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OVERVIEW:

Company Summary

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Ross Sparenblek *William Blair - Analyst*

PRESENTATION

Ross Sparenblek - *William Blair - Analyst*

Good morning. Thank you for coming to the MSA Safety presentation. I'm Ross Sparenblek, the research analyst here at William Blair that covers MSA. I'm required to inform you that for a full list of research disclosures and potential conflicts of interest, you can visit our website at www.williamblair.com. Today from MSA, we have Steve Blanco, President and Chief Executive Officer, and Lee McChesney, Chief Financial Officer.

MSA Safety is a global manufacturer of safety products that help protect workers and facility infrastructure. The company is headquartered in Cranberry Township, Pennsylvania, and boasts a strong product portfolio with leading market positions across fire, fire safety, industrial head and fall protection, with a growing adoption of gas and flame detection solutions globally.

So with that, I'll turn it to Steve for opening comments before some Q&A.

Steven Blanco - *MSA Safety Inc - President, Chief Executive Officer, Director*

Thank you, Ross, and thanks to William Blair for the conference, and good morning. Our team is really happy to be here. And as Ross mentioned, I'm Steve Blanco; I'm our CEO and President, privilege to be so. And with me is Lee McChesney. So I'll start this off, I got a few things I'll go through, and then Lee will follow up with some other content. And by the way, we just had our Investor Day in May so there is a ton of content that's on the website, our Investor Relations website, that I'd encourage you to follow up with and get some more material on.

Before we get rolling, just a reminder of Safe Harbor and the forward-looking statements, commentaries. I want to make sure we clarify that. And let's get going.

So as Ross said, we are a safety company. We are 100% pure play in safety. It's been our mission for 110 years, which we'll celebrate this month. And that safety mission has never changed. And that is that men and women may work in safety, and they, their families, and communities may live in health throughout the world. That drives our over 5,000 associates to deliver to the customer solutions that solve their toughest challenges and problems, and that's enabled us to protect over 40 million workers annually. So it really is a positive impact on society and certainly an ESG play as well.

When you look at the business, we're about \$1.8 billion in sales. We spend about \$80 million in R&D a year, which enables a product vitality rate of about 37%. That product vitality driven innovation as well as our business system really enable us to have attractive gross and operating margins. You can see our leverage here. We've got a strong balance sheet, which gives us plenty of flexibility with which to grow the business into the future, which we intend to do. And we've got 54 years running of consistent growing dividends. And this year we increased it by 8.5% in May.

We go to market in three different product categories. On the right, I'll talk to in a little bit. But first, let me reference we've got two segments that we have P&Ls related to. One, the Americas, and it's just what you think. You start in Canada, you go all the way down through US and then Latin South America. That's our Americas business; it's a little over two-thirds. And then the remainder of the world, those sales, are inside of what we call international.

So if we dive a little bit into the product categories, we have three diverse product categories that serve a number of different markets. When we talk about markets, certainly think about energy, utilities, construction, manufacturing. Fire service is a big market. A number of those markets were really broad based across those markets, serving whatever safety needs our customers have. When you think of really the sophisticated safety products and solutions, that's what MSA plays at, and that's where we believe that we can differentiate and win.

So looking at these a little bit more clearly, starting with detection, it represents about 35% of our sales. And detection for us is in two categories. One, what we would call fixed infrastructure or asset protection, that's fixed monitoring. And the other is what we call portable gas detection. So think of a wearable device for someone that's looking for protection against toxic or flammable gases. So those are the two categories we have. Lot of innovation in this space.

We differentiate in a number of different categories. One, we manufacture our own sensors; they're the fastest responding and most reliable sensors on the market. We have a lot of IP in that category. We also have seen some strong growth through innovation. Some of our product categories, on the fixed monitoring, a strong product category for us is the X5000 and S5000 product lines.

For the portable, we recently launched a connected platform called the ALTAIR io 4. So this is an area that we've seen growth from that innovation and also from M&A. So recently, we acquired a refrigeration monitoring company called Bacharach, which is just added to this portfolio, and a nice ESG add for us as well.

In the middle is fire services. Fire services represents about 39% of our business. And in this case, you've got products that start with, like, an SCBA, or self-contained breathing apparatus, that the firefighter wears; and then a head-to-toe solution set, starting with boots, turnout gear, which is the protective apparel firefighters wear, and then helmets. And again, innovation plays a key role here.

