



## MSA Announces Record First Quarter Results

Apr 23, 2018

**Growth in core product business, strategic acquisitions, and streamlined cost structure drive GAAP earnings growth of 125 percent and adjusted earnings growth of 76 percent**

PITTSBURGH, April 23, 2018 /PRNewswire/ -- Global safety equipment manufacturer MSA Safety Incorporated (NYSE: MSA) today reported results for the first quarter of 2018.



# The Safety Company

### Quarterly Highlights

- Revenue was \$326 million, increasing 23 percent from a year ago on a reported basis and 18 percent on a constant currency basis. Excluding the recent acquisition of Globe, organic revenue was up 7 percent on a constant currency basis.
- GAAP operating income was \$44 million or 13.6 percent of sales, compared to \$19 million or 7.0 percent of sales in the same period a year ago. Adjusted operating income was \$55 million or 16.8 percent of sales, compared to \$33 million or 12.5 percent of sales in the same period a year ago. Adjusted operating margin expansion of 430 basis points was driven by improved gross profit and operating expense leverage.
- GAAP earnings were \$32 million or \$0.83 per diluted share, compared to \$14 million or \$0.37 per diluted share in the same period a year ago. Adjusted earnings were \$39 million or \$1.01 per diluted share, compared to \$22 million or \$0.58 per diluted share in the same period a year ago.

### Comments from Management

"Our first quarter results reflect continued strength in our key end markets and geographies, and strong execution of our focused growth strategy," said William M. Lambert, MSA Chairman and CEO. "Double-digit revenue growth was supported by growth across all of our core product lines as well as returns on the acquisition of Globe. After reducing our cost structure by more than \$25 million in 2016 and 2017, we were able to drive quarterly earnings growth of 76 percent on revenue growth of 23 percent," he said. Mr. Lambert added that the company has seen a step-change in its profitability profile over the past several years.

"We are pleased with the strong start to 2018 and are encouraged by the favorable dynamics we're seeing across both our industrial and fire service end markets. Our quarterly revenue growth and improving order book reflect the traction we are gaining from efforts to strengthen our leadership positions in each of our core product areas and market segments," Mr. Lambert said.

"The ongoing strengthening of key industrial markets and recent successes in our global fire service business has provided the backdrop for a very solid start to 2018. Our focus now is on sustaining that level of performance while continuing to diligently manage our cost structure. Our improving order book - coupled with our streamlined cost structure and benefits of U.S. Tax Reform - positions us well to continue increasing shareholder value in 2018 and beyond," Mr. Lambert concluded.

MSA Safety Incorporated  
Condensed Consolidated Statement of Income (Unaudited)  
(In thousands, except per share amounts)

|                       | Three Months Ended March 31, |            |
|-----------------------|------------------------------|------------|
|                       | 2018                         | 2017       |
| Net sales             | \$ 325,894                   | \$ 265,765 |
| Cost of products sold | 178,555                      | 146,043    |
| Gross profit          | 147,339                      | 119,722    |

|   |                  |                  |
|---|------------------|------------------|
| Selling, general and administrative   | 80,250           | 76,786           |
| Research and development  | 12,548           | 10,998           |
| Restructuring charges   | 5,274            | 12,739           |
| Currency exchange losses, net   | 2,008            | 580              |
| Other operating expense   | 2,824            | —                |
| Operating income  | <u>44,435</u>    | <u>18,619</u>    |
| Interest expense  | 4,781            | 3,591            |
| Other income, net   | (2,340)          | (1,458)          |
| Total other expense, net  | <u>2,441</u>     | <u>2,133</u>     |
| Income before income taxes  | 41,994           | 16,486           |
| Provision for income taxes  | <u>9,505</u>     | <u>1,796</u>     |
| Net income  | <u>32,489</u>    | <u>14,690</u>    |
| Net income attributable to noncontrolling interests                             | <u>(118)</u>     | <u>(277)</u>     |
| Net income attributable to MSA Safety Incorporated                              | <u>\$ 32,371</u> | <u>\$ 14,413</u> |
| Earnings per share attributable to MSA Safety Incorporated common shareholders: |                  |                  |
| Basic   | \$ 0.85          | \$ 0.38          |
| Diluted   | \$ 0.83          | \$ 0.37          |
| Basic shares outstanding  | 38,216           | 37,766           |
| Diluted shares outstanding  | 38,778           | 38,593           |

