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PRESENTATION

Operator

Good day, and welcome to the MSA Fourth Quarter Earnings Call. (Operator Instructions)

It is now my pleasure to introduce your host, Director of Corporate communications, Mark Deasy. Welcome, Mark. Please begin.

Mark Deasy - *MSA Safety, Inc. - Director, Corporate Communications*

Thank you, Annette, and good morning, everybody. And I too would like to welcome you to our fourth quarter and year-end earnings conference call for 2016. Leading our call today are Bill Lambert, Chairman, President and Chief Executive Officer; and Ken Krause, Vice President, Chief Financial Officer and Treasurer.

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

Before we begin, I need to remind everybody that the matters discussed on this call, excluding historical information, are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include, but are not limited to, all projections and anticipated levels of future performance. Forward-looking statements involve risks, uncertainties and other factors that may cause our actual results to differ materially from those discussed here.

These risks, uncertainties and other factors are detailed in our filings with the SEC, including our most recent Form 10-Q, which was filed on October 28, 2016. You are strongly urged to review all such filings for a more detailed discussion of such risks. Our SEC filings can be obtained at no charge at www.sec.gov or on our own website in the Investor Relations section. MSA undertakes no duty to publicly update any forward-looking statements made on this call except as required by law.

In addition, I need to note that we've included certain non-GAAP financial measures as part of our discussion today. These non-GAAP financial measures should not be considered replacements for GAAP results. Reconciliations to the most directly comparable GAAP measures are likewise, available in the Investor Relations section of the MSA website. You can find this information in the quarterly results section, which is located under the financial information header.

That concludes our forward-looking statements. So at this point, it's my pleasure to turn the call over to our Chairman, President and CEO, Bill Lambert. Bill?

Bill Lambert - *MSA Safety, Inc. - Chairman, President and CEO*

Thank you, Mark, and good morning, everyone. As always, I want to begin by saying thank you for joining us this morning and for your continued interest in MSA.

I trust you have all reviewed the press release that was issued last evening. For the full year, adjusted operating income grew 24% on a 2% reported sales increase. Net income of $92 million for the full year reflects a record high for MSA, and an increase of 30% when compared to 2015. I'm also happy to report that we converted well over 100% of net income to free cash flow in the quarter and the year. Ken will provide much more detail on our financial performance and free cash flow conversion in his comments.

Without question, 2016 was a strong year of financial performance for our company. When I consider the challenging macro environment that we faced in the oil and gas market, those results are a tribute to the dedication and perseverance of our MSA team around the world.

This morning, I'd like to provide a bit more insight into the major areas that contributed to that earnings growth in 2016. I'll start our discussion with an update on our performance in the fire service market and provide some insight into the underlying trends that, due to some tough revenue comparisons, are not as easy to spot in our financial results. I'll then provide an overview of our operating results at Latchways, the fall protection company that we acquired in the fourth quarter of 2015 and was an area of focus for us throughout 2016.

With one full year now under our belt, the value of our combined organization is certainly evident, and we are executing well in this high-growth area of the global safety market. And finally, I will conclude my remarks with some perspective on how our restructuring programs and cost-reduction efforts have driven leverage in earnings, and what's next for those efforts in 2017.

I'll then turn the call over to Ken for a more detailed review of our financial results along with some commentary about the macro trends that are providing us with some sense of optimism as we close the books on 2016.

Looking closer at the fourth quarter, we certainly had a difficult comparison in revenue. Just as we expected we would, and as I indicated to you in our October call. For the fourth quarter, revenue was down 6% on a reported basis, or down 4% in constant currency. The acquisitions of Latchways and Senscient, the U.K.-based fixed gas and flame detection company that we acquired in September of last year, contributed 3% to revenue growth in the quarter.

As we dig a bit deeper, there was one key underlying fact that had the biggest impact on our revenue performance for the quarter. And that's the year-over-year change in SCBA shipments. If you recall, heading into the fourth quarter of 2015, we were carrying an elevated level of SCBA backlog as a result of the pent-up demand from 2014 and 2015.

In the fourth quarter of 2015 alone, we cleared more than $20 million of that backlog, resulting in a record quarter for SCBA shipments in Q4 2015. It allowed us to enter 2016 with a lower, but still slightly elevated backlog as we entered the year, which as you know from previous calls, we cleared that backlog in the first half of 2016.

A particular note regarding SCBA shipments, and before you conclude that the best days of SCBA sales are behind us, I think it's important to look at the incoming order pace when analyzing our overall SCBA performance for 2016. The invoicing comparison is certainly skewed by the robust level of backlog clearing that occurred.

In the fourth quarter, incoming orders for SCBA increased 26% in the Americas segment as we saw healthy levels of interest in the G1 and available funding drive momentum in the fire service. Additionally, we were able to close and book several orders that have been pending throughout the year.

For the full year, Americas segment SCBA orders were up 10% from 2015. And for the consolidated organization, SCBA orders were up 6% from full year 2015. So I'm pleased to say, we continue to see solid year-over-year growth in our SCBA line with more normalized backlog levels and growing confidence that mid-to-high single-digit growth continues to be achievable for the full year in SCBA.

Our competitive conversion rate for the G1 SCBA finished the full year 2016 just above 50%, which continues to demonstrate that the G1 platform is quite simply best-in-class. As you'd expect with such high conversion rates, we've seen a significant gain in market share.