We've got two categories of what we call SCBA. One for the NFPA market, predominantly US, Canada, and some areas of the world, Middle East, and then the other is for the end markets. And those are different and they've been launched and been effective and we're seeing some nice growth, especially in the international market with the M1 which was recently launched a couple of years ago.

This is also a market that we serve exclusively through fire service channels. It's a little different. In the other spaces, you'll go to market through industrial distribution or directly to a facility through the engineering community; with fire services, through an exclusive channel that is just serving that fire service market. This is another area where we've seen some real nice growth with connected cloud platforms, and we expect that to continue into the coming years.

Third category is what we call our industrial PPE. The main two product categories I'll talk to here are industrial head protection, where we continue to be number one across the world. We've got a number of products that support this, our iconic V-Gard Hard, as well as some other new launches, including a hat that lowers the body temperature by up to 20 degrees F in heat stress situations that launched last year. And then fall protection. In fall protection, you think of wearables like personal protective, like a harness or a mechanical that attaches to the harness, but there's also a big piece of this business that's related to systems, that's really infrastructure, roofing, et cetera. This has been a business that's grown. It's a very fast-growing category of the safety market, and we intend to continue to innovate in this space, which has been really, really helpful for us.

We recently did an evaluation of our strategy to really look at what we've done well and also what we believe we can improve on, and that's informed us on how we move forward with our strategic initiatives and focus areas. So these four pillars really represent where we're headed and what we believe the key strategy is that we have. On the left, to continue to be the leader in the premium safety solutions. This is really about those three product categories I talked about. It's ensuring that we focus on the innovation we have and the customer intimacy. One of the big differentiators for us is our attachment to the customer, understanding of the customer, and the recognition. We live with the customer day in and day out to understand their pain points, which is what leads us to innovate for solutions based on their challenges.

The next category is what we call targeted growth accelerators. So these are areas that we believe we can compete and win, that are unique, and are areas that give us upside as we go forward. Think of connected solutions. This is an area that's somewhat in its early stages or infancy. It's only the last few years. We've got some product categories here and we believe some really nice technology that we're going to bring to bear, and we believe this is what the customer's ready for.

Services and solutions is another subset that we're excited by and we believe that we've got an opportunity for growth. And then M&A. We've seen success over the last few years with some acquisitions we've done. We'd like to get disciplined about doing that on a more routine and consistent manner.

Third category is the MSA business system. We've been implementing and deploying this. I'll talk a little bit more about this here in a second. And of course, allocating capital effectively. We've been strong financial stewards of our capital, and we plan to continue to do so. And we think we're in a good position to grow the business as we do that. So this business system, let me talk a little bit more about that. This is really our behaviors, our processes, and our tools with which we drive our continuous improvement culture.

So when we think of our CI culture, it's how we really deliver high performance as an enterprise. And we started this journey back in 2012 when I joined, and we started with what we call the operating system. It was operations-focused, lean, principled approach. And then we've expanded that. In the last few years, we've really focused on making this enterprise-wide across all the functions in the organization to really deliver lean, principled cost reduction, improvements, productivity, and utilizing, engaging all of our 5,000-plus associates. That's the journey we're on. We're not finished with this journey. Frankly, you're never done with this journey, but we expect this to be a really nice part of our business success as we look into the future.

So with that, I'm going to turn it over to Lee and he'll talk a little bit more, and then I'll come back up here in a minute. Lee?

Lee McChesney - MSA Safety Inc - Chief Financial Officer, Senior Vice President

So again, good morning. Thank you. Lee McChesney, a privilege to serve as the CFO for MSA Safety. As Steve said, 110-year anniversary this month. And I thought I'd start off with just a little reminder of how we look here for 2024. In the first quarter, certainly, we're encouraged with a nice solid start. We had \$413 million of sales, nice mid-single-digit growth, 21% operating margin, and our EPS grew 18%. We've talked about, really, for the year reconfirmation of mid-single-digit growth as well. We've said, from an orders perspective, I just said it in our Investor Day, we're still seeing really that nice trajectory on track. I can still say that today here as we also have a few more weeks of sales in as well.

