REFINITIV STREETEVENTS

EDITED TRANSCRIPT

MSA.N - Q3 2020 MSA Safety Inc Earnings Call

EVENT DATE/TIME: OCTOBER 29, 2020 / 12:30PM GMT

OVERVIEW:

Co. reported 3Q20 adjusted EPS of $0.94 and YoverY revenue decline of 13%.

CORPORATE PARTICIPANTS

Elyse Lorenzato *MSA Safety Incorporated - Director of IR*

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

Nishan J. Vartanian *MSA Safety Incorporated - Chairman, President & CEO*

CONFERENCE CALL PARTICIPANTS

Brendan J. Popson *CJS Securities, Inc., Research Division - Equity Research Analyst*

Lawrence Tighe De Maria *William Blair & Company L.L.C., Research Division - Co-Group Head of Global Industrial Infrastructure*

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

Stanley Stoker Elliott *Stifel, Nicolaus & Company, Incorporated, Research Division - VP & Analyst*

PRESENTATION

Operator

Good day, and welcome to the MSA Third Quarter 2020 Earnings Conference Call. (Operator Instructions) Please note event is being recorded.

I would now like to turn the conference over to Elyse Lorenzato. Please go ahead.

Elyse Lorenzato - *MSA Safety Incorporated - Director of IR*

Thank you, Drew. Good morning, everyone, and welcome to MSA's Third Quarter Earnings Conference Call for 2020.

Joining me today are Nish Vartanian, Chairman, President and CEO; and Ken Krause, Senior Vice President, CFO and Treasurer.

Before we begin, I'd like to remind everyone that the matters discussed on this call, excluding historical information, are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995.

Forward-looking statements include, but are not limited to, all projections and anticipated levels of future performance. Forward-looking statements involve risks, uncertainties and other factors that may cause our actual results to differ materially from those discussed here. These risks, uncertainties and other factors are detailed in our filings with the SEC, including our most recent Form 10-K filed in February of this year. MSA undertakes no duty to publicly update any forward-looking statements made on this call, except as required by law.

We've included certain non-GAAP financial measures as part of the discussion this morning and the non-GAAP reconciliations as well as our Q3 press release are available on our Investor Relations website at investors.msasafety.com.

With that, I'll turn the call over to our Chairman, President and CEO, Nish Vartanian.

Nishan J. Vartanian - *MSA Safety Incorporated - Chairman, President & CEO*

Thanks, Elyse, and good morning, everyone. This morning, I'll provide an overview of how we're executing in this environment and give more insight into the steps we're taking to position MSA for continued value creation in both the near term and long term. Ken will then provide a quarterly financial review and give more texture on various demand trends we're seeing across our portfolio. After that, we'll start the Q&A session.

The COVID-19 pandemic and ripple effects on employment and the economy continue to impact our business in the third quarter with revenue contraction of 13%. From an incoming order standpoint, we were disappointed with the overall order pace in the months of July and August, the greatest weakness coming from short-cycle products related to the oil and gas and commercial construction markets.

We did see significant order pace improvement in September and October. In fact, we were pleased with the last 8 weeks of incoming business, which was up versus 2019. While we're hopeful the worst is behind us, it's difficult to say that definitively with reports of rising COVID cases and concerns that our customers might experience future job site shutdowns or a slowing of reemployment.

While it was a challenging quarter, we continue to see a number of benefits from investments we're making. We also believe the steps we're taking during this pandemic will create an even stronger MSA as we emerge from this environment.

I want to highlight 5 key areas that give me a great deal of confidence in our future. First, the importance of safety has never been more evident than it is today. And MSA's mission of protecting worker health and safety through innovative product solutions and services continues to grow in relevance and importance.

Second, we remain very well positioned as the safety technology leader. We continue to invest in new product development to drive organic growth while providing our customers with innovative market-leading solutions to address their challenges of protecting their employees. We've often stated that one of MSA's core competencies and differentiators is our global commitment to engineering excellence.

With that in mind, we continue to invest heavily in product development across our core markets. From our G1 and M1 SCBAs to the X&S 5000 transmitters, ALTAIR io360 gas detector to new smart PPE technology and our groundbreaking LUNAR system for firefighter accountability, we're forging ahead with an R&D portfolio that brings to market the most advanced safety solutions available today.

To provide just one example of this, with the launch of our innovative line of fall protection harnesses under the V-Series umbrella, we've now turned our attention to reimagining our line of self-retracting lanyards and redefining the role technology can play in enhancing workers' safety at heights.

