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MSA - Q3 2017 MSA Safety Inc Earnings Call

EVENT DATE/TIME: OCTOBER 20, 2017 / 12:30PM GMT

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the MSA Third Quarter Earnings Call (Operator Instructions). It is now my pleasure to introduce today's host, Mr. Mark Deasy, Director of Corporate Communications. When you're ready, we'll begin.

Mark Deasy - *MSA Safety Incorporated - Director of Corporate Communications*

Thank you, Catherine and good morning, everybody. I too want to welcome you to our Third Quarter Call for 2017.

With us this morning 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.

Our third quarter press release was issued last night and it is available on the MSA website at www.msasafety.com.

Before we begin, I want to remind everybody that the matters discussed on this call this morning, 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 SEC, including our most recent Form 10-Q, which was filed on August 7 of this year. You're strongly urged to review all such filings for a more detailed discussion of such risks. Our SEC filings could be obtained at no charge at www.sec.gov or on our own 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 want to note that as part of our discussion this morning, we have 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 likewise available in the Investor Relations section of the MSA website.

That concludes our forward-looking statements. So with that, I'll turn the call over to our Chairman and CEO, Bill Lambert. Bill?

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

Thank you, Mark 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 that was issued last night, we realized 26% earnings growth on a 6% increase in revenue. This strong leverage reflects accretion from our recent Globe acquisition, our streamlined cost structure and a lower tax rate.

This morning, I will highlight a few key trends in our end markets and I'll give you an update on our recent growth investments before turning the call over to Nish Vartanian, who will review our core product revenue performance for the quarter.

After Nish's comments, Ken Krause will provide more insight into our quarterly financial results, and then as always, we'll open up the call for your questions.

On our August call, we indicated that we saw strong order pace in the industrial areas of our business during the first several weeks of the third quarter. I'm pleased to note that, that trend continued through the quarter and we saw the related revenue increase in industrial head protection and our backlog build for our gas detection products.

In the fire service market, demand for SGBA was soft earlier in the quarter, driven, in part, by reduced AFG funding for personal protective equipment when compared to 2016. However, in late September, and October, we saw an uptick in large SCBA orders on increased demand from Canadian markets and solid orders flowing from the U.S.

Switching gears and looking at some of our new product activities, we were very excited to launch new wireless gas detection technology in the quarter, highlighted by our portable ALTAIR 4XR and 5X Multigas Detectors. Thanks, in large part, to our revolutionary XCell sensors. These instruments provide a fast response time and are more reliable and more durable than ever. And now, enabled with Bluetooth technology, these devices pair with the MSA ALTAIR Grid via the MSA ALTAIR Connect app on your smartphone. The ALTAIR Grid is a secure web-based virtual control room that enables remote real-time monitoring of all workers through their MSA gas detection instruments on a given job site.

With our wireless platform and complementary monitoring systems, we are establishing a connected MSA ecosystem that delivers value beyond traditional product hardware and defines an entirely new level of gas detection performance in Software as a Solution service tied to the Industrial Internet of Things.

We're really excited about the progress we're making with wireless gas detection solutions. And we're not the only ones to recognize it. The MSA ALTAIR 4XR won the Best in Show award for the new product showcase at last month's National Safety Council Congress and Exposition in Indianapolis. I know I've said it many times on these calls, but innovation is a core value of ours, and as you can see, we are committed to investing in technological advancements in our key end markets with products that enhance the safety experience for our customers, while lowering overall total cost of ownership.

More than a 1/3 of our sales are from products introduced in the last 5 years. In addition to R&D investments, we are also focused on driving growth through inorganic activities. As we discussed on our last call, we completed the acquisition of leading firefighter protective clothing manufacturer, Globe, earlier in the third quarter for $215 million, or 9x EBITDA. Our integration program is progressing very well and I'm pleased to report that Globe was accretive to earnings by $0.05 per share on a GAAP basis in the first quarter of ownership or $0.07 per share, excluding transaction cost and purchase accounting amortization.

In a few moments, Nish Vartanian will talk a bit more about some other early Globe successes that we're seeing.

