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PRESENTATION

Operator
Good day, ladies and gentlemen, and welcome to the MSA Fourth Quarter Earnings Call. (Operator Instructions) It is now my pleasure to introduce today's host, Mark Deasy, Director of Corporate Communications. Please begin.

Mark Deasy - MSA Safety Incorporated - Director of Global Corporate Communications
Thank you, Kelly, and good morning, everybody. I, too, would like to welcome you to our fourth quarter and year-end earnings call for 2017. With us on the 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.

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

Before we begin, I need to summarize our safe harbor statement and remind everybody 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 SEC, including our most recent Form 10-Q, which was filed on October 20 of 2017. We strongly urge you 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 and 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 need 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 & 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, on an adjusted basis, we realized nearly 70% earnings growth in the quarter, certainly a strong finish to 2017, and that is encouraging that the sequential uptick in fourth quarter revenue was relatively broad-based throughout our markets and across our core product lines.

For the full year, we increased adjusted earnings by more than 30%, and those results are largely reflective of improved performance in our industrial core products, a streamlined cost structure, the Globe acquisition and a more favorable tax rate.

There are 3 areas that I'd like to review on the call this morning. The first is the noncash charge that we took in the quarter related to unasserted or incurred, but not reported, cumulative trauma product liability claims. As you saw in our press release, that noncash charge drove a GAAP net loss in the fourth quarter.

The second area is the impact of U.S. tax reform on our fourth quarter results. And lastly, and perhaps most importantly, I will highlight the key trends that we are seeing in our underlying business. After that, I'll turn the call to Nish Vartanian, who will review our core product revenue performance. And after Nish’s comments, Ken Krause will provide more insight into our financial results, both for the fourth quarter and for the full year. Then as always, we'll open the call up for your questions.

As I mentioned, the first topic I’d like to cover is the noncash product liability charge that impacted our GAAP results for the quarter. This charge is related to products that we sold many years ago and are no longer part of the MSA portfolio.

As we indicated on the October call and disclosed in our SEC filings for some time now, we conducted our annual review process with an outside valuation consultant and legal counsel to determine our exposure to unasserted or IBNR cumulative trauma product liability claims.

Based on that review, we increased our product liability reserve by $111 million for IBNR claims, which reflects our estimated liability through the year 2060. Net of expected insurance collections that resulted in a $93 million noncash, pretax charge to the income statement.

In the simplest terms, our claims experience related to these old products has stabilized over past few years, which provides us with greater predictability around this area and allows us to estimate our exposure to unasserted claims, which may arise in the future. Ken will review these process in more detail during his financial commentary.

The second charge reflected in our GAAP results in the quarter was the $20 million income tax charge that we took associated with U.S. tax reform. And while that impacted our results for 2017, we are expecting a significant tailwind from tax reform in 2018. Ken will continue this discussion in his commentary in just a few minutes.

Moving on to our business performance discussion. Our fourth quarter revenue total reflects a record high for MSA, both with and without the Globe acquisition factored in. Our core products were the driver of performance, and we saw a revenue increase in every core product group for the quarter.

On the industrial side of the business, I’m pleased to report that the steady pace we saw through the first 9 months of 2017 continued in the fourth quarter and even strengthened in certain areas. For example, our incoming orders for portable gas detection and fall protection increased nearly 15% collectively in the quarter. On the third quarter call, we indicated that we had seen an uptick in our SCBA order pace in September and October, and we expected a sequentially stronger fourth quarter.
That trend materialized, and we maintained strong momentum throughout the quarter. In fact, the fourth quarter order book for SCBA reflected our highest incoming order total of this entire SCBA replacement cycle.

Following a similar trend, our fourth quarter SCBA revenue increased 7% year-over-year and 33% sequentially, and we are entering 2018 with a strong pipeline of business secured in the fire service. Nish Vartanian will provide more details on that in just a few minutes.

While performance in our core product portfolio reflects the returns on our research and development investments over the years, acquisitions have also been a meaningful contributor to our recent growth. For example, Globe contributed about $46 million of revenue in the 5 months of ownership in 2017 and $0.10 of GAAP earnings per share. Excluding transaction cost and amortization, EPS accretion from Globe was $0.16 in the first 5 months of ownership.

MSA’s ability to provide head-to-toe safety solutions to firefighters strengthens our leadership position in a key customer segment and positions us well to execute on the shared vision we have in bringing these 2 great organizations together.

In summary, the fourth quarter for MSA was a strong one, and we have good reason for optimism as we look to the future. Nish and Ken will provide more detail in their prepared comments.