More specifically, we recently launched a patent-pending Personal Fall Limiter with a smart hook connector that using RFID technology alerts wearers when they're not secured to an anchorage point. Unfortunately, falls remain as the number one cause of death on construction sites, and many of those falls involved individuals who are wearing fall protection equipment but are not tied off to an anchor point. This technology helps customers to address this issue.

And already, the V-TEC io1 Smart Hook PFL is being used by one large U.S. customer with significant upside potential. We foresee many applications for this type of smart compliance product all over the world. Today, our V-TEC io1 falls squarely in the center of two important and evolving global megatrends, protecting the safety of workers at heights and the growing use of connected data to provide insights that will make workers safer. Over time, we expect to expand the use of the V-TEC io1 across industries and applications.

Third, our balance sheet remains very strong. With leverage less than 1x on a net basis, we're well positioned to use it to drive inorganic growth, both in our existing product lines as well as expanding our addressable market in areas that align with our safety mission.

Inorganic growth remains an important part of our strategy. So it's great to see the M&A market opening back up. We've been very active in recent months with pipeline development and continue to engage with a number of attractive targets in our core markets. And as always, we'll stay disciplined.

Fourth, the MSA team is executing well and driving improved productivity. Despite the revenue contraction of 13%, we were able to maintain very healthy margins. Strong SG&A leverage continues to reflect these programs, and notably, our International segment margins continue to see nice expansion, up 230 basis points year-to-date despite the challenges we continue to see on the revenue line.

As you know, our restructuring programs have been largely focused on the International segment, and we've accelerated our cost reduction road map in that segment as a result of COVID.

Bob Leenen and the entire International team have made great progress against the European cost reduction road map that we laid out at our last Investor Day, which includes footprint rationalization, leveraging shared service centers, manufacturing optimization and other areas of improvement.

While we have additional programs that we will continue to execute in International, we're now taking a global approach to drive structural cost reduction during this downturn. The restructuring investments in the third quarter are expected to drive improvements in our business model for the long-term across all of our reporting segments.

And last, but certainly not least, we have a very strong team at MSA. We put a great deal of effort in employee engagement, talent development and motivating our team to drive results. As many of you have seen on our website, MSA was recently named Western Pennsylvania's Top Workplace among large companies by the Pittsburgh Post-Gazette. The Post-Gazette program assesses employee perceptions on engagement, leadership effectiveness, connection to an organization's mission and values and benefits program. This marks the seventh time MSA Safety has achieved a Post-Gazette top workplace designation, but the first time we've risen to the number one spot.

For us, what makes this recognition particularly meaningful is the fact that the results are based exclusively on feedback from employees. This kind of associate engagement is always important to us but it's taken on an even greater level of significance this year given the challenges we've all faced during this pandemic. It's a tribute to the culture at MSA. As an organization, we're executing on a number of strategic programs to position MSA for continued success, and none of that happens without attracting, developing and retaining the brightest talent.

With worker safety being more important than ever, we continue to invest in growth and productivity programs to enhance our market leadership positions, provide an exceptional customer experience and expand our margin profile.

To achieve those goals, we focused on the five areas I discussed today, which included leaning into the secular trend of safety, investing in R&D and organic growth, driving global productivity programs and retaining and developing our talent. And I'm confident these programs will position MSA as an even stronger company as we navigate and emerge from the economic recession.

With that, I'll now turn the call over to Ken to take you through our financial results. Ken?

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

Thanks, Nish, and good morning, everyone. A few high-level observations before I discuss the quarterly financial results in a bit more detail.

Economic conditions in the quarter presented a challenge, especially in areas where we saw resurgence in COVID-19. Although macro-related challenges presented us with a number of hurdles, the team executed very well. Despite the revenue decline of 13%, we maintained a decremental operating margin of about 20%.

Our focus on productivity and improving our business model has never been any greater than during this downturn. This focus is yielding nice results, and I'm very pleased with this progress, especially in our International segment, where our margins are up 240 basis points in the third quarter and 230 basis points year-to-date. Despite the quarterly constant currency revenue being down 9% for the segment, we saw meaningful improvements in profitability.