But before I hand the call over to him, I want to take a moment to recognize 2 new members of our executive leadership team, Steve Blanco, and Bob Leenen. As we reported in August, Steve Blanco succeeds Nish Vartanian as President of MSA Americas. Steve joined MSA in 2012 as Vice President of Global Operational Excellence. In that role, he led the implementation of best-in-class practices that really helped to advance the efficiency of our global manufacturing operations. For the past 2 years, Steve has served as Vice President and General Manager of our U.S. and Canada operations. Steve's leadership was instrumental during the G1 SCBA manufacturing ramp up, the Latchways acquisition integration in MSA Americas and a number of other strategic initiatives that have significantly expanded operating margin in MSA Americas over the past few years.

We also recently announced the change in the leadership of our International segment. Bob Leenan is our newly elected President of MSA International and he succeeds Ron Herring in this role. Bob brings to this position a very keen understanding of our business structure and related opportunities in International segment. He joined the company in 2012 as Director of Finance for MSA Europe. And most recently, Bob served as segment CFO for MSA International. In his new leadership role, Bob's financial and operational expertise will be great assets to our organization as we look to drive further growth and value creation programs that generate stronger financial performance in our International segment. Because of their extensive experience within each segment, Steve and Bob were able to hit the ground running from day 1 to drive value in their respective organizations. Once again, my congratulations to Steve and Bob as our new segment leaders reporting to Nish.

At this point, I will now turn the call over to Nish Vartanian, our President and Chief Operating Officer to walk you through our core product performance. Nish?

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

Thanks, Bill. This morning, I'd like to walk you through our core product revenue performance, and give you more insight into some of the key trends we're seeing.

Starting with the top line. Our total sales increased 5% for the quarter on a constant currency terms, or 6% on a reported basis. Our core product sales increased 10% in constant currency, driven by continued traction in our industrial head protection business, and our investment in Globe. Revenue in industrial head protection, which typically serves as a leading indicator for our business, was up 8% in the quarter. The stronger industrial backdrop coupled with our ability to quickly mass customize hardhats continues to drive solid momentum around the world. Our fixed gas and flame detection or FGFD revenue was flat in the quarter. However, incoming orders strengthened nicely on a sequential basis, and when compared to the same period a year ago.

In fact, our FGFD order pace exceeded our own internal expectations for the quarter. Our FGFD backlog is up over 5% from the second quarter and from the same time a year ago.

While underlying capital investments in the oil and gas industry remained pressured in the U.S. gulf coast region, we did see a bit of a lift from hurricane related plant restarts as well as continued strong demand in International, specifically in the Middle East. As a result, our backlog in the Middle East is up significantly from the second quarter of this year. This represents solid performance in this area, despite the challenging macro conditions in the industry.

Looking at our fall protection business. Quarterly revenue was up 2% on continued strong growth in the Americas, which was up 25%. This increase reflects continued market penetration and the launch of our new V-Series fall protection line during the quarter. While 25% revenue growth in Americas fall protection is strong, sales of fall protection and portable gas detection in the U.S. actually fell short of our internal expectations for August and September, which was due largely to business disruptions resulting from Hurricane Harvey. So the net effect of the hurricanes was a bit of a lift in the FGFD but a negative impact in certain short-cycle industrial products. Overall, minimal impact to revenue. Despite the short-term impact from the storm, both our fall protection and portable gas detection business remain very much intact heading into the fourth quarter.

As we mentioned throughout the year, the overall market for SCBA has been softer in 2017 when compared to 2016 and 2015. The early part of the third quarter followed this same trend. To elaborate on something Bill mentioned earlier, year-over-year grant releases for personal protective equipment from FEMA, which controls AFG funding, are running $50 million behind last year. That certainly caused some of the softness we saw in the quarter. That said, we started to gain traction in the SCBA order book in late September and October.

We're also realizing increased demand in Canada. Just recently, we secured 2 large orders from Canadian cities worth about $7 million in total. I'm especially pleased to report that both of these orders were competitive conversions and customers ordered a large portion of their G1 SCBAs with our market-leading integrated thermal imaging cameras. So clearly, we continue to make nice gains in converting competitive accounts with our industry-leading G1 SCBA.

According to the International Safety Equipment Association, our market share was nearly 50% on a unit basis in Q2 2017. Q3 results have not yet been published.

While the overall market has been softer for much of the year, the recent momentum in order pace and our strong backlog provides support for sequential strengthening in the fourth quarter. In addition to outfitting customers with our advanced G1 SCBA and, market-leading fire helmet, the acquisition of Globe completes our firefighter PPE portfolio.