At this point, I’d like to shift gears and talk just for a moment about a change in leadership we anticipate making in May. I’m sure many of you are already aware of this news as we announced our management succession plans back in December, but I would like to offer a few words to expand on that announcement.

I’ll start by simply saying that MSA’s mission of protecting the health and safety of workers is one that I have been incredibly proud to be part of for the past 37 years, and I’ve been privileged to lead for the past 10 years as CEO. Over that time, we have seen tremendous change in both our industry and in our own organization. We have taken a market leadership position in the U.S. fire service. We’ve invested more than $650 million in the acquisitions of General Monitors, Latchways and Globe, all of which were accretive to earnings in year 1. We have streamlined our product offerings and focused our portfolio on the profitable core of MSA. Those product lines that now reflect more than 85% of our total sales compared to 55% 10 years ago.

We’ve launched innovative new products while transforming our cost structure, and we proudly celebrated our 100th anniversary in the safety business back in 2014. Collectively, our investments have transformed our profitability profile. In 2017, our adjusted operating margin was 16.1%, that’s nearly double the run rate of 2007 when we began executing on our core product strategy.

Most of all, through all of this work, we developed many exceptional leaders along the way. And that’s why I feel very comfortable and confident in my decision to hand over the reins of leadership at MSA to the next generation of leadership for our company. As we announced in our December press release, my intention is to step down as CEO of MSA in May of this year and retire as a full-time associate of the company. As part of this decision, I also announced that Nish Vartanian had been elected a director of MSA. Nish’s election to director and his appointment to President and Chief Operating Officer in May of last year truly highlight the board’s and my confidence in his ability to lead our company and continue its growth journey.

Nish is a 32-year veteran of MSA and has excelled in every position he has held in our company. His strategic vision, growth-focused mindset and leadership skills will motivate and inspire our associates to continue driving our business forward. In that spirit, the board and I expect to elect Nish our next CEO in May. Nish and I have been working closely together throughout the succession planning process to ensure a very smooth transition and we will continue to do so in the months ahead.

So Nish, once again, congratulations on your election to Director. The board and I have complete confidence in your ability to lead MSA into the future. And so with that, I’ll turn the call over to you, Nish, to walk through our core product performance.
Thank you, Bill. And thank you for the trust that you and the board have placed in me, and for providing me with this tremendous opportunity. I'm also grateful to many of our associates around the world, who have had a positive impact on me and my career at MSA. I want to thank you for the support you've provided to me and, most of all, your dedication to our mission.

As Bill mentioned, he and I will continue to work closely over the coming months as we navigate 2018 and strive to capitalize on what we see as a steadily strengthening macro environment in many of our markets. On that note, I’d like to walk you through our core product revenue performance for the quarter.

Our total sales increased 14% in constant currency terms. We saw some distinct trends play out in the fourth quarter compared to the first 9 months of 2017; trends that echo the positive sentiment we're hearing from our channel partners and throughout our end markets. For example, we typically see sequential strengthening in revenue from the third quarter to the fourth quarter based on seasonality in end markets, but the impact this year was more pronounced. The average uptick in revenue from Q3 to Q4 has been about 10% over the past 3 years, excluding acquisitions. This year, we saw 17% sequential revenue increase from the third to the fourth quarter.

The drivers of this improvement were broad-based strength in the fire service and industrial end markets, which continue to be supported by an elevated backlog pipeline that we carried into the first quarter of 2018. Naturally, we’re pleased with the strong finish to the year and are encouraged by the recent order pace and improving macro conditions we’re seeing across the portfolio.

Continuing on, our core product sales increased 19% in constant currency in the fourth quarter, again, driven by strength in industrial and fire service markets, as well as the acquisition of Globe.

Revenue from industrial products, including gas detection and head protection, had a solid finish to the year. We saw continued strong momentum in head protection in the quarter with 7% growth, reflecting the improving conditions in many of our markets, including industrial and construction applications.

Portable gas detection posted a double-digit increase in the quarter on solid base business growth throughout the world.

In our fixed gas and flame detection business, or what we more call commonly refer to as FGFD-I mentioned on the October call that we were heading into the fourth quarter with an elevated backlog, notably in the Middle East. That pipeline gave me confidence in our ability to deliver a sequentially stronger fourth quarter, and that invoicing came through as expected. FGFD revenue was up 22% sequentially from the third quarter and up 6% year-over-year.

While underlying capital investments in the U.S. oil and gas industry have been pressured over the past several years, our FGFD results have remained intact over that time due to the high degree of recurring revenue in this product line and steady demand from international markets. Recent macro indicators in the energy industry point to a continued steady recovery moving forward, and our fourth quarter FGFD incoming order pace improvement of about 5% reflects those trends.