We felt the biggest impact from COVID in the Americas, and notably in the United States. Quarterly revenues were down 15% in the Americas and off more significantly in the U.S., our most profitable segment. Revenues in September were up 3% in the U.S. but finished the quarter down versus the same quarter a year ago after a very challenging summer. As we discussed with you on our last earnings call and again in September on public webcast, we need to keep a close eye on the resurgence of COVID and the impact the resurgence is having in our key markets, notably the oil and gas and commercial construction markets as that certainly had an impact on our business over the summer months.

As Nish had mentioned, we are implementing global structural cost reduction programs that will help us emerge from this downturn with a stronger margin profile. I'll review the associated restructuring investments and savings goals with you today.

Let's take a closer look at the financial results in the quarter.

Quarterly revenue was down 13% on weakness across much of our portfolio, partially offset by growth in respirators and ballistic helmets. We saw revenue declines of 15% in the Americas segment and 9% in our International segment. While currency was neutral to consolidated revenue overall, it provided a headwind of 2% in the Americas and a tailwind of 4% in our International segment.

As I had indicated on a public webcast in mid-September, it was a very tough summer. We had a very challenging July and August in our employment-based industrial PPE, especially in the U.S., which includes fall protection, head protection and portable gas detection. These products are sold into a variety of industries, including oil and gas and commercial construction, both of which are feeling the impact of a slower growth environment brought on by the COVID virus. The resurgence we saw during this summer presented a number of challenges in Q3. We were encouraged by the improvement in September with a sequential uptick in both orders and sales across nearly every area of our business.

Similar to the second quarter, the employment-based industrial PPE area of our business is where we saw the greatest challenges in the quarter, down 25%. While it is difficult to forecast demand for these products in the coming months and quarters, it was good to see some reprieve in September relative to the weakness we saw over the summer.

In the fire service market, our business was softer in Q3 based on the delays in SCBA evaluations that we had mentioned in the spring due to social distancing measures. As AFG funds began to flow in August and into September, we built SCBA backlog and inventories. We had some very large competitive conversions across the U.S. in September. Our pipeline and competitive advantage continues to be very strong, both in the U.S. with the G1 and internationally with the M1 SCBA.

The Globe business continues to perform well from the demand side. We built backlog and inventory in this area in the third quarter. While we've had some production constraints at Globe due to COVID and social distancing, turnout gear is a steady-state, defensive piece of the portfolio.

Our APR line continued to drive growth in the quarter, increasing 24% from a year ago. This growth is masked a bit in the press release by lower shipments of thermal imaging cameras in the U.S. and declines in other noncore revenue in Latin America.

As I had indicated on public webcasts throughout the quarter, we saw orders moderate for respirators over the summer, so we expected the growth rate in the second half to step down from the first half. While we have made good progress reducing lead times over the past few months, we still carry elevated backlog and inventories in this area. We expect to see continued improvements through year-end.

From an overall backlog level, we exited the quarter with backlog that approximated Q2 levels. Backlog is up considerably versus the same time a year ago on higher backlog in SCBA, turnout gear, and air purifying respirators.

Gross profit declined 180 basis points from a year ago as we incurred about $9 million of higher costs in the quarter associated predominantly with inefficiencies associated with the lower throughput in our factories and to a much lesser degree, implementing measures associated with COVID safety protocols. These items had a significant impact on our Americas segment margin.

I do want to note that price realization remains healthy across the business. We're capturing the pricing we expected when we set our price list around this time last year. We continue to ramp up our focus on pricing across our business and are seeing some very nice results, especially in our International segment.

SG&A expense of $65 million was down 22% from a year ago. We delivered $8 million to $10 million of savings from discretionary cost savings and previously executed restructuring programs in the quarter. We also reduced our variable compensation accruals by about $6 million in the quarter, based on the trends we saw in the third quarter. Additionally, we saw favorable adjustments on other accruals like medical costs that reduced quarterly SG&A by about $3 million.

As I had indicated earlier, we've been aggressive on the cost side to improve our business model and keep MSA on track toward our long-term margin expansion goals that we have shared with you in the past.

We incurred just under $8 million of quarterly restructuring expense to accrue for cost reduction programs across all of our reporting segments. We've invested or accrued $18 million of restructuring through the first nine months of 2020.

In total, we expect these programs to collectively deliver $10 million to $15 million of savings across the income statement in 2021 and expect annual savings of $15 million to $20 million thereafter. These savings should help to partially offset the impact of variable compensation resets and other discretionary costs coming back into the P&L in 2021.

Our goal on this front is aimed at improving the business in the downturn, which will position us to emerge from these challenges as a stronger, more profitable company.