MSA Safety Incorporated  
Condensed Consolidated Balance Sheet (Unaudited)  
(In thousands)

|  | <u>March 31, 2018</u> | <u>December 31, 2017</u> |
|--|-----------------------|--------------------------|
| Assets   |                       |                          |
| Cash and cash equivalents                                | \$ 124,883            | \$ 134,244               |
| Trade receivables, net                                   | 254,068               | 244,198                  |
| Inventories  | 171,203               | 153,739                  |
| Notes receivable, insurance companies                    | 3,463                 | 17,333                   |
| Other current assets                                     | <u>78,678</u>         | <u>72,783</u>            |
| Total current assets                                     | 632,295               | 622,297                  |
| Property, net  | 154,848               | 157,014                  |
| Prepaid pension cost                                     | 85,941                | 83,060                   |
| Goodwill   | 426,860               | 422,185                  |
| Notes receivable, insurance companies, noncurrent        | 59,954                | 59,567                   |
| Insurance receivable, noncurrent                         | 118,349               | 123,089                  |
| Other noncurrent assets                                  | <u>217,521</u>        | <u>217,614</u>           |
| Total assets   | <u>\$ 1,695,768</u>   | <u>\$ 1,684,826</u>      |
| Liabilities and shareholders' equity                     |                       |                          |
| Notes payable and current portion of long-term debt, net | \$ 26,780             | \$ 26,680                |
| Accounts payable   | 68,142                | 87,061                   |
| Other current liabilities                                | <u>178,482</u>        | <u>175,538</u>           |
| Total current liabilities                                | 273,404               | 289,279                  |
| Long-term debt, net                                      | 441,426               | 447,832                  |
| Pensions and other employee benefits                     | 173,840               | 170,773                  |
| Deferred tax liabilities                                 | 10,249                | 9,341                    |
| Other noncurrent liabilities                             | 155,663               | 165,023                  |
| Total shareholders' equity                               | <u>641,186</u>        | <u>602,578</u>           |
| Total liabilities and shareholders' equity               | <u>\$ 1,695,768</u>   | <u>\$ 1,684,826</u>      |

MSA Safety Incorporated  
Condensed Consolidated Statement of Cash Flows (Unaudited)  
(In thousands)

| <u>Three Months Ended March 31,</u> |
|-------------------------------------|
| <u>2018</u> <u>2017</u>             |

|  |                 |                  |
|--|-----------------|------------------|
| Net income   | \$ 32,489       | \$ 14,690        |
| Depreciation and amortization  | 9,671           | 8,752            |
| Change in working capital and other operating                                    | (24,807)        | 72,948           |
| Cash flow from operating activities  | <u>17,353</u>   | <u>96,390</u>    |
| Capital expenditures   | (3,241)         | (1,442)          |
| Property disposals and other investing   | 58              | 165              |
| Cash flow used in investing activities   | <u>(3,183)</u>  | <u>(1,277)</u>   |
| Change in debt   | (9,401)         | (96,437)         |
| Cash dividends paid  | (13,390)        | (12,455)         |
| Company stock purchases  | (2,673)         | (3,811)          |
| Other financing  | 848             | 6,267            |
| Cash flow used in financing activities   | <u>(24,616)</u> | <u>(106,436)</u> |
| Effect of exchange rate changes on cash,<br>cash equivalents and restricted cash | <u>1,363</u>    | <u>1,625</u>     |
| Decrease in cash, cash equivalents and restricted cash                           | <u>(9,083)</u>  | <u>(9,698)</u>   |