Looking at the fire service side of the business, we saw a notable uptick in order pace in the third quarter and throughout the fourth quarter. As Bill indicated, we recorded our highest incoming order total of the entire replacement cycle during the fourth quarter of 2017.

We noted on the October call that we expected a strong fourth quarter in SCBA. The results surpassed our own internal forecast and expectations at 7% growth. We saw continued strong traction and competitive conversions and benefited from demand driven in part by our new integrated thermal imaging cameras technology, or iTIC for short. While the underlying business remains solid, there were a few large orders that really moved the needle in the fourth quarter.

Notably, we secured and delivered large orders totaling $7 million for 2 major Canadian fire departments, both of which reflected competitive conversions and ordered a large portion of their SCBAs outfitted with the iTIC.
Another large win was a $6 million consortium order in Florida, and we shipped approximately half that order in the fourth quarter. And we continue to make inroads with the G1 in international markets, delivering orders totaling more than $4 million in Chile and Panama this quarter.

We were also recently awarded a $9 million contract to provide G1 SCBA to 2 fire departments outside of the Americas. We'll release more details about that order in the coming weeks. But I can tell you, we expect to deliver the majority of that order during the back half of 2018.

Though we're starting the year with a nice backlog of SCBA business, as you might expect, with an SCBA backlog that is trending about 40% higher than our average backlog balance over the past 18 months, we're currently working through some supply-chain implications associated with that spike in demand. While we will continue to focus on those activities throughout Q1, I want to note that many of our larger orders in our backlog are scheduled for a Q2 for second-half delivery in 2018.

As we've discussed in the past, the SCBA market can be choppy from quarter-to-quarter, due to funding flows and timing of equipment replacement at large departments. But as we've also said many times, and as our fourth quarter performance demonstrates, we still have runway ahead over the next couple of years with this replacement cycle.

Before I turn the call over to Ken, I want to briefly recap some of the order trends and give you some color on our pipeline heading into 2018. As I mentioned, we booked our highest incoming order quarter ever for SCBA, while we made solid progress in deliveries and realized 7% revenue growth from a year ago, we're entering 2018 with an elevated backlog.

Fourth quarter order pace across the core industrial areas of our business was also strong, reflecting improving fundamentals in various end markets, including oil and gas, construction and general industrial applications.

In total, for the full year, incoming orders increased about 5% on an organic basis compared to organic revenue that was down about 1% for the year. As you'd expect, our overall backlog is trending up about $13 million from the end of the third quarter and running significantly higher than the same time a year ago, indicating that the underlying business is very healthy.

With the solid pipeline secured and overall favorable macro conditions in many of our end markets, we're planning for a mid-single-digit organic revenue growth for the full year of 2018.

With that, I'd like to turn the call over to Ken for a financial review. Ken?

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

Thanks, Nish, and good morning, everyone. Before I begin the fourth quarter financial review, I'd like to start with a few highlights related to our full year performance.

Full year total revenue increased 3% in constant currency, finishing in the low to mid-single digit range that we communicated to you throughout 2017. We saw gross margin improvement across many of our core products in 2017, driving full year core product margin expansion of 50 basis points, excluding the impact of Globe.

Reported SG&A declined $8 million for the full year. But on an organic constant currency basis, SG&A declined $16 million for the year, nicely exceeding our previously communicated cost-savings goal of $10 million for 2017.

For the full year, adjusted operating margin was 16.1%, which includes approximately 40 basis points of strategic transaction costs incurred to pursue growth through acquisitions. The full year margin is a record for MSA and the 130 basis points up from 2016.

Going further back to 2015, we've expanded adjusted operating margin by 400 basis points over 2 years. We converted more than 100% of net income to free cash flow again in 2017. We made strong progress collecting insurance receivables and managed working capital to a level necessary to support our fourth quarter and expected 2018 growth.
Now I’d like to take some time to walk you through our quarterly financial results. Total revenue increased 14% in the quarter in constant currency terms or 6% on an organic basis when we exclude the impact of Globe.

Solid gains in every core product line supported our quarterly growth. And as Nish mentioned, our order pace strengthened considerably in the fourth quarter on both a sequential and year-over-year basis.

Gross profit was down about 200 basis points in the quarter, mostly related to Globe and the related amortization associated with the acquisition-related accounting. While Globe is dilutive to gross profit due to product mix, it is accretive to EBITDA margins, EPS and cash flow.

SG&A expense was $75 million in the quarter. In organic currency terms, SG&A declined $5 million in the quarter and $16 million for the full year. We've made good progress at realizing returns on our restructuring investments and driving a cost-conscious culture.

