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# MSA Safety, Inc. (MSA)

## Jefferies Global Industrials Conference

# CORPORATE PARTICIPANTS

**Steven C. Blanco**
*President, Chief Executive Officer & Director, MSA Safety, Inc.*

**Julie A. Beck**
*Senior Vice President, Chief Financial Officer & Treasurer, MSA Safety, Inc.*

# OTHER PARTICIPANTS

**James Ko**
*Analyst, Jefferies LLC*

# MANAGEMENT DISCUSSION SECTION

## James Ko
*Analyst, Jefferies LLC*

All right. We can get started here. So welcome, everyone. Thanks for joining the 10:10 AM session with MSA. I'm James Ko, covering many industrial names at Jefferies with Steve Volkmann. And I'm joined by Steve Blanco, CEO; and Julie Beck, CFO. We're going to host this in a hybrid format. Steve will start with a presentation and then we'll move on to the fireside chat format. But we'll be happy to take any questions, so please feel free to raise hands.

Thanks for joining us, Steve and Julie.

## Steven C. Blanco
*President, Chief Executive Officer & Director, MSA Safety, Inc.*

Thank you.

## Julie A. Beck
*Senior Vice President, Chief Financial Officer & Treasurer, MSA Safety, Inc.*

Thank you.

## James Ko
*Analyst, Jefferies LLC*

Yeah, you can.

## Steven C. Blanco
*President, Chief Executive Officer & Director, MSA Safety, Inc.*

All right. I'll jump up here.

## James Ko
*Analyst, Jefferies LLC*

Yeah.

## Steven C. Blanco
*President, Chief Executive Officer & Director, MSA Safety, Inc.*

Well, good morning. Thanks, James, and thanks Jefferies for hosting us. And we're delighted to be here and talk about MSA. I would remind everybody we are webcasting this as James referenced, and just to remind you of our Safe Harbors, forward-looking statements and obviously, non-GAAP financial statements.

MSA is a company that is built on a purpose and that purpose is singular around our safety mission. And that mission helps guide us into the industrial safety technology space and has enabled us to create and produce safety products and solutions that meet the most challenging market conditions that we have across the globe. And that's helped us protect over 40 million workers annually, which is what we do today.

If you think about the business on a pro forma basis, we're about $2.1 billion. And as you can see from some of these metrics, with our investments in innovation, we're able to appreciate and achieve strong operating and gross margins and we've got great cash flow. On a pro forma basis or post-acquisition, I should say, we're 1.8 times leverage. And I say post-acquisition because we finished an Autronica acquisition in July, which we're pleased with.

We go to market, we have two different business segments, one called the Americas, just what you would expect it to be. The other is international, which is everything else across the globe and are broken down about 63% and 37%, respectfully. We have three product categories inside of these businesses. One is Detection, the second is Fire Service, and the third is Industrial PPE. Again, when you think of Detection as we've made these acquisitions, and Autronica being the last one, it's now become the highest piece of our business, the largest part of MSA. Previously, a few years ago, you might remember that it was the Fire Service.

We continue to execute on our Accelerate strategy to drive the key pillars to our growth story into the future. We announced these at the 2024 Investor Day, and I would just reference a couple of things. First, we are on target to achieve these. We will likely come out with new targets mid-next year to identify what the next step in the company's growth plan is. And we're very pleased with how we've allocated capital throughout this cycle so far and the growth we've had both organically that's starting to pick up steam and the inorganic growth we're starting to see.

Speaking of inorganic, Autronica came on board in July. We're delighted to have this organization join the MSA family. You think of Autronica, it added about $3 billion of addressable market to the company and it's in a space that's very, very technically competent and fits perfectly with the portfolio we have within fixed monitoring. It helps us get earlier in the process and we expect this to provide further tailwinds, not only as we grow this business, but also for the legacy MSA fixed monitoring business as well.

As you think about the second quarter, if you did have a chance to see the earnings call or hear our earnings call, you note these metrics. We felt we had a strong growth quarter where we finished the quarter with really nice cash flow and growth. And that still includes some of the headwinds we've seen with the Middle East. As I noted on the call, that's created about a 1.5 points or more of headwinds on revenue through the first half of the year because of the Middle East challenges we've had. Most of that is related to the Detection business.