Quarterly adjusted operating margin was down 40 basis points versus the same quarter a year ago. Year-to-date, adjusted operating margin is 18.4%, up 30 basis points despite the revenue contraction of 5% from the pandemic and related recession. Year-to-date decremental margins are about 15%. As we discussed earlier in the year, we expected our decremental margins to be better than our incremental margins, and it's good to see that being reflected in our quarterly results.

Quarterly adjusted EPS was $0.94, down 18% versus the same quarter a year ago. The effective tax rate was 29.5%, up 240 basis points versus the same quarter a year ago on a less favorable mix of profitability, nondeductible compensation and statutory rate increases internationally. While adjusted operating margins were healthy, the lower revenue and the higher tax rate weighed on quarterly EPS.

Quarterly free cash flow conversion was pressured on higher inventory levels. Additionally, we paid taxes that approximated $14 million in Q3 that normally would have been paid in the first half but were deferred into Q3 under the Cares Act.

Let me dissect working capital in a bit more detail for you. Inventory was the largest use of cash in the quarter as we saw an increase in order pace and backlog late in the quarter. While the higher backlog is driving a portion of the increase, we also are preparing and ensuring we have sufficient inventory on hand to respond to customers as business conditions improve.

As we've indicated in the past, we're always looking to strike the balance of investing in inventory to position MSA for share gain upon a rebound, while also being mindful of cash flow. Our strong balance sheet provides us with flexibility in this area. Nonetheless, based on our working capital planning and most recent forecasts, we would expect to see improvements in the inventory balance going forward.

We continue to apply best practices to receivables and continue to see very good results on this front. Receivables provided a source of cash, and we saw improved collection days.

AP and accrued expenses used cash in the quarter as we paid the taxes I spoke about a few moments ago. Stepping back and looking at the first nine months of the year, we generated $78 million of free cash flow versus $65 million in the same period a year ago. We use this free cash flow to fund our dividend and to buy back shares while maintaining very healthy leverage ratios.

Looking at our balance sheet. The balance sheet remains very strong, and our capital allocation priorities remain balanced. With leverage of 1.2x on a gross basis at quarter end or less than 1x on a net basis, we remain well positioned to continue investing in our business. In addition to R&D, restructuring and manufacturing optimization projects that are ongoing, we continue to pursue M&A opportunities in our core markets.

To wrap up, order pace improved in September and October compared to the very weak results in July and August. There continue to be bright spots throughout the business, but with the economic challenges and very dynamic environment, it's difficult to put a fine point on the fourth quarter and 2021 at this point. What I can tell you is that we have seen nice improvement in September and October versus what we saw in July and August.

At this point, we are planning for sequential improvement from Q3 to Q4, mostly driven by our fire service business, which is directionally aligned with normal seasonal trends. From a year-over-year basis, we will be up against a very difficult comparison overall based on softness in the industrial PPE business and the very strong performance in FGFD in Q4 of last year.

As we look ahead, we are actively executing on a portfolio of margin expansion projects across all of our geographies, with a particular focus on structural cost takeout to drive 2021 savings. I've often said, MSA's success is not reliant on any one product line, acquisition or restructuring program. That continues to be the case, and we see plenty of opportunities to drive long-term growth and improve our business model over the coming years.

So while we're managing through a challenging environment and recession in the near term- and the shape and timing of economic recovery remains unclear to all of us- the long-term growth and value creation opportunities for our business has not changed.

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

Nishan J. Vartanian - *MSA Safety Incorporated - Chairman, President & CEO*

Thank you, Ken. While it's certainly been a very challenging year, I have a tremendous amount of confidence in our strategy and the team we have executing it. As we have noted, both today and on webcasts through the quarter, Q3 started very weak, and although we saw signs of improvement in September, it was not enough to offset the weaker July and August.

Even with that, MSA's business model is showing resilience, as evidenced by our strong margin profile despite the economic and revenue challenges in key markets. Our balance sheet positions us well to invest in acquisitions, and we're very active on that front.

And lastly, we're pushing forward with structural cost takeout to support and improve upon a very strong incremental margin profile as we emerge from this pandemic.

At this time, Ken and I will be glad to take any questions you may have. Please remember that MSA does not give guidance. Having said that, we'll now open up the call for your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) The first question comes from Stanley Elliott of Stifel.