With that, I'd just like to remind you that we oftentimes see an increase in SG&A in Q1 related to accounting for stock compensation-related expenses.

As you probably recall, we recorded $30 million pretax charge in the second quarter of 2017, related to resolved, cumulative trauma product liability settlements as well as estimated indemnity for all remaining asserted claims.

As Bill mentioned, we continue to work with our valuation consultant and legal counsel in the quarter to complete our annual process of accessing unasserted or incurred but not reported, or otherwise known as IBNR claims.

In the past, we were unable to quantify a liability associated with IBNR claims. However, our defense strategy continued to evolve over the past couple of years, and that has produced a more stable claims experience, improved visibility and predictability of claims composition, amongst other things, that enabled us to make a reasonable estimate of the IBNR liability.

As a result, we increased our product liability reserve for IBNR cumulative trauma product liability claims in the fourth quarter by $111 million, which reflects our estimated liability through the year 2060.

The corresponding charge to the income statement, which is a noncash charge, was $93 million, which primarily reflects the increase to the IBNR reserve net of what we expect to receive from insurance for those claims. I think it’s important to note, our reserve does not include an estimate for future defense cost and it is not recorded at present value.

Our product liability reserve now approximates $180 million, which includes an estimate for both asserted and IBNR claims. Understanding that, it is important to remember the other side of the equation, which is the insurance receivable. At year-end, we had insurance receivables of about $212 million and approximately $80 million of that balance reflects notes receivables. So on a net basis, our balance sheet has a net asset of approximately $30 million associated with cumulative trauma product liability-related matters at December 31.

GAAP operating loss was $31 million in the quarter, reflecting the impact of a noncash product liability accrual I just mentioned.

Excluding FX, restructuring and product liability expense, adjusted operating margin was our highest quarterly result ever at 18.6%, improving 240 basis points from a year ago. We incurred about $1 million of costs associated with Globe’s integration in the quarter and that negatively impacted operating margins by about 30 basis points.

From a reporting standpoint, we will adopt a new accounting standard for pension accounting in 2018, which indicates that all components of net periodic benefit cost, except for service cost, should be recorded outside of operating income. This change has the ability to reduce operating margins by about 20 to 30 basis points, but it is neutral to earnings per share. We will begin reporting under the new methodology in the first quarter of 2018 and will adjust the 2017 results to conform with this new basis of presentation when we report in the first quarter.
As I mentioned on the third quarter call, we have started to analyze adjusted EBITDA as a profitability metric to neutralize the impact of purchase accounting from the M&A investments we have made over the past several years. Adjusted EBITDA excludes transactions -- strategic transaction costs, product liability, restructuring and FX gains and losses.

Quarterly adjusted EBITDA increased 29% to $75 million or just under 22% of sales compared to 19.7% a year ago. For the full year, this measure was $234 million or 19.5% of sales compared to 18% in 2016. Our GAAP effective tax rate was 9.5% for the full year of 2017, which includes a $20 million one-time charge related to U.S. tax reform associated with our expected cash repatriation efforts as well as the re-measurement of deferred tax assets and liabilities under the new, lower U.S. rate.

Our full year GAAP rate includes the impact of the product liability accrual, windfall benefit associated with stock compensation and reversal of exit taxes, which are more than offsetting the charge associated with the tax reform. On an adjusted normalized basis, our ETR is 26.6% for 2017 compared to about 34% in 2016.

I’d like to take a moment to discuss the anticipated impact of U.S. tax reform. As you know, our profitability mix is heavily weighted toward the U.S. and our recent acquisition of U.S.-based Globe makes the trend even more pronounced. As a result, we expect tax reform to have a significant impact on our effective tax rate. With historically over 70% of our profitability generated in the U.S., coupled with our recent acquisition in the U.S., we expect a lift in earnings in 2018 from the recent tax reform. We will provide more updates as we progress throughout 2018.

Another benefit of tax reform is the significant cash balances we are holding outside of the U.S. We are actively working to repatriate between $75 million and a $100 million of foreign cash throughout 2018 and plan to start bringing cash back to the U.S. in the first quarter. Higher cash flow from the lower tax rate and cash repatriation provides support to execute our established capital allocation strategy.

Focusing back on the quarterly results, GAAP net loss was $33 million in the quarter, which reflects the product liability accrual and tax expense associated with tax reform. Adjusted earnings increased 69% to $51 million or $1.31 per share compared to $0.78 per share a year ago.

For the full year, adjusted earnings were $141 million or $3.65 per share, reflecting a 34% increase from a year ago on the 3% increase in revenue.

