have from Latchways. And the Latchways folks have done a tremendous job in keeping up with the demand of that product. So that's far exceeded our expectations. And then that product's also pulled through some other fall protection products, so we're doing quite well with getting a nice foothold with distribution throughout the Americas and in the growth has been strong. We saw -- we had some confidence in the fourth quarter of last year with some of the initiatives we put in place to try to drive that business. And it really started



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coming through here in a strong way in the second quarter. And we think we'll continue to do quite well throughout the year, so we're pretty optimistic on the fall protection.

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**Walter Scott Liptak** - *Seaport Global Securities LLC, Research Division - MD & Senior Industrials Analyst*

Okay, that sounds good. And then just last one, I guess for Ken, just on the balance sheet. The inventories looks a little bit higher than we were expecting. How do you guys think about the inventory level going into the back half?

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**Kenneth D. Krause** - *MSA Safety Incorporated - CFO, VP and Treasurer*

Yes. We did see a bit of an uptick in the inventory and receivables. Receivables with such a strong June invoicing month. But inventory, it's a conscientious effort to build a little bit of inventory to meet improved demand. And so it's something that we are actively trying to do to meet the ongoing demand that we're seeing in portable gas and head protection. So it's more of a concerted effort there. We think it's very -- working capital is still very healthy. I think we've finished the end of the quarter at 25% of sales. So we still feel we're positioned well to continue to hit our targets on free cash flow conversion of in excess of 100% conversion.

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**Walter Scott Liptak** - *Seaport Global Securities LLC, Research Division - MD & Senior Industrials Analyst*

Okay. In the last conference call, you guys talked about coming out with like the next level of operational performance program to get the operating margins up even higher. I wonder if there's any progress or when can we expect new metrics around operating margin.

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**Kenneth D. Krause** - *MSA Safety Incorporated - CFO, VP and Treasurer*

Well, that's a great question. We're making good progress on that front. With Nish's new position of President and COO, we're working collectively across the organization to look at our targets. And as I talked about earlier in the year, the second half, we'll probably start to think about rolling out new targets associated with margin profile and profitability. So stay tuned on that front. With that said, we are happy with the progress we've made so far. I mean having a quarter where we had an adjusted margin of close to 17% on a revenue of \$290 million is really good progress, and we think there's more progress to be made.

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### Operator

Our last question is from Brian Rafn, Morgan Dempsey Capital Management.

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**Brian Gary Rafn** - *Morgan Dempsey Capital Management, LLC - Principal, Director of Research, and Lead Portfolio Manager*

Bill, Ken, Nish, give me a sense -- nice acquisition on Globe Holding. What -- at \$110 million, what is their U.S. domestic market share? And how many players are there in that business?

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**William M. Lambert** - *MSA Safety Incorporated - Chairman and CEO*

Nish, you want to cover that?

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**Nishan J. Vartanian** - *MSA Safety Incorporated - President and COO*

Sure. So they have about 1/3 of the market. So their market share is roughly 1/3, 30% to 35% in that range. And there are 2 other major competitors. One is Honeywell's Morning Pride turnout gears, an acquisition that Honeywell made several years ago. And then privately held LION apparel, which is in Ohio. Those are the other 2 large players in the marketplace.

**Brian Gary Rafn** - *Morgan Dempsey Capital Management, LLC - Principal, Director of Research, and Lead Portfolio Manager*

Nish, you also said -- and I caught this in your comments that firefighters are looking at multiple sets of turnout gear or did I miss that?

**Nishan J. Vartanian** - *MSA Safety Incorporated - President and COO*

Yes, that's correct. So there is a bit of a trend in the industry, and there's potential for this in the future to pick up some steam where you have some fire departments that are buying multiple sets of turnout gear for firefighters. So they go out on a shift and they get involved in a scene. And they come back and send a set of turnout gear for laundering and then they have a backup set to wear for their next shift. So you're seeing some departments move in that direction. It's just heightened awareness around the fact that they want to keep the garments clean and get the debris off the garments. And so that is driving some departments to go to backup sets, so to speak, for firefighters. And we believe with the heightened awareness around health and safety for firefighters, we believe that there's potential for that to increase.