With Globe, MSA can now protect firefighters from head to toe. We're off to a strong start with this acquisition. And we're already seeing some nice benefits. As an example, over the past several months, Globe has converted several large fire departments like Newark and Cleveland and secured contracts with existing customers, including Boston and Washington, D.C.

Our integration activities are proceeding as planned, fueled by a common goal to protect the health and safety of firefighters.

Collectively, our 2 organizations have been serving the fire industry for more than 400 years. And we look forward to working hand-in-hand with Globe's talented associates to execute our shared vision.

Lastly, before I turn the call over to Ken, I want to briefly recap some of the order trends. The industrial order book maintained strong momentum in the quarter allowing us to build a solid backlog pipeline heading into the fourth quarter. Collectively, gas detection and head protection incoming orders increased 9% in the third quarter. Specifically, we're seeing good traction on the FGFD side. Looking at fire service, we've seen a pickup in large order activity that's encouraging as we head into the final months of 2017.

While we saw flattish revenue across many of our product groups in the quarter, our overall backlog is trending about $18 million higher than the end of the second quarter. This is a solid book of business to deliver as we close out the year and we're highly focused on doing just that.

At this time, I'd like to turn the call over to Ken for his financial review. Ken?

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. Additional information will be available when we file our Form 10-Q with the SEC.

Total revenue was up 6% in the quarter or 5% in constant currency. Globe contributed $20 million of revenue during the first 2 months of ownership. Core product revenue was up 10% on continued strength in industrial head production and the acquisition. As we indicated on the August call, we expected a difficult comparison on ballistic helmets due to large shipments a year ago. And that is what we saw in the noncore area. The impact of lower ballistic helmet shipments reduced our overall sales growth by 3% in the quarter, and has reduced year-to-date overall sales growth by about 2%.

While organic product revenue was relatively flat in the quarter, we look to the order book to gauge the underlying health of the business. From an incoming standpoint, our quarterly core product orders were about 10% higher than a year ago. And as Nish mentioned, we really started seeing a notable uptick in SCBA and FGFD orders in September and into October, generating that increase of $18 million in backlog. That pipeline should drive a sequentially stronger result in both of these areas in the fourth quarter.

Gross profit was down 160 basis points in the quarter, and about half of that impact is due to the acquisition. While Globe was dilutive to gross profit in the quarter, as we would expect, it is nicely accretive to operating margin, EPS and operating cash flow.

SG&A expense was $72 million in the quarter. In organic constant currency terms, SG&A has declined about $4 million in the quarter, and $11 million year-to-date. Great progress on the cost savings initiatives and transforming our incremental margin profile.

We invested 4.2% of sales on R&D, right in our target range. As both Bill and Nish have touched on, we continue to bring innovative solutions to our customers, most recently, in gas detection.

As you probably recall, we recorded a $30 million pretax charge in the second quarter, related to product liability settlements we reached in August as well as estimated indemnity for all remaining asserted claims. In other words, we're fully reserved for asserted claims. But we do not have a reserve for unasserted or IBNR claims. And as we mentioned in the second quarter call, we are following our normal annual process here in the second half relating to assessing those IBNR claims. We will be working with our evaluation consultant over the coming months to evaluate IBNR and any change since our last evaluation. We are on track to complete this process by the end of the year, and we'll provide another update when we have our year-end earnings call.

GAAP operating margin was 13.7% in the quarter, and excluding foreign currency, restructuring and product liability expense, adjusted operating margin was 16.1%, improving 80 basis points from a year ago. It's worth noting that transaction costs associated with the Globe acquisition and the incremental purchase accounting amortization were dilutive to quarterly operating margin by about 40 basis points in total.

As you know, we have invested meaningfully in acquisitions over the past 2 years, and we continue to actively evaluate the M&A pipeline, making purchase accounting amortization a more meaningful part of the income statement than it has been in the past.

Accordingly, we have started to analyze adjusted EBITDA on a quarterly basis to track our ongoing profitability trends. Adjusted EBITDA, which we define as EBITDA excluding product liability, strategic transaction costs, foreign currency, restructuring and other income, increased 13% to $58 million in the quarter, or 19.6% of net sales compared to 18.4% of sales in Q3 last year. And for the 9-month period, adjusted EBITDA increased 6% to $159 million or 18.7% of sales compared to 17.5% in 2016, up 120 basis points in both the quarter and year-to-date comparison.

Our effective tax rate was 14% on a reported basis in the quarter, or 21% on an adjusted basis, excluding the reduction in exit tax charges.