Looking back even further to 2015, adjusted EPS was $2.52 at that time. So over the past 2 years, we have continued to execute on value-creation programs and we’ve invested heavily in strategic acquisitions. Accordingly, about 1/4 of our earnings expansion since 2015 is related to acquisitions while the remainder reflects organic activities associated with the recovery of core industrial products, cost savings and tax planning.

For the full year, we converted over 100% of net income to cash flow and we deployed $216 million for the acquisition of Globe; $53 million for dividends; and $17 million for share repurchases, primarily related to offsetting dilution.

Our debt to EBITDA at the end of the fourth quarter was 2x compared to 1.8x at the same time a year ago, despite having executed the Globe acquisition for just about $216 million.

I’m pleased with the strong finish in 2017 and the progress we have made in improving profitability and cash flow over the past several years. As we look to 2018, we are planning for mid-single digit organic revenue growth for the full year, up from an organic decline of 1% in 2017, and will continue to focus on driving earnings growth at a faster rate than sales and turning these profits into cash flow that can be used to continue to fund our capital-deployment activities.

With the benefit of U.S. tax reform and a broad-based strength in many of our end markets and geographies, there are a number of tailwinds that would drive value for all stakeholders in 2018 and beyond. We look forward to discussing our value-creation strategies with you at our upcoming Investor Day, which we are hosting at the New York Stock Exchange on March 12. We hope to see you there, but for those that cannot attend, the live webcast and replay of the event will be available on our Investor Relations website.

With that, I'll turn the call over to Bill for some concluding commentary. Bill?
Thank you very much, Ken. I'm pleased with the strong finish to 2017 and the positive trends we are seeing in many of our end markets. As we enter 2018, we are highly focused on investing in areas that drive profitable growth and market share gains throughout our core product portfolio.

With the upward momentum in industrial end markets and tailwind from U.S. tax reform, we believe MSA is well positioned to continue creating value in 2018 and beyond. I want to thank you for your attention this morning.

At this time, we'll be happy to take any questions that you may have. Please remember that MSA does not give guidance and that precludes most detailed discussions 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) And our first question we have is from Rick Eastman from Baird.


Yes, good morning. And Bill, congrats on your pending retirement. Although I think you guys-- I think you've got one more earnings call maybe scheduled in there. But congrats. Nish, congratulations as well. One of the things that struck me here in the quarter was just around International's growth in core products. And that came alive here. I think it was 8% growth rate, and I'm just curious if you could throw a little bit of color around that, Nish. And just -- the sustainability there? And maybe if there was any surprises in there in the quarter? And how sustainable that International growth rate looks going forward?

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

You know what -- I'll just turn that over Rick, you don't know that Bob Leenen's joined us on the call, so President of International's. So we'll let Bob take care of-- take that call for you.

**Bob Willem Leenen** - MSA Safety Incorporated - VP and President, MSA International

Yes, sure. The International story on the revenue side is really 2 separate stories, emerging markets, our business in the Middle East and Asia, performed very well in Q4 and it's been performing very well all year and I would say even before that. And that was diluted partially by weakness in Europe, which is also been a trend we've been saying for a bit of longer time in our business. And the strength was in particular FGFD orders in the Middle East and in Asia and especially, also, the fire service business, in particularly in China. And I think it's fair to say that the emerging market strategy is one we will continue to focus on, and I would expect to see that trend continuing.


Would you (inaudible)
Bob maybe -- excuse me, Rick. Maybe it would be worthwhile to double-click, if you will, on Europe and talk more specifically about some of the core areas of growth in Europe, but we have the noncore area, ballistic helmets, which was off again significantly due to the contracts.

Okay. If we look at Europe, Europe's been performing well in Q4 and last year in the industrial market and also moderately well in fire service. Europe has seen drag in a couple of areas, ballistics being the primary one where we've had a significant decline in large orders. Fall protection, where we've had some execution issues and FGFD, where the North Sea has not been an area of strength in the oil and gas market. What I would say on Europe, I'm assuming that question's going to anyway, is we see some execution challenges, we've made some leadership changes. We're making some other changes, both focused on the short term and the long term, we'll be walking through that in our investor conference in March. The ballistic helmets issues are not really an execution issue, that's just unfavorable business dynamic. I think what's positive to note there is, we won $15 million in orders in Q4, they're not going to ship in Q1, but those orders will provide some tailwind for the first time. Again, more in the second half of the year. And what's nice is that those orders are part of a multiyear frame contract, so hopefully that gives a little bit of a cushion to the European business while we deal with our execution issues.