Stanley Stoker Elliott - *Stifel, Nicolaus & Company, Incorporated, Research Division - VP & Analyst*

You talked a little bit about October trends improving. Is there any way you could kind of help us a little bit more about that? You mentioned some of the products, but I'd love to see kind of how the cadence has improved from September as we're thinking about the back half of the year or back part of the year.

Nishan J. Vartanian - *MSA Safety Incorporated - Chairman, President & CEO*

Sure. Yes, we saw very strong improvement in September, and that was really led by the fire service products. We talked about AFG grants being released in that business coming through., and that came through as we anticipated. It was very strong, as Ken mentioned, with the Globe products, SCBA and across the board. So the fire service was very strong.

What was a little surprising to us is how strong and how quickly the PPE industrial products snapped back in September. And that strength continued into October in both areas, so it's encouraging to see. While we were disappointed with what we saw in July and August, we weren't surprised by that.

We talked about that during some calls earlier with job sites shutting down in the Southeast and on the Gulf Coast. We had a feeling that we would see our PPE business contract along with that. We were a little surprised with how quickly things snapped back. And so we just don't know what's going to happen going into the future. I'm sure it's your next question. With COVID cases popping up, there's a lot of uncertainty out there, but what was very encouraging is how the business came back.

Ken, I don't know if you want to add some more color to that.

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

The only thing I would add, Nish, is a couple of things. September was a good month for us. And it was the first time, quite frankly, that we saw core business growth since the early part of this pandemic.

Our core business was actually up about 11% in September, so it was a really good month for us. And really nice to see the run rate of the business step up. It's hard to compare our business today in [October of 2020 to October of 2019] (corrected by company after the call) because so many things have changed.

But what I can tell you is that the run rate of business has improved nicely from what we saw in July and August earlier in the year.

Stanley Stoker Elliott - *Stifel, Nicolaus & Company, Incorporated, Research Division - VP & Analyst*

And could you update us on the Jacksonville facility? How is that coming along? And then as it relates to the APR demand? I mean I understand that it's going to step down, but I'm curious to find out if you're seeing any customer cancellations, kind of what the market sizing opportunity, if that's changed in your view given kind of where we are, 6, 8 months after the start of the pandemic?

Nishan J. Vartanian - *MSA Safety Incorporated - Chairman, President & CEO*

Sure, Stanley. Yes, we're right on schedule with the ramp-up of our Jacksonville facility. The team has done a nice job in ramping up production with the CapEx expense there. And we're near capacity where we anticipate it to be at this point. So good progress there.

As you mentioned, the APR products and the pipeline for business, that's moderated as we signaled in the past, but we do expect to see a solid growth through the balance of the year based on the backlog we have. And we'll work at backlog down through the fourth quarter. We continue to work on opportunities within health care and first responders for APR products. As the pandemic numbers rise, there could be some more opportunity for that, so we're certainly prepared to respond. The pipeline remains pretty good, and as we mentioned, we'll shift that through the balance of this year.

Stanley Stoker Elliott - *Stifel, Nicolaus & Company, Incorporated, Research Division - VP & Analyst*

Perfect. And then you mentioned a global restructuring opportunity here. Do we think that it's more North American based? Is it more international? Just trying to get a flavor as we think about the margin opportunity side here.

Nishan J. Vartanian - *MSA Safety Incorporated - Chairman, President & CEO*

Sure, Stanley. So obviously, we're continuing to execute on our International restructuring programs and really proud of what the team's done in International, especially in Europe, where we have shown some nice margin expansion through the year. And we think that there's more upside to that. We talked about the 15% operating margin. And certainly, there's some upside to that as we go forward.

We're identifying opportunity in other parts of the world, so we're really taking a global approach. Ken mentioned the cost takeout that we have, and we're executing on that here, and we'll see some benefit of that in 2021 and in future years. So there's some nice opportunity to leverage our systems and business processes to where we can find greater efficiencies.

I fully expect to see our margins continue to do well as we go into the future. There's some nice upside. It's great to see the margins hold up around 18%. Year-to-date, we're above 18%. And certainly, we have some opportunity going forward as we realize good execution around pricing and our cost controls.

Operator

The next question comes from Dan Moore of CJS Securities.

Brendan J. Popson - *CJS Securities, Inc., Research Division - Equity Research Analyst*

This is Brendan on for Dan. I just wanted to ask with -- just looking at your noncore products. Obviously, you've had a lot of volatility this year with respirators and other products in there. How should we think about that going into next quarter and beyond? Do you think are 2019 levels more what you'd expect? Or do you think the baseline has increased, but maybe not obviously quite what 2020 was with the respirators?