MSA Safety Incorporated  
Segment Information (Unaudited)  
(In thousands)

|                                   | Americas   | International | Corporate | Consolidated |
|-----------------------------------|------------|---------------|-----------|--------------|
| Three Months Ended March 31, 2018 |            |               |           |              |
| Sales to external customers       | \$ 209,129 | \$ 116,765    | —         | \$ 325,894   |
| Operating income                  |            |               |           | 44,435       |
| Operating margin %                |            |               |           | 13.6 %       |
| Restructuring charges             |            |               |           | 5,274        |
| Currency exchange losses, net     |            |               |           | 2,008        |
| Other operating expense           |            |               |           | 2,824        |
| Strategic transaction costs       |            |               |           | \$ 94        |
| Adjusted operating income (loss)  | 50,086     | 12,778        | (8,229)   | \$ 54,635    |
| Adjusted operating margin %       | 23.9 %     | 10.9 %        |           | 16.8 %       |

|                                   | Americas   | International | Corporate | Consolidated |
|-----------------------------------|------------|---------------|-----------|--------------|
| Three Months Ended March 31, 2017 |            |               |           |              |
| Sales to external customers       | \$ 166,568 | \$ 99,197     | —         | \$ 265,765   |
| Operating income                  |            |               |           | 18,619       |
| Operating margin %                |            |               |           | 7.0 %        |
| Restructuring charges             |            |               |           | 12,739       |
| Currency exchange losses, net     |            |               |           | 580          |
| Other operating expense           |            |               |           | —            |
| Strategic transaction costs       |            |               |           | 1,337        |
| Adjusted operating income (loss)  | 36,151     | 7,796         | (10,672)  | \$ 33,275    |
| Adjusted operating margin %       | 21.7 %     | 7.9 %         |           | 12.5 %       |

The Americas segment is comprised of our operations in the U.S., Canada and Latin America. The International segment is comprised of our operations in all other parts of the world including Europe, Africa, the Middle East, India, China, South East Asia and Australia. Certain global expenses are allocated to each segment in a manner consistent with where the benefits from the expenses are derived.

Adjusted operating income (loss) and adjusted operating margin are the measures used by the chief operating decision maker to evaluate segment performance and allocate resources. As such, management believes that adjusted operating income (loss) and adjusted operating margin are useful metrics for investors. Adjusted operating income (loss) is defined as operating income excluding restructuring charges, currency exchange gains / losses, other operating expense and strategic transaction costs. Adjusted operating margin is defined as adjusted operating income (loss) divided by segment sales to external customers. Adjusted operating income (loss) and adjusted operating margin are not recognized terms under GAAP and therefore do not purport to be alternatives to operating income or operating margin as a measure of operating performance. The Company's definition of adjusted operating income (loss) and adjusted operating margin may not be comparable to similarly titled measures of other companies. As such, management believes that it is appropriate to consider operating income determined on a GAAP basis in addition to these non-GAAP measures.

MSA Safety Incorporated  
Reconciliation of As Reported Financial Measures to Non-GAAP Financial Measures  
Constant currency revenue growth (Unaudited)  
Organic constant currency revenue growth (Unaudited)