I think it's an area of opportunity to do improvements, certainly with inflation creeping up, and we have a good line of sight on that.

And Bob, does your 2018 plan, again, I know both Ken and Nish mentioned a mid-single digit expectation for revenue growth. Geographically, is that mid-single digit plus or minus a point? Is that expectation carried over to Europe and just International in general?

So I'll jump in there, Rick. But generally speaking, as Bob had alluded to earlier on, I think that what we're planning for is continued strength in the emerging markets. We're planning for some slight improvement in Europe, and certainly that ballistic business that Bob spoke about will help there. So I think we're just generally planning for improvement across substantially all of the footprint in 2018.

Okay. And then just one last question, I promise you that I'll jump off. But when we look at this -- the claims here and we look at the reserve -- the cumulative trauma reserve now, including the estimates here for IBNR, we're sitting at this $181 million number at the end of the year. We have the ARs from the insurance companies at $212 million. And my question is, as we move into 2018, what is the cash flow matching that we would expect here in 2018? In other words, the $212 million of accounts receivable from the insurance company, how much of that gets collected in '18 relative to an expected payout on the reserved number?
Nishan J. Vartanian - MSA Safety Incorporated - President and COO

Yes, that’s good question, Rick. So if we step back to what we talked about, I believe in the second quarter of last year and into third quarter of last year, we’ve consistently talked about -- there is a matching. It won’t be precise. I mean, there will be periods where you have payments going out but unfortunately you won’t have cash coming in. But for 2018, what we see right now is we see cash collections approximating $25 million to $30 million. So we have already secured cash flows that should be coming in here in 2018 of about $25 million. As you’ll recall, we do have a structured settlement that we agreed to last year, which took out a significant population of claims that will require the use of cash this year as well. So we’re looking to, hopefully, migrate that and mitigate the use of cash with -- on that settlement with funds that we’ve already secured or plan to come in, in 2018.


And as the $212 million is essentially kind of a settlement among, is there a good visibility on how that $212 million flows over the next 5 years.

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

Yes, it’s difficult to do that. That’s part of the reason why it’s not present valued. And so when you look at the calculation and the related flows, it’s very difficult to -- when you look at that to precisely forecast which period. And that’s why we say that it’s going to be --it is difficult to provide a statement that we will fully offset the cash outflow because it is very volatile. And that volatility is a big reason why it’s been very difficult for us to estimate up until this point.

Operator

And our next question we have is from Edward Marshall from Sidoti & Company.


So I’m curious Ken, you mentioned that I think it was 25% of the growth comes from acquisitions since 2015. Just to clear that up for me, was that February or (inaudible) you were referring to?

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

You’re breaking up a bit on me, Ed, there. But I believe that’s related to the earnings improvement that we saw from 2015. I think we went from an earnings per share of roughly $2.52 to $3.65 and 1/4 of that earnings improvement is associated with acquisitions or balances related to organic activities.


Got it. The core product sales are growing nicely, and I’m curious if you can give us a sense of the growth in maybe new products versus, kind of, the legacy products and maybe we can, kind of, dissect what’s driving that.

William M. Lambert - MSA Safety Incorporated - Chairman & CEO

Sure, Ed. This is Bill. We do track our percent of sales from products introduced in the last 5 years, and for full year 2017, our -- what we referred to here -- as our innovation rate is roughly 32%; I believe of our sales in 2017 were from products introduced in last 5 years. So it’s in the range that we had expected it and hope it to be- roughly 1/3 to 40%- I think, we have guided in the past, that’s our target for that rate of sales from new
products. So last year, we’re seeing good growth and, obviously, the G1 SCBA and some of the things we’ve done in fall protection and head protection, actually across the core product lines has done really well.

Got it. Do you have the rate for ‘16 in front of you, that same rate?

William M. Lambert - MSA Safety Incorporated - Chairman & CEO
I’m sorry, Ed, I didn’t hear that question.

I asked if the -- if you have the same rate for 2016.

William M. Lambert - MSA Safety Incorporated - Chairman & CEO
For 2016?

Kenneth D. Krause - MSA Safety Incorporated - CFO, VP and Treasurer
Sales vitality rate. I don’t have that number handy, Ed. I think we’ve talked about it on past call, so you can go back and pull that.

William M. Lambert - MSA Safety Incorporated - Chairman & CEO
Probably in the same range.

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

William M. Lambert - MSA Safety Incorporated - Chairman & CEO
I mean, 30s, low to mid-30s is what I would expect.

Kenneth D. Krause - MSA Safety Incorporated - CFO, VP and Treasurer
So like I said, you want to confirm it precisely. Yes, if you like to confirm it precisely that we’ve certainly have talked about it in past calls, and so it would be easily accessible.