Our adjusted rate for the year-to-date is 24%. Our investment in strategic tax planning is generating meaningful value. We recognized approximately $6 million of discrete tax benefits in the quarter as we executed on a number of initiatives aimed at lowering our effective tax rate.

Let me break those benefits down in more detail for you. And there were 3 specific items. First, we recognized the one-time reduction in exit taxes for approximately $2 million. Secondly, we were able to recognize a $2 million benefit associated with an Irish tax filing position; and lastly, we were able to take an increased benefit for domestic tax credit for approximately $2 million. While the exit tax related item is clearly nonrecurring, the other 2 items are tax position changes, that will benefit future periods, albeit not at the same magnitude as it did in the current quarter. We are now planning for a full year effective tax rate of 28%, excluding the windfall tax benefit related to stock compensation and any exit tax charges related to the implementation of our principal operating company, representing an improvement of about 600 basis points from 2016.

GAAP net income was $32 million in the quarter, increasing 26% from last year. Adjusted EPS for the quarter finished at $0.92 compared to $0.72 a year ago.

Leveraging 6% revenue growth and the 29% adjusted earnings growth highlights the excellent returns we're seeing from strategic acquisitions, cost reduction activities and tax planning.

Looking a bit closer, for the year-to-date adjusted earnings are trending 20% higher than 2016 and nearly 40% higher than the same period of 2015.

We generated $37 million of free cash flow in the quarter, nearly 120% of net income compared to $13 million a year ago.

During the quarter, we continued to fund our dividend, and in addition, we repurchased $12 million of stock. For the year-to-date, we have converted over 100% of net income to cash flow and we've deployed $215 million for acquisitions, $39 million for dividends, and $17 million for share repurchases.

Our debt balance, at the end of the quarter, was $472 million compared to $270 million at the end of the second quarter. We levered up to complete the Globe acquisition and it was accretive in the first quarter of ownership. Just like we did with the Latchways acquisition, we continue to use the balance sheet to drive value.

We have an active pipeline of M&A candidates and continue to evaluate additional opportunities for capital deployment.

Our quarter-end debt balance is relatively flat compared to the same time a year ago, but we brought on between $30 million and $40 million EBITDA if you consider Globe's last 12 months and the value creation efforts we have executed on at MSA.

We have invested approximately $400 million in strategic acquisitions over the past 2 years, but our debt to EBITDA still only approximates 2x; a very manageable level for us. We have additional capacity available and we continue to evaluate additional opportunities.

Before I hand the call back over to Bill, I want to leave you with a few takeaways. First, we're seeing good performance in our order book in the industrial area of our business. And we're seeing a nice uptick on the fire service side with several large SCBA orders in the pipeline. Our operations team is working diligently to ensure that we can reach our delivery goals for the fourth quarter and convert this solid backlog into revenue.

We exceeded our full year cost savings targets through the first 9 months, with organic constant currency SG&A down $11 million. After seeing considerable cost reductions in 2016, we have continued to keep the focus and generated strong returns again in 2017 on the restructuring investments. The team is doing a great job in improving productivity and efficiency throughout the organization.

We completed the Globe acquisition for a total enterprise value of $215 million or 9x EBITDA and we saw $0.05 of GAAP earnings accretion and $0.07 of accretion, excluding purchase accounting and transaction costs in the first quarter of ownership.

And, lastly, we have made great strides in improving financial performance over the past couple of years. We are more profitable than ever before, generating strong cash flow and investing in programs to drive growth, while also returning value to shareholders through the dividend and share repurchases.

As we continue to work through our 2018 planning season, driving profitable growth and generating stronger levels of cash flow are top priorities.

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

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

Thanks very much, Ken.

So in summary, I'm encouraged by the strength that we're seeing in the order book and the fact that we were able to generate double-digit earnings growth and strong cash flow in the quarter. I am also proud of the work our team did in completing the Globe acquisition, and the fact that we drove value from it immediately, realizing earnings of $0.07 per share in the first quarter of ownership.

Looking forward, macro indicators are generally encouraging, as Nish and Ken have indicated to you, across many of our end markets. With the U.S. manufacturing index, the ISM, recently hitting a 13-year high and construction spending generally trending upward.

And while, our order book is solid across most areas of our business, and should provide nice support for a solid finish to 2017, we remain balanced in our outlook due to uneven conditions for growth in certain domestic and international end markets.