One of the things we shared coming out of the first quarter is we had a mix of performance within the businesses. Oftentimes within the business, I'd like to remind people not to be too overreactive to three months because there can be some cycles in orders. [You can see we have some large orders]. And oftentimes you want to look at things over a six-month basis. And again, with this mid-single-digit growth outlook, I think you're going to see all three businesses kind of be at the midway point, really, on their normal trajectory that you've seen historically from us.

Now with that said, we just did an Investor Day so I'm going to pivot a little bit towards what we're seeing obviously now but also as we look forward here. But if I do reflect on what we did in the last couple of years, what we're on track to do here in '24, we continue to really deliver some differentiated performance. So let's pivot there and go backwards here a little bit, look over the last 10 years. Certainly, I think we can all say a lot happened over the past 10 years, whether it's the pandemic or some of the geopolitical swings, but this is a little bit of the nature of MSA Safety. Very diverse business, very sticky business we're in, and it performs well. We've delivered over this time period a nice, solid mid-single-digit growth CAGR.

Again, we have businesses that are nicely diverse. And frankly, we don't have the same cyclicity that a lot of industrials have because of the recurring nature of our business. Whether it's the traditional way to find that or just the fact that so many businesses you begin 10-year relationships based on when you have an initial win and you continue to work with those customers over an extended period of time. That's the sales side. A lot of work also on operating margin and really across the entire portfolio, whether it's SG&A or our work in gross margin. So certainly some really nice progress here to move from the 12.5% type level to over 22% over the last 10 years.

Our focus on improving the business certainly started in operations. Steve joined us 12 years ago, really bringing the operating model to life, which has become the business system. That's really now spread across the entire organization over the past decade. And again, it drives a focus on gross margin improvement, in SG&A efficiency, and certainly I think the numbers show that.

With that said, we also shared recently just what we've done from a return on capital employed basis. We have a business that is a lighter capital basis. And then you mix that with obviously the financials you see on there, it's a really solid, differentiated type of return in our business here.

So what's behind that? So certainly, Steve just talked about the business system, but really the nice value creation model we have at play consistently across MSA. So if we start with growth, again, we are in very diverse, resilient markets. And there's just a growing focus on safety across all companies. All of you who get to spend time with a lot of different companies, and oftentimes you see them talking about safety more than you ever have in the past. And everyone's mindset is how do I protect people more than I did last year and you got to invest in safety.

So whether it's traditional PPE the people wear or some of the things that Steve talked about in terms of really protecting, detecting, and preventing some of these incidents from occurring. So really good model there. Again, innovation is how we solve that. It's not an accident. We have a consistent, 30%-plus vitality. Again, we spend a tremendous amount on innovation and really finding the leading solutions in many of these areas that we focus on. And then, certainly, we have some long embedded commercial relationships. You service your customer well here, they continue to want to work with you.

From a profitability perspective, certainly the business system has brought everything to life. So whether that's classic productivity, whether that's this discipline we've built with pricing, or some of the areas that Steve just talked about in terms of just driving SG&A efficiency, all really coming to life. And then you have some nice things in terms of, like, controlling mix and driving a positive mix. The growth in our detection business has been a nice lift as well to driving margin improvement as well.

You bring it all together, very strong balance sheet and it gives us a lot of optionality. Certainly, we focus on driving organic growth, return to our shareholders. But then again, we have this balance sheet. We can really give us a lot of options in the M&A space as well.

So let's just take a minute to look at that. This is a five-year look at how we have deployed capital. And again, very much first focused on investing in the business. This wonderful balance sheet to leverage, it enables us to invest at the levels we've spoken about, from driving innovation perspective. It's about a third of what we've done historically. A little bit of a larger mix over the last five years towards M&A as well. And we also have a legacy liability divestiture.

But if you step back and think about as you look forward here, very consistent message. About a third of this is going into investing in the business, a third in investing in return to our shareholders. You've seen that with our recent increase in dividend, our 54th consecutive increase in dividend, a 8.5% increase most recently. And then we also announced our \$200 million share buyback, which we were in the market today activating under to make sure we offset any dilution from our employee compensation programs. And then again, last, a third available to invest in non-organic opportunities and innovation.

And so this situation we're in today is kind of where we've been in the past and certainly our mindset looking forward here. And the strength of all that capital, that cash flow we have, and then the strength of what we have in terms of what we can do from a debt perspective, we're in a very good situation. And the first thing I want to do is continue to invest in our businesses. Again, organic growth certainly drives the highest level of return, but we've also shown an ability to find the right assets and create a ton of value.