**Brian Gary Rafn** - *Morgan Dempsey Capital Management, LLC - Principal, Director of Research, and Lead Portfolio Manager*

Okay. Is there -- with Cairns Helmets, and certainly, with the G1 SCBA, are -- is there any ability to package these different components? Or is really the SCBA a separate issue from the turnout gear and the helmets?

**Nishan J. Vartanian** - *MSA Safety Incorporated - President and COO*

At this point, the evaluations are really somewhat separate. The Cairns Helmets fit in a little tighter with the turnout gear. A lot of times you'll see departments make head-to-toe purchases. So there may be some opportunity there. But the evaluations today are really stand alone. They'll look at the SCBA then the turnout gear, even boots, for that matter, they'll look at that in a lot of regard separately. So there is some opportunity for us. We're -- obviously, we have strong market share in all the core products within the fire service. And that gives us tremendous access to fire departments throughout North America. So it may be hard for us to find departments that don't use, at least, 1 MSA product today, especially now with the Globe product line. So it really gives us strong access to fire departments with strong market position and recognized brands.

**Brian Gary Rafn** - *Morgan Dempsey Capital Management, LLC - Principal, Director of Research, and Lead Portfolio Manager*

If you look at their -- you talked about having 4 manufacturing plants, what would be the age? How much CapEx technology, the ability to consolidate, maybe move stuff to an MSA plant? What do you see on the physical footprint?

**William M. Lambert** - *MSA Safety Incorporated - Chairman and CEO*

Yes, I'll jump in there. We don't -- I mean we see some opportunities on the cost synergies side, but it's -- really, if you look at the margin profile, the EBITDA margins, it certainly is an attractive business for us. So it's not a lot that we have to do on that side. And paying 9x for it also gives us an opportunity -- gives us a cause to kind of pause on that side as well. So it's really -- there's really not a lot you got to do on the synergies and not a lot of opportunities on that side. There's -- when we look at it, we get excited about the distribution and the channels and what we have now in terms of fire service market opportunities. So that's where we see some of the bigger opportunities, Brian, quite frankly.



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**Brian Gary Rafn** - Morgan Dempsey Capital Management, LLC - Principal, Director of Research, and Lead Portfolio Manager

Okay. Then on from a CapEx or a technology, are we looking -- I think it goes back to 1887. Are we looking at a floor of people doing hand stitching? Or is this robotic sewing? Or what are the opportunities with CapEx and technology with the 4 plants that they have, x any cost synergies?

**Kenneth D. Krause** - MSA Safety Incorporated - CFO, VP and Treasurer

Yes. There might be some opportunities on that side, but it is sort of a manual process. I'll tell you, when you look at the financial characteristics of it from a working capital perspective, I think they spend less than -- or they investment less than 15% of sales in working capital. So not very intensive on that side or on the CapEx side. So it's a good business for us. There are some opportunities as we move forward, but it certainly is an intact, very solid acquisition for us.

**William M. Lambert** - MSA Safety Incorporated - Chairman and CEO

Brian, one of the comments -- I'm sorry, Brian, one of the comments that I would make is it's an organization that we were really impressed with that the way they have focused on lean manufacturing and have adopted those techniques. If you think about the mass customization that has to go on in building firefighter turnout coat, like on the surface, you might not think that. But when you really dig into it on the numbers of models that we have, the types of clothing, outer shell, inner shell, moisture barrier, insulation, the color of the fabric, the name that goes on the back, how much retro reflectivity do you want, where do you want your hooks, where do you want your radio pockets, there's an amazing amount of customization that goes on with producing this gear. And the job that they have done from a lean manufacturing perspective is just amazing. So it's one of the things that really caught our eye. When you look at a business that is based on mass customization and a workflow that gets the product out the door quickly, it's quite impressive.

**Brian Gary Rafn** - Morgan Dempsey Capital Management, LLC - Principal, Director of Research, and Lead Portfolio Manager

Given that comment, Bill, are these guys of a quality that you could be selling into U.S. Air Force or Navy or NASA from the standpoint of fire fighting?