Against that backdrop, and as we head towards the end of 2017, we are focused on driving revenue growth while also keeping an eye out on our cost structure and opportunities to invest in new value-enhancing initiatives.

So thank you for your attention this morning. And at this time, we will be happy to take any questions that you might have for us.

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'll now open the call up for your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) First question is from Richard Eastman.

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

Bill, could you just provide, maybe a little bit of color around International and just -- I'm really kind of thinking the top line there from a revenue perspective. Maybe you can hand that one off to Bob there, we'll get him in the game right away. But just some color around International, and maybe growth prospects there. And if you're seeing any of the strength, I know you referenced Canada on the SCBA side, but more to International, just curious if there is any billing backlog there and prospects there on the revenue side.

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

Yes, sure, Rick. I can provide some context there, and hopefully some clarity. International side of the business is impacted really in a strong way by 2 parts of the business: one, ballistic helmets. We know and we've reported in the past that we had strong contracts within the French government for ballistic helmets. And as you saw in the quarter, revenue from the noncore areas of our business was down 26%. The vast majority of that was ballistic helmet business that has -- that is following the contracts that we had with French government. The good news is that we secured a new contract and as we get into 2018, we'll start to see that come back a little bit. But for the third quarter, it was a big impact, last year third quarter, was our heaviest shipping quarter for ballistic helmets. So we have to kind of pull that noncore out and take a look at Europe for instance, if we don't include that. The second area of business internationally that we've seen a bit of a downturn, a softer area is the Latchways' fall protection business in Europe. We don't feel that we've lost any market share there. We just haven't seen some of the large orders that are pending actually come through where we can provide that kind of revenue. So as you saw in the quarter, fall protection on a comparative basis was down 17% year-over-year in International. Those are the 2 big hitters, quite frankly, and the areas of a bit of concern. Fall protection less so and ballistic helmets, we think we have our arms around and that starts to improve as we get into the second quarter of next year and we start to fulfill some contract requirements that are out there. Other than that, the business is very healthy in China, it's healthy in the Pacific Asia region. I think Nish mentioned that in the Middle East, India region, we've got strong backorder, we've got strong order performance there. So we're just really seeing some difficult comparisons for MSA Europe. And we're taking continued actions there to make sure that the cost structure of the organization is appropriate. We've got new leadership in place over there now. And so I feel pretty good about the outlook in the future. And hopefully, that provides a little bit greater clarity. I don't -- I know that Bob is traveling internationally, so I don't want to necessarily put him on the spot here with his first call, especially as he travels internationally. That gives you a sense of what's happening.

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

Sure, sure. I understand. And, then, could I just ask, I realized Globe is coming into the numbers here but if you look at their equivalent third quarter of '16, what was Globe's like growth rate year-over-year at that $20 million kind of revenue mark, which again, I know that's 2 months but I'm curious what their growth rate's tracking at? Can you take a swipe with that?

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

I believe that's a low single digits. Ken, is that correct?

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

Yes, that's correct. And your right, your right, Rick. That's only 2 months of activity. But we see that business as a low single-digit grower.

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

And the good news, we're slightly ahead of our internal plan there.

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

I understand, okay. And then just last question, and I'll turn it over. Ken, on the SG&A, when I look at the $72.4 million number, which is kind of the SG&A number that you delivered on an adjusted basis, I'm a little bit curious that what doesn't show up in that number is Globe's SG&A, so should I presume that our cost realignment program internally at MSA is kind of largely offsetting the Globe accretion? Is that how to view that number?

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

Offsetting the Globe accretion? I mean, I would view it, that number is...

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

I'm sorry you're breaking up on us, Rick.

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

Rick, are you there? We seem to have lost him. Maybe if we could move to the next caller and then if Rick can rejoin us, we'll put him back in the queue.

Operator

Okay. Our next question is from Stanley Elliott.

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

Can you update us or would you care to update kind of the thoughts around Globe accretion at $0.07 adjusted, you're already tracking well above the high end of kind of the numbers we'd initially targeted. Is there something seasonal going on here? Or is it kind of you hit the ground running faster than you thought you would? Any help around that would be great.