We continue to maintain our outlook of low double-digit growth overall, and that includes mid-single-digit organic growth and a contribution of mid-single digit from acquisitions as well, and also some tailwind from FX. So the story I think continues to be positive for MSA. We think the market dynamics are positive in the markets we serve and we're expecting to have a strong year.

So, I'll just wrap it up and we can get into Q&A by just reminding everybody we are mission-driven. We've had the same mission statement for our entire existence. We're driving the Accelerate strategy. We're very pleased with the execution to date, and we are in very resilient, diverse markets that enable us to participate in growth throughout whatever economic cycle we may have.

With that, we'll go to Q&A.

# QUESTION AND ANSWER SECTION

**James Ko**
*Analyst, Jefferies LLC*

Q

All right. Thank you, Steve. And before I start with my prepared questions, I wanted to open the floor to see if audiences have any questions to ask here. Okay. Then, yeah, I can serve with my questions here and if there are any questions that come up during the fireside chat, please raise your hand.

So kind of starting at the high level, you closed Autronica and you returned meaningful amount of capital to shareholders in first half and you delivered pretty strong margin expansion. So while navigating like Fire Service headwind and Middle East pressure and everything, so as you kind of look across the portfolio today, like where are you most encouraged and where is still work to do?

**Steven C. Blanco**
*President, Chief Executive Officer & Director, MSA Safety, Inc.*

A

So, if we look at across the portfolio, I'll hit each of the three product categories because I think there's some really strong optimism across the board and there are some challenges we're dealing with. But inside the Industrial PPE markets, we've had really nice growth year to date, and I think there's a couple of things that help that catalyst occur. One is the market conditions have been really solid, specifically in industrial, with capital investments we've seen. We think the infrastructure spend has been positive for our specific business, data centers are a part of that, certainly, but broadly speaking, the industrial markets in North America have been supportive of the growth we've seen.

The second thing I think you're seeing some trends in the safety industry, specifically with how we look at head protection and how the end customer is looking at the head protection space. Traditionally, for many years, Type I head protection, which is our head protection, a hat that has a standard for vertical protection, has really dominated the marketplace. And most users, whether it be construction or any industrial space, uses a Type I. That started to transition to what's called a Type II. And a Type II has vertical, but also lateral or horizontal head protection standard requirements. So many of our customers are now transitioning to Type II, which is a price point of 3-plus X a Type I. So you're seeing some of that show up in our performance and we expect that to continue.

And we, at this stage, based on our customer feedback, we expect the economic situation to continue as well. So that market for the, at least immediate term, looks very positive. We're seeing some other nice signs around our fall protection, which, as you know, is one of our core tenets of the Accelerate strategy. And then within the European business, the protective ballistic helmet business has been a positive as well as European countries have pivoted and spent more in the defense side. We're seeing some benefits of that in that side of the business. I don't see short-term many headwinds in that space. Obviously, it's a short cycle business that can turn economically, but we feel pretty pleased and confident with what that space is going to do through the remainder of the year.

I think Detection, we referenced the Middle East. We were hopeful that that conflict would finish or wrap itself up in the middle of the year. Certainly for the region, we're more mindful and our thoughts and prayers go out to those that have to deal with it. And from an economic perspective, we think that that now is something that I'd hate to try to put a guess on what that does. For us, from our performance, certainly, we want to see that behind us. But I would say customers are starting to try to understand how they get really re-centered into the new normal that they're operating in. And I would anticipate that business starts to see an uptick regardless of the conflict in the coming months because they're not going to continue to not operate in. They need to start fixing some of the things they have issues with, some of the equipment damage that they've seen year to date.

So that certainly is a headwind, although I think it mitigates a little bit the further out it goes. We're seeing strong growth in portables. We continue to see appreciable growth with our connected platform. We're very pleased with that. As we talked about on the call, that's now representing for portable business, 14% of that versus 10% last year.

And then when we look at Fire Service, Fire Service dynamics last year, as you may recall, included a government shutdown, which was right after the AFG funding came out. So, no customer could actually access the funding. But then you also had the promulgation of the new standard. So we had some dynamics going on that really slowed that market.