**William M. Lambert** - MSA Safety Incorporated - Chairman and CEO

Absolutely.

**Brian Gary Rafn** - Morgan Dempsey Capital Management, LLC - Principal, Director of Research, and Lead Portfolio Manager

Okay, okay. And then the procurement, the SCBA, a little more of a capital budget. You talked a little bit about AFG funds. You talked a little bit about going back to the city fathers in that. What's kind of the procurement cycle for more of the soft lines, the turnout gear? Is that less episodic, more continuous? Is it still viewed by a fire department as a capital budget item?

**William M. Lambert** - MSA Safety Incorporated - Chairman and CEO

Nish, I think you have a good handle on that. Maybe you can explain those buying behaviors.

**Nishan J. Vartanian** - MSA Safety Incorporated - President and COO

So now, the -- unlike breathing apparatus -- and I think I mentioned some of this in my comments. Unlike breathing apparatus, you don't have the large buying cycles that you have with the SCBA. The turnout gear, it's a very stable day-to-day, week-to-week business. And I put it in a category of something like our head protection, where it's just a good steady flow of business. So what you'll find is firefighters will replace their turnout gear as it wears out, so it's not unusual. The order size for them is 4 sets of turnout gear. So the department will go out and replace 4 sets of turnout



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gear for 4 different firefighters or order 4 new sets. So they're typically fairly small orders. And in fact, when a fire department switches from one brand to another, it's somewhat unusual for them to swap out all the turnout gear at the fire department. They'll just do that over time with individual firefighters. So the business is, it's a nice steady flow of business. And again, like SCBA, city fathers or because budgets might be a little tight, they might delay a purchase or eliminate some of the accessories that they'll get. But the bottom line is, is you have to have turnout gear for firefighters. And the maximum life on the turnout gear is 10 years. But typically, they last about 3 to 5 years before, especially in heavy-use fire departments. In a 3-year period, they'll replace it.

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**Brian Gary Rafn** - *Morgan Dempsey Capital Management, LLC - Principal, Director of Research, and Lead Portfolio Manager*

Good. I appreciate those comments, Nish. Just one more for you, Bill. You talked a little bit about SCBA. You kind of gotten through that pent-up demand. Given the new fire standards, what might your sense be from a metropolitan urban fire departments to the volunteer world, relative to their upgrades with SCBA. You talked, "Yeah, we think we'll get 2 more years." Where might we be? Might we be 40% through that, 60%? If you had any anecdotal information.

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**William M. Lambert** - *MSA Safety Incorporated - Chairman and CEO*

Yes. I think that Nish has a very good handle on this actually, but I'll give you my perspective. I would think that we're probably around that, the mid-innings in this replacement cycle, Brian. I think we've got a ways to go. There's plenty of runway. Yes, we had a little bit of choppiness here in the second quarter. But as I said in my commentary, we're still very optimistic about what remains. And so I would put us probably 50% to 60% through that replacement cycle, but clearly a few more years to go. Nish, any additional comments there?

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**Nishan J. Vartanian** - *MSA Safety Incorporated - President and COO*

Yes, Bill. That's exactly where we are on that. We're about halfway through the market, the buying cycle. We have the 18 standard coming, which will be in the latter half of 2018. That's not a significant standard. There'll be some changes on the breathing apparatus. We're in a great position with what they're discussing on as far as the changes in the standard. That should not be significant for us. So we'll have that standard change in '18. And I expect '19 and '20 to be pretty good years for breathing apparatus purchases.

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**Brian Gary Rafn** - *Morgan Dempsey Capital Management, LLC - Principal, Director of Research, and Lead Portfolio Manager*

Good. It sounds like a great acquisition.

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**William M. Lambert** - *MSA Safety Incorporated - Chairman and CEO*

Thank you, Brian.

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**Paul R. Uhler** - *MSA Safety Incorporated - VP Global HR and Corporate Communications*

If you have no more questions, that will conclude today's call. If you missed a portion of the call, an audio replay and a transcript will be available on our website for the next 90 days.



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