Got it. And how focused should we be on the supply-chain issues you have at SCBA?
Yes, they're not significant. There's 2 components that we got behind on a bit. There's a spike up in demand. We've had a spike of orders come in that we didn't anticipate coming in so quickly, and so we're just ramping up with some suppliers on a couple of components. It's nothing significant or systemic. It's just a matter of long lead times on some components and we'll work through that in the first quarter, but it's not going to negatively impact things in a significant way. We'll just push some orders out into the second quarter.

And our next question we have is from Stanley Elliott from Stifel.

A quick question, so when we look at the business, I know you guys don't want to provide guidance per se. But if we're looking at backlogs being up 10%, and you're looking at more mid-single digits through the rest of the year. I mean, should we expect- at least the viewpoint now-is that we see some moderation at the back half of the year? Or maybe talk a little bit about what visibility you have coming out of that backlog?

Yes, Stanley, it's Ken. It's difficult for us to talk about precisely quarters or even halves. I mean, I think what you'll see here is you certainly will see some nice growth here in the first half as we talk about the order pace we saw to finish the year and also to start the year, I think that certainly provides support. The other thing that I think is really important to remember is the SCBA. And I think Nish pointed it out in some of his commentary with that should help-- some of those large orders that we've received in and that are in our backlog probably won't be shipping until at the earliest the second quarter, but most likely the second half. And so that will provide a bit of a support for the second half as we go forward. But right now, generally speaking, it's just a really good business climate that we're seeing healthy.

Absolutely. And when we think about the SCBA, is there a way to quantify or put numbers around how much is left in this replacement cycle on a go forward basis?

Yes, Stanley, as we've talked about and I think mentioned in my comments, there is-- we think there's a few years left in this cycle. In the past, I think I've mentioned we have line of sight to about 2020 where we think that this current volume, this level of purchase would continue. And we've got some data recently that we looked at as we refreshed going into 2018 that we think it might go into 2021 at these higher levels. And we really don't expect it to drop off significantly. We expect the business -- once we crest to tail off slowly, but we're encouraged by what we're seeing in the international markets with SCBA, and we're also encouraged by the fact that as the industrial users in oil and gas strengthens a bit, they may have some funding to replace some breathing apparatus as we get into those later years. So there's some opportunity there with SCBA as we go forward.

Perfect. And then last for me. On the repatriation of cash, I apologize if you've said it. Assuming your priorities don't really change, is this something for -- are you eyeballing acquisitions? Or how do we think about the cash coming in from overseas?
William M. Lambert - MSA Safety Incorporated - Chairman & CEO

Yes, it’s a great question. We have a pretty well-defined capital allocation strategy that we’ve employed for some time. And we think that not only have we consistently delevered, but we have returned cash to shareholders through the form of that increase in dividend, but also in the last several years made some significant acquisitions that have really helped to provide some solid earnings accretion. And so we’re looking at all 3 or 4 of those areas that we’ll continue to look at and will continue to use our capital for. So stay tuned on that front, but we certainly look at the tax reform as a really positive thing for MSA.

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

I’d apologize, one more. So you’ve blown through the Globe guidance on consecutive quarters. Any update to what you think the EPS accretion could be from that acquisition.

William M. Lambert - MSA Safety Incorporated - Chairman & CEO

Yes, that’s a good question. I think that when you look at that acquisition, it certainly has and continues to perform pretty well. I think in the first 5 months, we guided -- like I said $0.10 of earnings accretion on a GAAP basis. A quarter or 2 ago, I talked about potentially upwards of $0.15 to $0.20. So we’re probably, certainly tracking to the high end of that initial Globe guidance of $0.20. So I think, if anything, we’re pretty confident in our ability to hit the high end of what we had previously communicated to you.

Operator

And our next question we have is from Matthew Gall from Barrington Research.

Matthew Ian Gall - Barrington Research Associates, Inc., Research Division - Senior VP & Senior Investment Analyst

I guess one thing I just maybe wanted to dive into a little bit more, within the core products portfolio, some of the growth rates that you’ve seen there. Bob, appreciate your commentary on some of the challenges in Europe, particularly the fall protection, which for the overall portfolio was up with the American contribution. But I guess just looking at the international opportunity and maybe just the general overall market size for fall protection, where do you see opportunities there? And if there’s certain geographies that maybe -- as Europe, you can go to the execution issues and resolve that, where else is there opportunities for fall protection?