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

Stan, it's Ken Krause. Yes, we certainly are off to a really strong start. Part of that is, we had some good orders that flowed out with a little higher margins than average. But with that said, this acquisition is tracking above expectations. I think our initial GAAP guidance was $0.10 to $0.15 of earnings accretion in the first 12 months. And we think now, we'll probably get something in the range of $0.15 to $0.20 of additional -- of accretion associated with the acquisition, which represents about $0.05 more than what we expected on a GAAP basis. So it's a -- so it's a combination. It certainly is performing a little better than we thought. But we're also executing very well with the integration plan.

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

And how do we think about kind of the cross-selling or synergy opportunities now that you have kind of leading positions across the helmets, the SCBA, the turnout gear and your ability to package that. Is there a way to think about kind of either revenues from a synergy perspective? Or maybe getting into accounts? And maybe you didn't have as much success with in the past, just anything high level around that would be great.

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

Yes Stanley, across a number -- this is Nish. Across a number of fronts, we have some opportunity there. So it's not necessarily bundling SCBA with turnout gear and helmets and boots, it's more of access to customers. So it's access and penetration to customers. Clearly, with a 50% market share in SCBA and north of that in fire helmets and probably in a 35% range with turnout gear, we've got tremendous access to fire departments throughout North America. And so we leverage those relations and try to, obviously, expand products with the customers we have in place, and then also, within channels of distribution. I think, we announced earlier that we brought on L.N. Curtis, who is a major fire service distributor in the Western part of the U.S. where we have a very strong network of distribution, who has done a tremendous job for MSA. There are some parts of the country where we have some gaps, so to speak. And a distributer like Curtis helps to fill some of those gaps out west where there's a lot of geography to cover. And bringing them on board who -- they're a very large Globe distributor. They're now taking on the MSA SCBA, our current fire helmet line to add in along with gas detection. So we're pretty excited to bring that in. So that's where we get some synergy and some benefit on the revenue side and some help.

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

Perfect. And the last from me. You're kind of talking about some of the new products on the gas detection side, and the wireless and the Bluetooth nature. Is this a service that you guys are provide? I mean, obviously, you're providing a service, right? But is this -- at some point, does this become another revenue stream for the company in terms of kind of opportunities with the new products?

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

It does, Stanley. This idea of Software as a Service will provide additional revenue stream as we begin to build that business out because we -- the way we're structuring it is on a subscription basis. So it does provide us with that type of performance as well as connecting us quite a bit deeper with our customers and end users.

Operator

Our next caller is Mr. Edward Marshall.

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

I wanted to go back to Latchways, if I could, seeing that it was down internationally. I think you said no market share gain or losses. Was that also to say no market share gains? And thinking back to the advent of that acquisition, I thought it was kind of strategically an international play for you and kind of way to grow your market share, it seems to be doing better domestically than internationally, maybe you can just talk to those things.

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

Sure. Well, I think it's without question doing fantastic domestically. The U.S. sales force has really embraced the Latchways' product line. We've introduced new products that are pretty exciting to the market in the Americas, across the Americas and it's doing exceptionally well and Nish gave you the details on some of that with a 25% increase in sales during the quarter, and year-to-date sales up very, very nicely. On the international side, really where the slowness is coming from, is some large orders on engineered systems. So this is working through some large customers where they have specific unique solution needs, as they are building new buildings and have construction projects that are going on, Ed. What we're seeing then is some delays in ordering against some of those large projects. We delivered on them quite nicely in 2016. And so far this year, we have seen that slow a bit. When I indicated that we don't believe we've lost any market share, it's because we know that we have those contracts won, or those contracts are in the pipeline, but the actual build-out has not occurred to the degree that it did last year. It's really on that engineered systems side of the business, it's not really the product end of the business, where we're seeing the decline in Europe.

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

Got it. If I remember back to last year, I think you said you might have been -- I don't want to put words in your mouth, but over earnings saying that there was some good backlog when you purchased the business and you kind of you worked through it faster than they would have. Are you saying there's potentially tough comps there that you're seeing year-over-year on the International side?

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

Well, without question, that's the case. We did have some really strong backlog, when we looked at wind energy market in North Europe and those comps are quite difficult. I want to -- I'm going by memory here, Ed, but I want to say that our overall fall protection business in 2016 was up almost 23% year-over-year from 2015 to 2016, our first full-year of ownership of Latchways and a lot of that was due to some big backlog that broke free in 2016. And so we worked that out, and so the comps are a bit more difficult this year versus last year.

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

Okay, and so strategically the International business doesn't seem to be a concern at the moment, just making sure there is no need for additional capital or anything else like that at this point in your view?