Nishan J. Vartanian - *MSA Safety Incorporated - Chairman, President & CEO*

Sure. That's hard to put a finger on because there are some moving parts. Obviously, the fourth quarter, we expect to see some decent growth, year-over-year growth in 2020 fourth quarter for the APR products or the adjacent products. But as we go forward, there could be some opportunity with APR products with stockpile opportunities with elastomeric respirators, possibly powered air purifying products.

So it's really hard to put a finger on where that's going to land and level out for us as we get into 2021. There's certainly some opportunity, but we don't have enough certainty around that to put a number on that.

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

It's a lumpy business, Brendan. The noncore business can be a bit lumpy from time to time. When we look at what's in that business, not only are we talking about our respirator line, but we also have our ballistic helmet line that's in Europe.

And so oftentimes, you'll see large contracts come and go; it can be lumpy from time to time. But generally, we feel like the portfolio is fairly well optimized at this point, and the products that are left in that part of the portfolio are value-creating for our customers and our shareholders.

Brendan J. Popson - *CJS Securities, Inc., Research Division - Equity Research Analyst*

Great. And then looking at federal funding coming into fire safety. Obviously, you guys have said you're starting to see that, which is great. Any updates on anything else? I know there's some talk of potentially more -- obviously, is it mostly dependent on how things go next week with the election? Or is everything just kind of in limbo at this point? Or any updates there would be great.

Nishan J. Vartanian - *MSA Safety Incorporated - Chairman, President & CEO*

Well, our outlook for the fire service business remains very positive. We're where we anticipated being at this time of the year with the order pace in the business with fire service. We continue to compete well in the marketplace.

As Ken mentioned, the Globe business is a real consistent business. We didn't have a hiccup in that business whatsoever from a booking standpoint. The onus is on us to get product out the door and work through production and reduce that backlog.

As we go into the future, our pipeline for breathing apparatus opportunities and the overall business remains good. During the Republican administration, the federal funding was respectable for the fire service, and we had some good years here. There's a lot of talk, if we get a different administration in there, that we could see even more funding for the fire service. So there could potentially be some upside under a Democratic administration, where there could be some more federal funds flowing into the fire service and other municipal markets.

So the outlook for fire service remains fairly solid for us as we go into 2021. If you step back and look at what was in the draft bills earlier in the year, both sides, regardless of Democrat or Republican, had broad-based support for the firefighter community. And there was a tremendous amount of support in those bills, both coming out of the Democratic side as well as the Republican side.

So regardless of who's in the White House, we feel like there will be really good support for our firefighters.

Operator

The next question comes from Richard Eastman of Robert W. Baird.

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

Nish, when you speak to maybe sequential revenue improvement, obviously, from third to fourth quarter is that -- and you highlighted maybe fire service was the visible driver there - When you look at the rest of the business around industrial, some of that short terms, but you get the fixed gas and flame business, when you look to the fourth quarter, is the confidence around sequential growth on the industrial side, really around the backlog, which obviously remains pretty healthy and the visibility on shipping of that backlog?

I mean there haven't been any cancellations or push-outs beyond year-end that impact that confidence is there?

Nishan J. Vartanian - *MSA Safety Incorporated - Chairman, President & CEO*

Right. Yes, that's correct. When we look at our backlog, this time of year, we get the normal rotational shift into the fire service products, and that's exactly what we see. On the industrial products, that product that comes in and it ships out. It's very short cycle, and it's hard to really project where that's going to go. And also keep in mind the normal seasonality of the PPE products. From November through February, that's a soft time of year for those products, right? The winter months, you don't see a lot of construction sites opening up in the Northeast; there's not a lot of activity. You have fewer workdays.

Traditionally, those are weak months for us. But what was really encouraging for us is the fact that those PPE products came back really strong in September and October. It remains to be seen how the business trends as we go forward. That's the one thing that we're watching very closely on a day-to-day basis.

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

And just speaking of backlog, I mean Globe's revenue, I think, is tracked down like 23%. So they must have a pretty substantial backlog of product. Is it possible -- I mean I don't know what the manufacturing, the time to deliver product. But how quickly can that business ramp back up? And from a manufacturing standpoint, supply chain standpoint, how quickly can they turn and ship?

Nishan J. Vartanian - *MSA Safety Incorporated - Chairman, President & CEO*

Yes. The backlog in the business there, Rick, is down about 6%. And so we look quarter-over-quarter, is that correct, Ken, about 6%, 6% on the Americas for fire helmets and Globe turnout gear, which we combine and report. So it's not down that significantly.