So where do we do that? Well, certainly, it's in our core businesses. We love those businesses. They've been really a big catalyst for the last 10 years for us where you've seen this acceleration in performance. So that could be in detection. Recent examples like Bacharach, where strong brand, excellent market position, in a space we've already had experience. And there's other examples like that in detection that we'll certainly participate in. In fire services, again, that could be a geographic opportunity, but then it could also be an extension of what a firefighter uses to fight a fire or protect people.

And then finally, as Steve mentioned, we have this wonderful business in head protection and fall protection. We put a bigger focus on fall protection. There could be some opportunities there around the world as well. But again, we'll be very disciplined. We're looking for leading positions, places where innovation matters, and certainly we want to make sure they hit all the financial thresholds as well. So we're always looking at transactions, but it's got to fit the filter. But again, the nice thing here is we have a very strong balance sheet. And it's been important in the past, we probably have the capability to do even more of that over the next five years as well.

So one of the things we did a couple of weeks ago as well was we did issue 28 targets. So I think we had not done in the past. That certainly speaks to not only our confidence level and what we've done historically, but also what we see we can do over the next five years as well.

So again, we talked about this consistent mid-single-digit growth, leveraging our market position, and really enhancing a consistent focus on innovation. We've also spoken about a goal of 30 to 50 basis points of targeting an improvement in operating margin. That would come through both gross margin improvement and continued evolutions within SG&A. And all that gives us a platform to really deliver an EPS beyond \$10.

And again, that's all an organic mindset. And certainly with the ability we have in the balance sheet, there's opportunities to enhance that even further. Again, all coming together under this perspective of still driving a return on capital employed, of 20% plus while doing this, and you've certainly seen us do that over the last 10 years.

So with that said, let me pass you -- maybe we can do it from here. We'll pass back to go from there and we'll just give Ross some time here.

Steven Blanco - MSA Safety Inc - President, Chief Executive Officer, Director

We got one last slide just to help kind of pull it back together. So just key takeaways we'd like you to think about when you think of MSA is certainly we think being mission driven is a big differentiator for us. It not only matters because of how we drive that mission with our customers, but it really enables us to have top talent. We retain top talent, we attract talent, because they're all driven by that mission. They just drive -- they really like that purpose that we have and it helps us from all categories of the business.

Leading positions, Lee talked about this too. We believe they're really attractive and resilient markets. The safety market, the secular trends continue to be really strong. So we expect that to continue, as he just said, over the next time horizon. Our intent is to continue to innovate based on what the customers' needs are to drive that profitable growth. So it's another piece of that story of how we think organic is a major driver for that outgrowth on the profitability.

The business system, I think we talked enough about that, but that is a key lever for us and what we believe makes us unique in how we can execute going forward. And then the capital allocation. We've got a lot of opportunity to utilize that capital, and we're looking forward to doing so for growth.

So with that, I'll hand it to you, Ross.

QUESTIONS AND ANSWERS

Ross Sparenblek - William Blair - Analyst

Thank you for that, gentlemen. Very helpful. (inaudible - microphone inaccessible)

So MSA had a nice start to the year where there's generally some uneasiness around broader industrial demand. So can you just maybe provide us an update on where orders [are going to stand through May] and what you're seeing across the three segments?

Steven Blanco - MSA Safety Inc - President, Chief Executive Officer, Director

Yes. Lee, if you maybe want to add something at the end of this. As we said at the earnings call, we felt like the start of Q2 was good, and that's continued. We were very pleased with what we saw. The order pace was in May across both segments. Industrial, still choppy. It's not consistent, but the pace of business across the other two categories has been very strong and really fits what we expected it to be. So we haven't seen anything that changes that story for the entire year. So I'd say, overall it's pretty good. I don't know if there's anything else on top of that.

Lee McChesney - MSA Safety Inc - Chief Financial Officer, Senior Vice President

Yes, I'll just reinforce the point that, again, mid-single-digit growth in the first quarter. You saw fire be particularly strong and then you saw different trends in detection and industrial PPE even again. The business can be lumpy. There were some weird comps. I think as we've said all along, when you get through six months, you're going to see the businesses really are performing very much in line with what you've seen historically in the mid-single-digit category.