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

No, I don't think so. And I'll just put a slightly finer point on it. When we look at the overall fall protection for MSA year-to-date, the incoming order book is 9% higher so far year-to-date, than what it was this time last year. So the order book is there. It's the conversion of that order book into revenue that we've seen some challenges. And as I said, some orders getting delayed, some shipments being delayed due to the end-use customer.

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

Got it. Great. The -- Ken, if you would mind to update on the insurance and product liability? I didn't see a full balance sheet report.

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

Yes, from that standpoint, we've made solid progress in both of those fronts. As you very well know, we've collected upwards of $90 million of insurance receivables, which has helped us delever nicely. We're continuing to litigate with one remaining carrier on that front. And we're still very confident in our position. On the product liability side, as you saw in the second quarter, we recorded a very significant reserve for asserted claims and as I talked about in my prepared comments, we are in the process of going through our IBNR assessment, just like we've done in the last several years. So we're continuing to go through that assessment. We'll have an update on the fourth quarter call, when we report earnings in the first part of next year.

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

I guess do you have the full number for the accrual on the balance sheet line?

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

Yes. So our current accrual for product liability approximates $90 million. I think it's $92.5 million to be precise for our current accrual.

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

(inaudible) bank group related to the liability and with leverage ratios or liquidity or anything like that at this juncture.

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

If you could repeat the first part of your question, we're having issues with the connection. Could you repeat that again?

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

I wanted to know if you had a discussion with the bank group.

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

We always maintain conversations and discussions with our bank group. And we have no issue from the standpoint of liquidity or access to capital. We haven't and we don't foresee any issues with respect to that.

Operator

And our next caller is Brian Rafn.

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

Let me ask -- and I missed your opening comments, was Hurricane Harvey or Irma, is there any sales potential there from damage replacement of fixed flame and gas detection? Or maybe fall protection or helmets for cleanup of those areas?

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

Brian, as Nish indicated in his commentary, we did see a nice uptick in business on the plant startups after Hurricane Harvey and the need to replace certain sensors on the fixed gas and flame detection side of the business. We saw a nice little uptick there. But that was offset, quite frankly, by a bit of a downturn, if you will, in head protection sales and fall protection sales because of the disruption at those plants and the workforce displacement that occurred during that week to 2 weeks or thereabouts that we saw Hurricane Harvey. So as Nish said, kind of net-net, it was no real impact. The FGFD uptick we saw was offset by industrial head protection sales and fall protection sales being down a little bit during that time period.

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

Okay. Ken, I think you mentioned a little bit on the kind of the internal growth in sales from Globe being low single digits. Do you have any ability to leverage and accelerate Globe sales through your network? Or is it pretty much going to be legacy?

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

No, I think that as Nish indicated, there is absolutely potential there for us to accelerate sales growth from Globe, through our channels of distribution, and even more so when you look at our presence internationally throughout the Americas and throughout the world. We see some opportunities there where Globe has zero presence internationally. So there absolutely is that -- the synergistic sales effect but we're early there, and so when we talk about low single-digit growth, we're primarily looking at the historical growth trends from Globe and what we think we can do here domestically.

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

Let me ask you, as an adjunct to that question, Bill. Are there any areas third world or international or where, maybe the state-of-the-art G1 SCBA is not something that they would be buying? But there might be markets for helmets and turnout gear. Is that -- are pretty much fire departments across the world buying state-of-the-art equipment?

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

No, far from buying state-of-the-art equipment across of the world. The U.S. and Europe lead in that area followed probably pretty closely by Australia and China and we've commented on that in the past, but there are lots of areas of the world where the technology that the G1 provides or some of the turnout gear that Globe provides just can't be sold into those markets from a pricing and cost perspective. But that's not to say that we can't build off of those platforms as we have done and sell very successfully into those markets. We've talked about our success in Chile with the SCBA performance there, and the market share gains that we've had there. We see some similar opportunities with some of the turnout gear and the technology that Globe provides that we can build off of for those other areas of the world.

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

Excellent. Good. And let me ask you, is there anything from a cost of goods sold or materials sourcing, or and I'm assuming these turnout gear are hand-sewn or sewing machines, I mean is there a robotics application you can do? Or is pretty much the manufacturing at Globe where they're, is kind of where you're going forward?