What is up year-over-year is our bookings. Our bookings are up year-to-date, and the business was very, very strong. We have the largest backlog we've ever had with Globe and really, the onus is on us to get that out the door. That business is very consistent.

Ken, you have some more color you want to add to that?

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

Yes. I just want to clarify. So the numbers: firefighter helmets and protective apparel for the first 9 months or so of the year are down about 10% globally, 7% in the Americas segment. And the Globe product is down much lower than that. It's low single digits.

And so we're still seeing good performance there, still seeing good demand there. Some of the things we talked about in our prepared commentary around the COVID virus and the social distancing aspect of the production facility are certainly hampering our efficiencies there, but we're doing some things to adjust that. We feel good about that business.

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

Okay. So Globe is down kind of high single digits. So this 23% in constant currency around fire helmets and protective apparel. Fire helmets are down much more.

Nishan J. Vartanian - *MSA Safety Incorporated - Chairman, President & CEO*

When you look back to what we talked about, it's low single digits, that Globe is down. The firefighter helmets are down more significantly, and those are down more significantly in International. There were some large shipments that came out last year that didn't recur, and it's a much smaller business. But the Globe business is doing much better than what you're seeing there. I mean if you look at the press release and the tables, 3 months ended firefighter helmets and protective apparel down about 10% globally, driven a lot by the fire helmet issue.

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

Okay. And then, Ken, your comments around the restructuring actions and the savings into '21. When you look at the --- maybe you think about OpEx in '21. I presume that savings would offset what might be some inflationary pressures in the balance of the overhead in the business. So would you expect OpEx to still inflate in '21 by a few percentage points despite the offset that the restructuring will contribute?

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

If you step back and look at the first 9 months of the year, Rick, we have had a reduction in performance-related compensation, and we've had a reduction, of course, in discretionary costs. The performance-related compensation is working exactly the way it should work. When the business contracts, it contracts, when it grows, it pays for itself. But that will reset as we go into next year. And so that will certainly be a headwind.

With discretionary costs, we're doing everything we can to manage those coming back into the business next year. And so you might see a bit of a tick up in SG&A next year because of all the resets, but we are doing a lot on the restructuring side, not only on SG&A, but up in the operations area as well. So we feel like there's a nice opportunity to improve the business going forward and really improve our cost structure.

But you're probably correct in assuming and thinking that there might be a bit of a tick up in SG&A because of the resets.

Operator

(Operator Instructions) The next question comes from Larry De Maria of William Blair.

Lawrence Tighe De Maria - *William Blair & Company L.L.C., Research Division - Co-Group Head of Global Industrial Infrastructure*

Obviously, you guys talked about better markets in September and October. Just to clarify, did October grow sequentially from September? Or did that kind of flatten out? And how would you kind of emphasize well, curious if you could split it up between Americas and International, what kind of risk you think there is in International now that they're moving towards more cases?

Nishan J. Vartanian - *MSA Safety Incorporated - Chairman, President & CEO*

So Larry, you're a little soft on your question. I think I understood it. When you look at the September to October business, from a year-over-year standpoint, October is slightly better than October a year ago to date. So what we're looking at is an October that's better than 2019 from a booking standpoint. I believe I'm correct in this, Ken, not quite at the level of September. September was a little bit stronger in some areas, and I believe the business, when you look at the business from an International and Americas standpoint, it was strong across both segments. We saw a nice bounce back across both segments. A little stronger bounce back, obviously, in the North American fire service market segment because of the release of the grants.

So Ken, is there some more color you add to that?

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

The only thing I want to clarify is that in September, we had really robust year-over-year growth, a little less robust year-over-year growth in October. But the run rate of the business still remains pretty healthy and comparable to where it wasn't to finish the third quarter in September. So that's certainly nice to see. What is a challenge is, and we're all seeing it is some of the European economies and the resurgence of COVID. And so we're certainly keeping a close eye on that, but generally, the business is pretty good in October.

Lawrence Tighe De Maria - *William Blair & Company L.L.C., Research Division - Co-Group Head of Global Industrial Infrastructure*

Okay. So it would tend to go beyond just catch up, right? If you have a soft July and August, and then there's some catch-up business in September, but do you think it's more --- it's in excess of just catch-up business, it's more of a sustained turn with the caveat being, obviously, COVID could change things?