Ross Sparenblek - William Blair - Analyst

Great. Maybe outside of the macro. I mean, you guys provided what appear to be pretty credible 3% to 5% growth targets over the next five years. Can you walk us through your R&D roadmap and how you're thinking about actually outgrowing that or maybe any challenges --

Steven Blanco - MSA Safety Inc - President, Chief Executive Officer, Director

The R&D roadmap?

Ross Sparenblek - William Blair - Analyst

Yeah, just the digital strategy (multiple speakers)

Steven Blanco - MSA Safety Inc - President, Chief Executive Officer, Director

No, it's a great question. So we have -- one of the things, if I back up, that we've historically done and we continue to do is we spend a lot of time with the customer. I referenced that a little bit, when we do a lot of VOC, or voice of customer, typically with the customer in the field doing the jobs they're doing, trying to really shadow what they do, and that's enabled us over the last decade to innovate in ways that match the needs they have. Because when we see a challenge, we try to come back with a solution and say, hey, does this address the problem you have? And doesn't always work, right? Sometimes it's not a solution that fits.

But most of the time, we've got some really good wins based on that, like, the G1 breathing apparatus and then the M1 breathing apparatus, the harnesses we have. It's the first harness that was custom fit that fits a female construction worker. The same thing with turnout gear, we have that same fit category because we look at the customers and the demographics to try to match those.

As we look forward, we're trying to do the same thing. And I would reference the ALTAIR io 4 that we recently launched. So the MSA+ is a connected platform we have. It is a cloud-based solution that ensures that any of our end user customers, as they look to protect their workers, so think of an industrial site, they may have 400 people that need to have one of these individual detection devices, they are able to monitor all 400 associates and they have situational awareness for each associate no matter where they are. It could be on that site, it could be halfway across the world and they have one individual or a team, however they want to manage it, they can monitor everybody, tell them when they evacuate from wherever they're at, as well as communicate with them of any issues, or when they have an alarm or an alert, be of aware that. And that's based on a customer feedback.

So you're going to see more product categories like that, especially in detection. Again, the ease of use is a big deal. So in the old ways of how that industrial customer would monitor these detection devices, they'd have a line. Just think of this: you got a line of people, they got to come in and they either got their Excel spreadsheet and they're taking your name. Hey, Steve, here's your number, and they give you a device and you walk out, and the next person, et cetera. Well, that takes a lot of time. And inevitably, some of these bigger customers are losing these detection devices right there in the back of trucks or wherever else.

But now our device, you just walk up, you get an [RFD], and you are immediately tagged to you, and it stays to you till you return it. And for them, it doesn't necessarily help them detect the toxic or flammable gases, but its ease of use for the customer. It allows them to manage their asset,

know where it's at, and know who it's attached to. So those are things when you spend time in the field you understand and you're able to provide those solutions.

Ross Sparenblek - *William Blair - Analyst*

Maybe really quick on margins. We have a couple minutes left here. Where do you think you are in your [MBS] journey? And can you maybe help us frame that 30 to 50 basis points as we think about volume mix and what you guys control yourselves through productivity?

Steven Blanco - *MSA Safety Inc - President, Chief Executive Officer, Director*

Lee, you want to take a stab at that?

Lee McChesney - *MSA Safety Inc - Chief Financial Officer, Senior Vice President*

Yes. So we've spoken about 30 to 50 basis points, targeting that type of improvement in operating margin each year. And I say targeted. It's a mindset, again, on all the elements of the business system, from productivity to SG&A, to pricing, driving positive mix as well. We've said that's what we're going to go after each year. We've certainly had some nice momentum over the last several years with our margins.

And one thing we don't control is what happens in the macro environment. But with that said, our mindset is to drive this improvement each year. That should give us an opportunity that when -- if there was an FX environment or some type of a geopolitical thing, that we still are in a pretty good position to protect those margins. And absent that, you have continued opportunity to keep driving improvements. But we'll focus on what we can control. We certainly have a nice rally. As we've said a little bit here, the MBS journey is never over. We're always looking for those next levels of improvement.

Ross Sparenblek - *William Blair - Analyst*

All right, Steve, Lee, thank you guys. We'll be hosting a breakout session in [Genie B] right after this.

Steven Blanco - *MSA Safety Inc - President, Chief Executive Officer, Director*

Thank you.

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