This year, we've not seen the AFG funding come through quite yet. We do have an expectation that comes through from sources within the government in the coming week or two, which it has to by the end of September. The good news this year is there's government funding through mid-December. So, whereas last year, as soon as they put the funding out and identify to the departments that they had received the funding, the departments couldn't go in and actually accept that funding. They couldn't say, yes, I'll take that funding. So it was in limbo until the government came back this year. That won't be an issue. So we anticipate that's going to be something that helps us in the fourth quarter year-over-year. And I think, other than that, the market looks pretty solid. And I think in all of the categories we just talked about, we think there's some nice opportunities for growth going forward.

**James Ko**
*Analyst, Jefferies LLC*

Q

Great. Thanks for the comprehensive color there. And since we are on a webcast, I had to ask this, so I wonder if you have any updates on how 3Q has kind of progressed through July and August and maybe even into September?

**Steven C. Blanco**
*President, Chief Executive Officer & Director, MSA Safety, Inc.*

A

I think it's consistent with what we expected it to be year to date. Now, I think Q3 is similar to what we talked about at the end of the second quarter. The dynamics that we're dealing with in the Middle East are certainly a bit of a challenge, more so than we would like. But the growth in the rest of the business has been – we're pleased with the growth.

**James Ko**
*Analyst, Jefferies LLC*
Q

Got it.

**Steven C. Blanco**
*President, Chief Executive Officer & Director, MSA Safety, Inc.*
A

We'll say that.

**James Ko**
*Analyst, Jefferies LLC*
Q

Okay.

**Julie A. Beck**
*Senior Vice President, Chief Financial Officer & Treasurer, MSA Safety, Inc.*
A

James, we have just to point out, our overall – one thing that's little bit different about Q3 is we just have a higher federal tax rate in third quarter, the full year, we talk about our outlook in the full year. The full year is same, but it's just a bit higher in the third quarter.

**James Ko**
*Analyst, Jefferies LLC*
Q

Got it. Thanks for that additional color there. And I mean, you talked about Middle East here a few times and that obviously has been a growth headwind here. So how are you kind of thinking about the recovery timeline? And is there kind of a scenario where the rebuild phase actually accelerate your business in that region in the future?

**Steven C. Blanco**
*President, Chief Executive Officer & Director, MSA Safety, Inc.*
A

I would say that we're already seeing orders for rebuilds, but I would not anticipate it being highly significant to 2026. I would expect you'll see more of that play out in 2027. Based on our customer feedback, they're starting to do some of that again. We've gotten some orders, but we've got more activity and requests that lead us to believe it's going to be the latter part of 2026 or into 2027. Again, I think there's an expectation that that region is trying to calibrate to a new normal where they're recognizing this thing may not go away and they want to make sure that they figure out how to operate it.

**James Ko**
*Analyst, Jefferies LLC*
Q

Got it. Okay.

**Steven C. Blanco**
*President, Chief Executive Officer & Director, MSA Safety, Inc.*
A

So, it's probably early next year before you see a lot meaningful.

**James Ko**
*Analyst, Jefferies LLC*
Q

All right. Thanks for that color. And I guess moving on to Fire Service here. I mean, you talked about AFG delay last year and you've been kind of working through that delayed orders for most of the year in 2026. How is the conversion kind of tracking today, and how much visibility do you have into the kind of remaining pipeline?

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**Steven C. Blanco**
*President, Chief Executive Officer & Director, MSA Safety, Inc.*

A

The pipeline continues to be very solid. I would say there's, in our minds, we're in a good position for the remainder of this year, and certainly as we get into the out years. The AFG funding might have an effect in the fourth quarter. But when you look at the comp compared to last year, we still feel good about where we're at relative to our performance. And part of it is we've continued to innovate in that space.

We launched the XR edition prior to the NFPA standard change. We then had the NFPA standard change and obviously the product changes that came along with that. And we're pleased to continue to innovate. A matter of fact, later this month, we'll announce another new version of the G1 that we think will be very well received in the market. It's all based on the VOC we do with our customers and ensures that we stay ahead of any competition that we have in the marketplace. So those things put us in a position that we feel pretty good about where the Fire Service market is going.