## Consolidated

| Three Months Ended March 31, 2018  |                     |   |                            |                        |                               |                 |            |                |           |
|------------------------------------|---------------------|---|----------------------------|------------------------|-------------------------------|-----------------|------------|----------------|-----------|
|                                    | Breathing Apparatus | Firefighter Helmets and Protective Apparel <sup>(a)</sup> | Industrial Head Protection | Portable Gas Detection | Fixed Gas and Flame Detection | Fall Protection | Core Sales | Non-Core Sales | Net Sales |
| GAAP reported sales change         | 9 %                 | 209 %   | 13 %                       | 16 %                   | 20 %                          | 17 %            | 27 %       | — %            | 23 %      |
| Plus: Currency translation effects | (4) %               | (12) %  | (2) %                      | (4) %                  | (6) %                         | (6) %           | (4) %      | (5) %          | (5) %     |
| Constant currency sales change     | 5 %                 | 197 %   | 11 %                       | 12 %                   | 14 %                          | 11 %            | 23 %       | (5) %          | 18 %      |
| Less: Acquisitions                 | — %                 | 198 %   | — %                        | — %                    | — %                           | — %             | 13 %       | — %            | 11 %      |
| Organic constant currency change   | 5 %                 | (1) %   | 11 %                       | 12 %                   | 14 %                          | 11 %            | 10 %       | (5) %          | 7 %       |

(a) Firefighter helmets and protective apparel includes the impact of the Globe acquisition, completed on July 31, 2017.

Management believes that constant currency revenue growth is a useful metric for investors, as foreign currency translation can have a material impact on revenue growth trends. Constant currency revenue growth highlights ongoing business performance excluding the impact of fluctuating foreign currencies, which is outside of management's control. Organic constant currency revenue growth is defined as constant currency revenue growth excluding acquisitions. Management believes that organic constant currency revenue growth is a useful measure for investors to provide an understanding of MSA's standalone results. There can be no assurances that MSA's definition of constant currency revenue growth or organic constant currency revenue growth is consistent with that of other companies. As such, management believes that it is appropriate to consider revenue growth determined on a GAAP basis in addition to these non-GAAP financial measures.

## MSA Safety Incorporated

## Reconciliation of As Reported Financial Measures to Non-GAAP Financial Measures

## Constant currency revenue growth (Unaudited)

## Organic constant currency revenue growth (Unaudited)

## Americas Segment

| Three Months Ended March 31, 2018  |                     |   |                            |                        |                               |                 |            |                |           |
|------------------------------------|---------------------|---|----------------------------|------------------------|-------------------------------|-----------------|------------|----------------|-----------|
|                                    | Breathing Apparatus | Firefighter Helmets and Protective Apparel <sup>(a)</sup> | Industrial Head Protection | Portable Gas Detection | Fixed Gas and Flame Detection | Fall Protection | Core Sales | Non-Core Sales | Net Sales |
| GAAP reported sales change         | 1 %                 | 470 %   | 12 %                       | 15 %                   | 16 %                          | 26 %            | 30 %       | (4) %          | 26 %      |
| Plus: Currency translation effects | — %                 | (1) %   | — %                        | — %                    | — %                           | (2) %           | — %        | — %            | (1) %     |
| Constant currency sales change     | 1 %                 | 469 %   | 12 %                       | 15 %                   | 16 %                          | 24 %            | 30 %       | (4) %          | 25 %      |
| Less: Acquisitions                 | — %                 | 476 %   | — %                        | — %                    | — %                           | — %             | 20 %       | — %            | 17 %      |
| Organic constant currency change   | 1 %                 | (7) %   | 12 %                       | 15 %                   | 16 %                          | 24 %            | 10 %       | (4) %          | 8 %       |

(a) Firefighter helmets and protective apparel includes the impact of the Globe acquisition, completed on July 31, 2017.

Management believes that constant currency revenue growth is a useful metric for investors, as foreign currency translation can have a material impact on revenue growth trends. Constant currency revenue growth highlights ongoing business performance excluding the impact of fluctuating foreign currencies, which is outside of management's control. Organic constant currency revenue growth is defined as constant currency revenue growth excluding acquisitions. Management believes that organic constant currency revenue growth is a useful measure for investors to provide an understanding of MSA's standalone results. There can be no assurances that MSA's definition of constant currency revenue growth or organic

constant currency revenue growth is consistent with that of other companies. As such, management believes that it is appropriate to consider revenue growth determined on a GAAP basis in addition to these non-GAAP financial measures.