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

Well, Globe has manufacturing locations in 3 spots around the country. It is fairly manually intensive but they automate where they can automate for some of the production. But if you think about producing turnout gear for the firefighter, you've got literally 1 million or more combinations that can be added to this custom piece of turnout gear. So whether you're talking about the materials or the locations of the pockets or the type of outer shell, the thermal liner, the moisture barrier, the name on the back of the coat, the reflective coatings, it's really an interesting model for mass customization of these turnout gear that firefighters wear. So it requires a lot of manual assembly, and cutting and sewing and that sort of thing. But they do a phenomenal job. So from the time an order comes in the door to the time that, that complete turnout gear ships, is quite remarkable. And their inventory turns are quite remarkable. So they've got a system that works exceptionally well, even though there's a lot of manual labor involved.

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

Got you. No, I appreciate the color on that, Bill. And then just one closing question for Ken. As you look at deals, you look at pricing of M&A, I'm just getting a sense of where your thoughts are on multiples of EBITDA, expensive, getting more expensive, expensive but static, kind of both level and direction?

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

Yes, good question. It's certainly in today's day and age, with ultra-low interest rates, and equity market that's trading at an all-time high, you're seeing multiples trending higher. And so, it's very much, a very competitive, dynamic that we have. But we also have a significant amount of relationships that we have throughout the industry that we leverage. And so we're able to execute on deals like Globe at 9x, when we were trading at 14x or 15x. And so we continue to look at deals. We're very disciplined in our approach, but we do feel confident that we can continue to execute this acquisition strategy.

Operator

And now we do have Rick back.

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

I think the operator determined that my time was up, and I can certainly appreciate that. But I did want to just follow up, and Ken, I didn't want to set you off on some homework here but when I look at the SG&A on an adjusted basis, I think it's roughly flat with the second quarter. That's what I was looking at, the $74 million. Can I just presume that the step-up from an SG&A from inclusion of Globe, at least for 2 months, was offset by internal initiatives to get the core SG&A down? So that's representative of a pretty much a run rate going forward, is that $74 million?

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

I think, that's fair. I mean, I think we also still have additional initiatives that will come through. You saw in the quarter, we had upwards of $3 million incurred for restructuring, and so we continue to execute on taking excess cost out of the business. But I think that's a fair way of looking at it, Rick.

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

Okay. And then just, Ken, you also -- when you referenced the 15% to 20% -- $0.15 to $0.20 accretion from Globe, you're looking at a GAAP contribution, correct?

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

Yes. That's a GAAP number, Rick. Our GAAP guidance previously issued was $0.10 to $0.15. And so we would raise that from $0.10 to $0.15, from $0.15 to $0.20. The non-GAAP would also go up close to $0.05 as well.

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

And that's -- and in your adjusted $0.92 for the quarter, you've only -- you've included the $0.05 GAAP number, correct?

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

Yes, that's correct. $0.92, which includes $0.05 of GAAP accretion, that's right.

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

Okay, I got you. And then just a last question, Bill, we continue to see pressure within the industrial distributors and this is kind of the unfortunately or fortunately, I guess, is kind of Amazon halo effect on that industry? And I'm just curious, given head protection, some of your portable gas detection products go through that channel, whether it's Grainger or MSC. Has there been any pushback to you around profit margins on product that's going through those channels? Grainger, in particular, is seemingly trying to -- I love their terminology, trying to invest in lower margins. But basically, trying to take some -- be more competitive with Amazon.

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

Rick, this is Nish. Yes, clearly we're seeing pressure and some pushback from distribution. But we've done a pretty good job in 2 areas. One is holding our ground because of our position in the marketplace. And the customers demanding or asking for MSA product and wanting to use the MSA brand. And then secondly, on the operations side, we've done a nice job with our supply chain and our cost of product and in managing that effectively. So, so far, we've done a really nice job. Our margins continue to be healthy and some increase actually. So we're doing a pretty good job there managing that. So -- but there's a lot of pushback, there's no question about that and we continue to work through that.

Operator

And there are no further questions. So at this time, I'll turn it back over to Mark.

Mark Deasy - *MSA Safety Incorporated - Director of Corporate Communications*

Well, thank you. Catherine. Since we have no more questions, that will formerly wrap up this morning's call. I just want to remind everybody that if you missed a portion of the conference call, a replay and a transcript will be available on the MSA website for the next 90 days. So on behalf of Bill, Nish, and Ken, I want to thank everybody for joining us this morning. We hope you have good weekend. And we look forward to talking with you again soon. Good bye.