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**James Ko**
*Analyst, Jefferies LLC*

Q

Got it. On that SCBA, I think you've kind of talked about like 2027 and 2028 SCBA replacement tailwind kind of tied to like 2014 G1 launch. And that has been a kind of consistent part of your long-term story. So what are you kind of seeing in the pipeline today and that gives you kind of conviction that inflection is actually going to happen in 2027 and 2028? And how kind of meaningful is that impact?

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**Steven C. Blanco**
*President, Chief Executive Officer & Director, MSA Safety, Inc.*

A

Well, the volumes, the unit volumes in 2015 through 2019 were significantly higher than the unit volumes now. So and I think if you took a snapshot of where the market is, that gives us some really good level of confidence of what we will start to see. Most SCBA replacements occur in the 13 to 14-year time period, but they typically start 10, 11, 12 years and our pipeline shows that.

So when I say pipeline, what we have in our CRM system on customers that have identified, hey, I'm in the process of starting to evaluate or look at evaluating, replacing my fleet. And so when we see that, then that gives us, based on how this pipeline and the maturity of pipeline goes, you'll likely start to see some of that show up in 2027, maybe the second half, some of that delivered.

And if not, again, we believe you'll see some in 2027, but then you'll start to see that accelerate in 2028, 2029. You've probably got about a seven or eight-year period of extended growth. Again, you're talking unit volumes that are minimum 50%-plus higher than what we've seen over the last three years, I mean, starting to tickle back into the marketplace.

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**James Ko**
*Analyst, Jefferies LLC*

Q

Got it. Yeah, that's a pretty impressive number. And I think you talked about new G1 that's coming out soon. Is there any kind of pricing implication there? Are you pricing that higher so that you're going to see a heavier mix shift and like the margin benefit?

**Steven C. Blanco**
*President, Chief Executive Officer & Director, MSA Safety, Inc.*
A

Well, this product, again, it's based on customer feedback. We've had tremendous customer feedback that we've used and taken advantage of because of the customer intimacy we have. And that's enabled us to create a next version of that product that again will come out later this month. And it's a lighter weight, it's more comfortable. It has additional features on providing awareness, opportunities and protection for firefighters to do search and rescue. So we're very excited by that. And all of those features are added value to the SCBA. So that certainly provides a price point opportunity.

**James Ko**
*Analyst, Jefferies LLC*
Q

Got it. That makes sense. And I guess I wanted to touch on this competitive dynamic. I mean, Dräger has a new kind of US product at a price point kind of much closer to MSA compared to historically. And I think they have a like new distribution relationship with MES. So how do you think about the like competitive kind of positioning, particularly with like larger departments that actually run a more structural like evaluation process rather than just relationships?

**Steven C. Blanco**
*President, Chief Executive Officer & Director, MSA Safety, Inc.*
A

Well, we look at it, we have strong competitors in all of our spaces and we respect those competitors and expect them to compete across a number of different categories. And I think when you look at Fire Service, in our view, it starts and ends with the customer. We try to be proactive around the customer and lead with innovation that's customer-based, which is what I was referencing with the new G1 that we'll be talking about in the coming weeks.

But if we can stay centered on the customer and the needs that the customer has, I think that puts us in a position that we can compete and be effective in the marketplace because we're providing those solutions that are based on what the customers identified as their top needs. And that's what this new version does in addition to what we've had. So great competitors. We expect them to compete and show up consistently in a number of different areas, but I think we're well-positioned to counter that.

**James Ko**
*Analyst, Jefferies LLC*
Q

Got it. Thanks for the color. And moving on to kind of Detection here, which is kind of one of the most exciting stories that you guys have, and that has been a kind of consistent growth engine here. But as you look across like fixed and portables where are you in the cycle like in terms of like each different end markets? Yeah. That was question.

**Steven C. Blanco**
*President, Chief Executive Officer & Director, MSA Safety, Inc.*
A

It is exciting. That's fun stuff. So I think when you think of Detection, I would just remind people you got fixed monitoring, which is about two-thirds of Detection and you got a third of it, which is what we call portable detection, which is more of the wearable devices. I would say that the fixed monitoring typically has a 15% to 20% of that business is project. The rest of it is this just this recurring, if you will, business of assets that are already existing in fleets or maybe an expansion, but they're putting on same as type of units in those situations or replacing sensors. They got about a 12-year life cycle.