William M. Lambert - MSA Safety Incorporated - Chairman & CEO

Yes, this is Bill, Matt. I’ll take that. Fall protection is an area of keen focus for MSA. We intend to build on the Latchways acquisition and are building on that Latchways acquisition. We see great opportunities across Europe as well as internationally. Falls in the U.S. are the #1 cause of injury and death in the workplace. The standards continue to get revised and improve and heightened, so to speak. And it’s an area that we see some great growth potential. And not just in the developed markets of the world but in the emerging markets of the world. So there is interest in Europe. Bob mentioned just a couple of year-over-year challenges that we had from execution perspective within Europe. But I think those are just temporary in nature. And we still see it as a growth market opportunity for us there.

Matthew Ian Gall - Barrington Research Associates, Inc., Research Division - Senior VP & Senior Investment Analyst

That’s helpful. And then within fire service, particularly in International, end of the year with a strong growth there, was there any particular products that -- I know China was called out as a growth area in the quarter. But with Globe at some point down the road, is that an opportunity to expand the apparel side in international markets?
William M. Lambert - MSA Safety Incorporated - Chairman & CEO

As we've indicated on previous calls, it absolutely is, Matt. We see, primarily, all of Globe's sales today as being North American based. They have very few sales outside of North America, but there are many countries around the world that look to the NFPA standards as the standard to which they want to protect firefighters. So there is great opportunity with MSA's footprint internationally to take the Globe product line internationally, and that is an area of our focus here as we move out into 2018.

Matthew Ian Gall - Barrington Research Associates, Inc., Research Division - Senior VP & Senior Investment Analyst

All right, well, that's all for me. And as Rick mentioned earlier, Bill, you're here for one more call, but best of luck in the future.

William M. Lambert - MSA Safety Incorporated - Chairman & CEO

Thanks very much, Matt.

Operator

And we welcome Mr. Eastman back for our final question of the day.


Nish, could you just speak for a second or two. It appears you've gotten some pretty good traction on the G1 accessorized with the iTIC. And you mentioned Canada went out with that accessory. Could you just speak to -- for a minute to the step up in ASP with that -- with the iTIC on the G1? And also, are there any issues at all with AFG reimbursement with that accessory?

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

So I guess the first question, Rick, on average selling price, the -- obviously, the average selling price has gone up slightly with the G1, couple of areas. We've done a nice job in pricing the G1 and, obviously, articulating the value proposition and the G1 in the marketplace, and we've done a nice job in pressing market pricing where we can. And then in the iTIC is an add-on feature for the G1 that does bump up the average selling price per unit up slightly. So we have a nice opportunity with it. With the installed-base of the breathing apparatus, we've seen some upgrades where people have purchased their G1s in '15, '16 and '17 are doing some upgrades to those units and either seeing departments buy 3 and 4 units, testing them and then adding to that fleet, which has been helpful. And as I mentioned on a couple of Canadian orders, with the majority of those units, I think 1 departments in Canada, 100% of the units were iTIC and then the other ones had -- about half the units had iTICs on them. So it's a nice opportunity for us going forward. As far as reimbursement is concerned, we haven't heard anything on that with regard to the reimbursement, the AFG grants flow with the breathing apparatus, that's been fairly steady. So that's not a major issue. The bulk of the cost, obviously, is the unit less iTIC. The iTIC itself is ballpark and I'll check with Steve, it's about $1,000 selling price?

Steven C. Blanco - MSA Safety Incorporated - VP & President of Americas

That's correct.

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

So it's not the overwhelming price component of the breathing apparatus.

I see, okay. And then just last one for Ken. As you look into 2018, I know you referenced giving a little more disclosure on this as we move forward. But what’s your best estimate of an ETR for 2018? Our map suggests maybe your ETR drops towards maybe 20% to 21% from the 26.6% that you finished ‘17 with. Your thoughts?

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

Yes, just laying some thoughts there. I mean that great differential going from 35% to 21% is very meaningful. But the one thing I don’t know you’re picking up is the loss of the manufacturing deduction credit. And so we actually lose upwards of 400 basis points because that phases out with tax reform, 300 to 400 basis points. So we need to think about that as you model it out. But again, as I talked earlier, as we go through 2018, we’ll provide more guidance as we move forward. But there’s certainly a lot of moving parts there.

William M. Lambert - MSA Safety Incorporated - Chairman & CEO

Okay. Well, thank you, everybody. Seeing that we have no more questions, that will formally 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. So on behalf of our entire team, I want to thank you, once again, for joining us today, and we look forward to talking with you again soon. And hopefully we’ll see many of you at our Investor’s Day, which as Ken noted is scheduled to take place on Mar 12 at the New York Stock Exchange. So thanks, again, and have a great day. Bye-bye.