Nishan J. Vartanian - *MSA Safety Incorporated - Chairman, President & CEO*

Yes, Larry. Absolutely. That's one thing we watch closely, and that's a good pickup on your part. There might have been some catch-up business in September, so to speak. As we talked about in the second quarter and early part of the summer, it was tough to get out in front of customers for evaluations and other type work, so there was probably some catch-up business in September. What was encouraging, and what is encouraging is how the business has held up, especially that day-to-day business on the PPE products through [September] (corrected by company after the call) and into October.

So that, I think, was just a reflection of the fact that job sites reopened, people were coming back to work. They were equipping those workers with fall protection product and head protection, and we saw that business come back through. That came back through very quickly. And surprisingly, the part of the business on the PPE side, that's strongest for us is fall protection. September and October have been really strong months for fall protection products- which is a pretty good signal that people are getting back to the job sites.

Hard hats recovered and portable gas detection at a little lower pace, but it was really encouraging to see the fall protection products snap back the way they did.

Lawrence Tighe De Maria - *William Blair & Company L.L.C., Research Division - Co-Group Head of Global Industrial Infrastructure*

Great. Now you talked about a sequential increase in sales into 4Q. Obviously, we tend to think about incrementals year-over-year and being high, 35%, 40%, right? But if we -- how should we think about incrementals sequentially. Usually, 3Q to 4Q, they're not quite as robust as a year-over-year number. So are they somewhere in between? Or are they -- should we think about historical patterns? Or how should we think about maybe the sequential incremental, which might be more relevant?

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

It's hard to put a fine point on it right now, Larry, when we think about the outlook. And so I'm a little hesitant to give guidance around what our expectations are for fourth quarter, whether it be volume or incrementals, because they're so closely related.

I would step back and if I look at the third quarter, we certainly had a number of things that came through the business, which we would hope would not repeat. But at the same time, we just don't know where the markets are going in the fourth quarter, especially in light of some of the challenges you're seeing in Europe with resurgence of COVID.

Lawrence Tighe De Maria - *William Blair & Company L.L.C., Research Division - Co-Group Head of Global Industrial Infrastructure*

Okay. But is mix or anything else, a big issue? A bit firefighter getting maybe better in the fourth quarter? Is there just a high mix discussion you can have?

Nishan J. Vartanian - *MSA Safety Incorporated - Chairman, President & CEO*

No. The mix doesn't have that big of an impact. We've done a nice job at improving the margins in the fire service products. And so the mix doesn't have a significant impact, maybe a slight impact on the fire service, slightly lower profitability in some of the industrial products, but it certainly shouldn't move it in a significant manner one way or the other in the fourth quarter of this year.

Lawrence Tighe De Maria - *William Blair & Company L.L.C., Research Division - Co-Group Head of Global Industrial Infrastructure*

Okay. And then last question on the M&A outlook. I know you guys have been talking for a while to allocate capital in the downturn. Are bid spreads getting a little bit closer, valuations a little more reasonable? Is there any stress out there that you guys can take advantage of? Just some overarching comments on the environment would be helpful.

Nishan J. Vartanian - *MSA Safety Incorporated - Chairman, President & CEO*

So Larry, we continue to be very active in this area, and there are a number of opportunities we continue to work on and stay close with. I was hopeful that we would have something through the summer, but obviously, the M&A-type work, really shut down for a period of time. And now it's opened back up.

So we're back at it with some opportunities, and hopefully, we'll have something to report on here in the near future. We're very active in this area. It's a key part of our strategy, but the key is staying disciplined. We've been very successful from an M&A standpoint on bringing on the appropriate bolt-ons or expansions into some other product areas like Globe.

We've been very successful with our returns on those acquisitions and the way we've integrated those. So we're going to make sure that we use our capital appropriately because the balance sheet is in great shape, doesn't mean we're going to run out and chase after some opportunities just to get a sugar high and get short-term reward. We're going to be disciplined in our approach, add value to this organization, and continue to drive our mission through acquisition.

Operator

This concludes our question-and-answer session. I would like to turn the conference back over to Elyse Lorenzato for any closing remarks.

Elyse Lorenzato - *MSA Safety Incorporated - Director of IR*

On behalf of our entire team here, I want to thank you again for joining us this morning. If you missed a portion of the conference call, an audio replay and transcript will be available on our Investor Relations website for the next 90 days.

We look forward to talking with you again soon. Thank you.

Operator

The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.