That business, because of the investment required in energy and some of the things in clean energy, we expect that that cycle, we don't see any really decline in that cycle going forward. We see strength. Our expectation is strength in Asia, strength in Latin America and North America. And excluding the conflict-related challenges, strength in the Middle East, all of those regions have indicated investment. There's a new study that just came out talking about the energy requirements going forward, not only new energy usage, but replacement that needs to come online to replace energy that's going to come offline and I think 7 million barrels a day that comes offline along with the additional energy required.

So we're well positioned in that space. Our expectation is that that's going to be a nice growth algorithm that goes forward when you look at that. Also, I would add that having Autronica really positions us even better because now Autronica helps us get in earlier because of the fire detection side, along with our flame detection. You put those two together and you've got this full suite solution for our customer base, which we're uniquely positioned to really participate, I think very well in a way that we hope and expect our customers to want to spec some of that in early into the process.

So I'm very excited. The team's very optimistic about what fixed monitoring will do for the future of the company and the growth we'll have. It's become really big business driver of growth. I mean, the margins are fantastic in that business. And the last two acquisitions have been fixed monitoring. So it kind of gives you an idea of what we think of that business.

If you pivot to portables, we've continued to see nice progress in the connected space. That's now 14% of portables versus 10% a year ago. We see long-term growth there. I would expect the connected side of that space to grow at a nice double-digit clip over the coming years on a continuous basis. Now, when you get to a point where that eclipses the legacy, the discrete product category of portables, I don't know, it's going to be customer based. And it depends on what our competitors do and how that plays out. But at this stage the portable space is really strong.

We had anticipated that we would see the connected space grow, but we would see some of the legacy discrete business kind of slow down a little bit. And that's not been the case. So our position in the market, what the customers look for speed of response and durability, regardless of which solution they pick, we're seeing more and more customers come to MSA.

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**James Ko**
*Analyst, Jefferies LLC*

Q

Got it. And touching on that MSA+ connected solutions, like I don't think you set any public penetration target there like beyond 14% that you're at right now. So how do you think about where this business can be in like the next five years? And are there any kind of structural limits on adoption here?

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**Steven C. Blanco**
*President, Chief Executive Officer & Director, MSA Safety, Inc.*

A

Yeah, we haven't. The reason we haven't put a target externally is because it's based on customer acceptance rate, right? So we want to continue to provide solutions in the way the customer wants to buy those solutions. Our hope and our expectation is we are creating more value for the customer and that they transition to the connected subscription platform. But we also recognize there are certain situations where customers want to buy that discrete product and may not feel that they want to put a connected platform on the cloud. So we have both solutions and I would expect that's going to continue going forward. But I would repeat, our models and the forecast we have show really strong double-digit growth continuing for a number of years, at least the next five years for that business. So then that if that happens, you certainly get to a point where that becomes a major piece of the total portables business.

**James Ko**
*Analyst, Jefferies LLC*
Q

Got it. And can you kind of remind us, like, how that impact your margin profile? Is that margin accretive?

**Steven C. Blanco**
*President, Chief Executive Officer & Director, MSA Safety, Inc.*
A

The margin is accretive. The price point on those is significantly higher than a discrete product. It's part of a subscription model. Typically, the customer looks for that over a four or five-year period where they'll have that subscription. And then the intent is that we continue to get that stickiness going forward after that runs out.

**James Ko**
*Analyst, Jefferies LLC*
Q

Got it. That's great to hear. And kind of touching on Autronica here. I mean, you said that that kind of get you all into the EPC kind of project design cycles and everything. Now that the deal has closed for a while, like what kind of has surprised you the most, either like positively or negatively about the business?

**Steven C. Blanco**
*President, Chief Executive Officer & Director, MSA Safety, Inc.*
A

I think the business at this stage, we continue to evaluate the business team and strategy. We spent a lot of time with the customers. The enthusiasm with the business has been a real positive. We expected that. We thought that early on, the teams supported that. And I think the value that our customers, not Autronica's, but our customers that we had before the Autronica acquisition have put on the acquisition is a real pleasant surprise, more so than maybe we thought that they're very pleased with that and want to see what they can garner from that.