MSA Safety Incorporated

Reconciliation of As Reported Financial Measures to Non-GAAP Financial Measures

Constant currency revenue growth (Unaudited)

Organic constant currency revenue growth (Unaudited)

International Segment

| Three Months Ended March 31, 2018  |                     |  |                            |                        |                               |                 |            |                |           |
|------------------------------------|---------------------|--|----------------------------|------------------------|-------------------------------|-----------------|------------|----------------|-----------|
|                                    | Breathing Apparatus | Firefighter Helmets and Protective Apparel | Industrial Head Protection | Portable Gas Detection | Fixed Gas and Flame Detection | Fall Protection | Core Sales | Non-Core Sales | Net Sales |
| GAAP reported sales change         | 29 %                | 17 %                                       | 16 %                       | 17 %                   | 25 %                          | 8 %             | 21 %       | 5 %            | 18 %      |
| Plus: Currency translation effects | (14) %              | (13) %                                     | (9) %                      | (11) %                 | (12) %                        | (9) %           | (12) %     | (11) %         | (12) %    |
| Constant currency sales change     | 15 %                | 4 %  | 7 %                        | 6 %                    | 13 %                          | (1) %           | 9 %        | (6) %          | 6 %       |
| Less: Acquisitions                 | — %                 | — %  | — %                        | — %                    | — %                           | — %             | — %        | — %            | — %       |
| Organic constant currency change   | 15 %                | 4 %  | 7 %                        | 6 %                    | 13 %                          | (1) %           | 9 %        | (6) %          | 6 %       |

Management believes that constant currency revenue growth is a useful metric for investors, as foreign currency translation can have a material impact on revenue growth trends. Constant currency revenue growth highlights ongoing business performance excluding the impact of fluctuating foreign currencies, which is outside of management's control. Organic constant currency revenue growth is defined as constant currency revenue growth excluding acquisitions. Management believes that organic constant currency revenue growth is a useful measure for investors to provide an understanding of MSA's standalone results. There can be no assurances that MSA's definition of constant currency revenue growth or organic constant currency revenue growth is consistent with that of other companies. As such, management believes that it is appropriate to consider revenue growth determined on a GAAP basis in addition to these non-GAAP financial measures.

MSA Safety Incorporated

Supplemental Segment Information (Unaudited)

Summary of constant currency revenue growth by segment and product group

| Three Months Ended March 31, 2018                         |              |          |               |
|---|--------------|----------|---------------|
|   | Consolidated | Americas | International |
| Firefighter Helmets and Protective Apparel <sup>(a)</sup> | 197 %        | 469 %    | 4 %           |
| Fixed Gas and Flame Detection                             | 14 %         | 16 %     | 13 %          |
| Portable Gas Detection                                    | 12 %         | 15 %     | 6 %           |
| Industrial Head Protection                                | 11 %         | 12 %     | 7 %           |
| Fall Protection   | 11 %         | 24 %     | (1)%          |
| Breathing Apparatus                                       | 5 %          | 1 %      | 15 %          |
| Core Sales  | 23 %         | 30 %     | 9 %           |
| Core excluding Acquisitions                               | 10 %         | 10 %     | 9 %           |
| Non-Core Sales  | (5)%         | (4)%     | (6)%          |
| Net Sales   | 18 %         | 25 %     | 6 %           |
| Net Sales excluding Acquisitions                          | 7 %          | 8 %      | 6 %           |

(a) Firefighter helmets and protective apparel includes the impact of the Globe acquisition, completed on July 31, 2017.