And again, we're working through. We expect this to be an acquisition that is accretive long term, but we've got to work through these coming months to work through all the financials and validate where they're at versus where they told us they were at.

**James Ko**
*Analyst, Jefferies LLC*
Q

Got it. And you talked about pretty good like customer acceptance on Autronica here. And I think one of the commercial thesis was kind of centered around pushing Autronica product through MSA, kind of America and Middle East distribution. So what does the first year of like cross-selling kind of realistically look like or even beyond first year?

**Steven C. Blanco**
*President, Chief Executive Officer & Director, MSA Safety, Inc.*
A

I think in the first 6 to 12 months, we've already started this, by the way. You're starting with training, you're really trying to develop the platform capabilities and sharing that with the right teams. So we have a playbook that we'll utilize, that we've utilized before where we're taking this out to our team and then after our team, extending to the channels. We've done it with our team. We're now in the middle of identifying the right channels to participate in this. So you start to see some of that play out probably in 2027. It will accelerate into 2028, but I would say you'll see some as soon as 2027 as we start to see some of that cross-sell going on.

Our expectation is you get the advantage of our market coverage in both the Middle East and in North America, and that's going to help the Autronica side, but also we expect it's going to help the MSA side as well. As I said that now you've got this full suite of solutions that provides a benefit for the overall fixed monitoring business. And that should start showing up a little bit in 2027, but more so as you continue to go forward.

**James Ko**
*Analyst, Jefferies LLC*

Q

Got it. Before I continue with my questions, I just wanted to pause for a bit in case anyone has questions here. All right. I will continue then. Okay. Then, yeah, staying on kind of Autronica here, I mean, you talked about there's some work to do there. And I mean, Autronica EBITDA margins is at kind of 20% versus like 25% corporate average. So what are kind of key milestone on path to like closing that gap? And how long do you think it's going to take to kind of reach that corporate average?

**Julie A. Beck**
*Senior Vice President, Chief Financial Officer & Treasurer, MSA Safety, Inc.*

A

Yeah. Thanks, James. So, yeah, we identified 6% of the transaction or revenues excuse me, rather, of synergies, those are all cost synergies. So any of the revenue synergies that Steven was just speaking about are not included in that. And so we're in the process of going through that. And we would expect that through the end of, by 2028 or so, we would be at that full run rate and that Autronica would be at the overall margin accretion. Of course, Autronica is accretive to the international market segment margins initially. And then they will be accretive across the board to total MSA.

So we're excited about the opportunity. I think the passion on both sides of having just been at Autronica a week ago, they are excited and there's a lot of enthusiasm not only in North America, Middle East, but also in Latin America and Asia-Pacific as well for the transaction. So we're pleased.

**James Ko**
*Analyst, Jefferies LLC*

Q

Got it. Thank you. And, yeah, and now moving on to Industrial PPE, which actually has been outperforming its kind of long-term growth algo by quite a lot over the last several quarters like with some of the things that you highlight, Type II helmet, like fall protection and stuff like that. So is the long-term framework for this segment like due for a revision here or, yeah, and yeah, just any color there like long-term growth algo here.

**Steven C. Blanco**
*President, Chief Executive Officer & Director, MSA Safety, Inc.*

A

I think it is a business that has continued to grow. 2026 should be a strong year for the business, but I think as I referenced earlier, those macro conditions are going to help that business even outside of this year and going forward. What I would share is, as we look at our 2028 targets and where we expect to end the year and then where we probably look at 2027, that's why we think it's time for a rewrite, probably mid-year next year we'll come out with new targets and that certainly will include recast to what we think the industrial space looks like.

**James Ko**
*Analyst, Jefferies LLC*

Q

Got it. And yeah, I guess staying on this topic, I think European ballistic helmets was also one of the driver for the growth here. So is this kind of multi-year budget cycle or is there any pull forward from like European governments?

**Steven C. Blanco**
*President, Chief Executive Officer & Director, MSA Safety, Inc.*

A

Yeah. The European protective ballistic helmet business has benefited from some of the shift in funding for the governments in Europe to defense. We expect that to continue over the coming years. We're seeing certainly more interest in more helmets and replacement of those helmets. So I would anticipate that will probably continue. Now, that's a bit more episodic order-wise than the remainder of the industrial PPE business. But it is something that we expect to continue to be a tailwind and a nice driver going forward.

**James Ko**
*Analyst, Jefferies LLC*

Q

Got it. And kind of maybe now more towards Julie on margin side, I guess higher cost inventory for Middle East kind of related input cost I think is expected to weigh on second half kind of gross margins here. How much of the pressure is truly kind of transitory and how should investor think about the starting point for margins kind of going into next year?

**Julie A. Beck**
*Senior Vice President, Chief Financial Officer & Treasurer, MSA Safety, Inc.*

A

Yeah. So I mean, the team's just done a really nice job and we had indicated last year that we were going to get beyond this price cost from all the tariff noise from last year. And the team's just really done a great job of everything from value-added engineering and productivity in the manufacturing floor to strategic pricing. And we've been able to achieve that. So we're going to have a nice margin improvement for the full year.

But as you can see and we continue with that and we continue with our 30% and 40% incremental targets. But what we're seeing is some of, in a standard costing system, some of these variances, which are related to higher transportation costs, higher petrochemical costs, some higher metallics that are sitting in the balance sheet that will get released over the next 90 to 120 days. And so that will hit our P&L in Q3 and Q4 and margins will be down slightly. But still for the full year, really nice margins, gross margins in that 48% range.

**James Ko**
*Analyst, Jefferies LLC*

Q

Got it. Thanks for the color. And kind of on capital deployment, I mean, your target leverage range is within your target even after Autronica here. So how should kind of investors think about like capital deployment over the next 12 to 18 months?

**Steven C. Blanco**
*President, Chief Executive Officer & Director, MSA Safety, Inc.*

A

We're still active in looking at opportunities. We have a strong pipeline. We're really working that pipeline because we believe we can action some of these things. So we're going to continue to look at those things. I would also add, the broader capital deployment story has been also something to continue to look at. We received authorization for $500 million for buybacks. We've done more buybacks this year than any time in recent history. And we continue to action that balance sheet through those buybacks, acquisitions and certainly through the dividend that we've done for 56 straight years.

And I think that's something that we can continue to look at going forward. You'll see us continue to make sure we put that balance sheet to work. And that was part of the Accelerate strategy, right? We leaned into that. We said we wanted to lean into that and you'll see us continue to do that.

**James Ko**
*Analyst, Jefferies LLC*

Q

Got it.

**Julie A. Beck**
*Senior Vice President, Chief Financial Officer & Treasurer, MSA Safety, Inc.*

A

Yeah. Strong balance sheet provides optionality. We like it.

**James Ko**
*Analyst, Jefferies LLC*

Q

Right. Definitely. Yeah. And as my last question here, so yeah, what do you think is kind of most underappreciated kind of driver or story of the company like that you wanted to kind of highlight?

**Steven C. Blanco**
*President, Chief Executive Officer & Director, MSA Safety, Inc.*

A

I would point to two things. One, we talk about this a bit, but the mission enables us to have probably the best talent in the industry. And we have people that come in from all walks of life. We have highly motivated, driven people that will do whatever it takes to ensure that that mission is served for our end users. And they're across the globe, I think we've got the best talent in the industry.

And I would say the second thing is our customer intimacy is a benchmark and a differentiator that is difficult to match. Our understanding of the customers, in part because of that mission just puts us at a different place for how we compete and how we innovate. Because when you have that intimacy with the customer, you're understanding their pain points, your willingness to learn because our team remains humble in learning how they want to get their challenges addressed helps us innovate and get better.

## James Ko
*Analyst, Jefferies LLC*

Awesome. Yeah. That's a wrap. Thanks for joining us, and thanks, Steve and Julie

## Julie A. Beck
*Senior Vice President, Chief Financial Officer & Treasurer, MSA Safety, Inc.*

Thank you.

## Steven C. Blanco
*President, Chief Executive Officer & Director, MSA Safety, Inc.*

Thank you, James.

## Julie A. Beck
*Senior Vice President, Chief Financial Officer & Treasurer, MSA Safety, Inc.*

Thanks.