MSA Safety Incorporated

Reconciliation of As Reported Financial Measures to Non-GAAP Financial Measures

Adjusted earnings (Unaudited)

Adjusted earnings per diluted share (Unaudited)  
(In thousands, except per share amounts)

|   | Three Months Ended March 31, |           | %<br>Change |
|---|------------------------------|-----------|-------------|
|   | 2018                         | 2017      |             |
| Net income attributable to MSA Safety Incorporated  | \$ 32,371                    | \$ 14,413 | 125%        |
| Tax benefit associated with ASU 2016-09: <i>Improvements to employee share-based payment accounting</i> | (914)                        | (2,782)   |             |
| Subtotal  | 31,457                       | 11,631    | 170%        |
| Restructuring charges   | 5,274                        | 12,739    |             |
| Currency exchange losses, net   | 2,008                        | 580       |             |
| Other operating expense   | 2,824                        | —         |             |
| Strategic transaction costs   | 94                           | 1,337     |             |
| Asset related losses and other, net   | 17                           | 64        |             |
| Income tax expense on adjustments   | (2,534)                      | (4,088)   |             |
| Adjusted earnings   | \$ 39,140                    | \$ 22,263 | 76%         |
| Adjusted earnings per diluted share   | \$ 1.01                      | \$ 0.58   | 74%         |

Management believes that adjusted earnings and adjusted earnings per diluted share are useful measures for investors, as management uses these measures to internally assess the company's performance and ongoing operating trends. There can be no assurances that additional special items will not occur in future periods, nor that MSA's definition of adjusted earnings is consistent with that of other companies. As such, management believes that it is appropriate to consider both net income determined on a GAAP basis as well as adjusted earnings.

#### About MSA:

Established in 1914, MSA Safety Incorporated is the global leader in the development, manufacture and supply of safety products that protect people and facility infrastructures. Many MSA products integrate a combination of electronics, mechanical systems and advanced materials to protect users against hazardous or life-threatening situations. The company's comprehensive product line is used by workers around the world in a broad range of markets, including the oil, gas and petrochemical industry, the fire service, the construction industry, mining and the military. MSA's core products include self-contained breathing apparatus, fixed gas and flame detection systems, portable gas detection instruments, industrial head protection products, firefighter helmets and protective apparel, and fall protection devices. With 2017 revenues of \$1.2 billion, MSA employs approximately 4,700 people worldwide. The company is headquartered north of Pittsburgh in Cranberry Township, Pa., and has manufacturing operations in the United States, Europe, Asia and Latin America. With more than 40 international locations, MSA realizes approximately half of its revenue from outside North America. For more information visit MSA's web site at [www.MSA-safety.com](http://www.MSA-safety.com).

#### Cautionary Statement Regarding Forward-Looking Statements:

Except for historical information, certain matters discussed in this press release may be 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 herein. Any number of factors could cause actual results to differ materially from projections or forward looking statements, including without limitation global economic conditions, spending patterns of government agencies, competitive pressures, the impact of acquisitions and related integration activities, product liability claims, the success of new product introductions, currency exchange rate fluctuations and the risks of doing business in foreign countries. A full listing of these risks, uncertainties and other factors are detailed from time-to-time in our filings with the United States Securities and Exchange Commission ("SEC"), including our most recent Form 10-K filed on February 22, 2018. You are strongly urged to review all such filings for a more detailed discussion of such risks and uncertainties. MSA's SEC filings are readily obtainable at no charge at [www.sec.gov](http://www.sec.gov), as well as on its own investor relations website at <http://investors.MSA-safety.com>. MSA undertakes no duty to publicly update any forward looking statements contained herein, except as required by law.

#### Non-GAAP Financial Measures:

This earnings release includes certain non-GAAP financial measures. These financial measures include constant currency revenue growth, organic constant currency revenue growth, adjusted operating income, adjusted operating margin, adjusted earnings and adjusted earnings per diluted share. The presentation of these financial measures does not comply with U.S. generally accepted accounting principles ("GAAP"). For an explanation of these measures, together with a reconciliation to the most directly comparable GAAP financial measure, see the Reconciliation of As Reported Financial Measures to Non-GAAP Financial Measures in the financial tables section above.

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