For 2016, our market share for U.S. NFPA SCBA, as reported by the International Safety Equipment Association was 43%. That is up about 16 points from 2013, the year before we launched G1 platform. It is clear the G1 is taking market share from our entrenched competitors in the U.S. fire service. Another positive of this story is the fact that we've been able to capture market share without sacrificing profitable growth.

In fact, in the fourth quarter of 2016, our gross margins on SCBA in the Americas segment increased 590 basis points. And for the full year, margins increased 400 basis points from a year ago. The gross margin increase is a result of productivity improvements we've seen, lower product cost through our value engineering activities as well as improvements in pricing due to the advanced technologies offered with the G1.

Looking forward, we expect the U.S. SCBA replacement cycle opportunities to continue throughout 2017 and our recent incoming order pace provides confidence that demand remains strong in this market.

I've often referred to the G1 SCBA as a platform and not simply a discrete product. In that spirit, you may be wondering what's next for this platform. Well, we're currently gearing up to launch the G1 integrated thermal imaging camera, which will take center stage at this year's FDIC conference in April. This innovative technology leverages the G1 platform to provide firefighters with the ability to have personal thermal imaging capabilities at their fingertips. And it can be purchased through factory installation or via a simple field upgrade.

I'm pleased to report to you that we have cleared all testing hurdles for the product and expect to receive approval and begin shipments in the coming weeks. We are ready to ship immediately upon receiving government approval confirmation.

Thinking about other value drivers of performance, I'd like to shift gears and talk about another important area of growth, our 2015 acquisition of Latchways. With our first full year of ownership now complete, I would like to provide an overview of our results to date.

In the fourth quarter, Latchways sales of $15 million reflected a 26% increase on a reported basis and a 44% increase on a constant currency basis. For the full year, Latchways sales of $58 million increased 13% as reported and 24% in constant currency.

And from an earnings standpoint, Latchways was accretive to full year earnings by $0.13 per diluted share on a GAAP basis or $0.23 per diluted share excluding amortization. This nicely exceeded the high end of the target range we'd established for 2016 of $0.05 to $0.10 per share.

At this same time a year ago, I noted that we expected to drive value with this acquisition through a recovery in Latchways base business and by realizing a number of cost and sales synergies. And I'm pleased to report that we have done just that.

For the year, we achieved 20%-plus revenue growth in a market that is growing in the mid-single digits. We were attracted to Latchways because of the excellent fit we saw from an end-market, geographic and product standpoint. And clearly, all of those factors allowed us to drive strong growth in 2016.

As an example, we made significant inroads in the aerospace industry with Latchways' line of innovative and unique products. Product such as a WinGrip, a patented fall protection anchorage point solution that temporarily attaches to the wing or fuselages of aircraft, and it's critical to protecting aircraft maintenance personnel.

It is the only such product approved for use by Boeing under new carbon fiber-based aircraft. In the fourth quarter, we delivered a $2 million WinGrip order to Boeing, and we continue to see growing interest from the aerospace and airline industry in this product line. We also excelled in the utilities and construction markets with Latchways horizontal and vertical engineering systems, all contributing to that 44% year-over-year growth.

From a geographic perspective, we were successful in diversifying our revenue footprint. Approximately 80% of Latchways sales in 2016 were outside the U.S., which was a nice complement to MSA's existing fall protection business.

Looking forward, the order opportunity pipeline at Latchways remains strong as we head into 2017. Our integration activities at Latchways are substantially complete. And I want to thank our integration leader and Latchways' Chief Operating Officer, Gavan Duff, as well as the entire Latchways' team for their efforts this past year in ensuring a smooth transition and harnessing the power of our combined organizations to drive value for our shareholders.

In our discussion of growth drivers, it's important to note the very meaningful impact our restructuring and cost-reduction programs had on our full year results. While Ken will discuss more of the specifics in his commentary, I want to note that these programs yield expected results and allowed us to leverage our 2% annual revenue growth into 10% adjusted earnings growth.

For the full year, reported selling, general and administrative expense was 26.6% of sales, down 130 basis points from a year ago. As Ken and I mentioned in our third quarter call, late in the year, we took further restructuring steps that are expected to drive additional cost savings in 2017, including a voluntary retirement incentive plan and other headcount reduction efforts.

The retirement incentive program is now complete. While the restructuring programs that we executed over the past year were not easy decisions. They were appropriate and prudent and have provided the basis for a more streamlined and efficient global enterprise.

So with those introductory comments, I'd like to turn the call over to Ken Krause for his financial review. Ken?

Ken Krause - *MSA Safety, Inc. - VP, CFO and Treasurer*

Thanks, Bill, and good morning, everyone. I'd like to take some time to walk you through our fourth quarter and full year financial results and to provide more insight into the drivers of performance.

Additional information will be available when we file our Form 10-K with the Securities and Exchange Commission.

Let's start with a few highlights, and then we'll take a closer look at the quarterly performance drivers. Despite the challenging comparison in revenue in the fourth quarter that resulted from the reduction in SCBA backlog in 2015, full year revenue finished up 2% on a reported basis and 4% in constant currency.

Annual gross profit of 45.6% reflects a 130 basis point improvement from a year ago, primarily due to the 400 basis point increase in SCBA gross margins in the Americas and stronger leverage of indirect costs. We took action to address our cost structure and exceeded our $10 million SG&A reduction target, while improving SG&A as a percentage of sales by 130 basis points.

We made great progress in streamlining the organization in 2016 with a focus on productivity and efficiency. The higher gross profit and cost savings drove full year operating margin to 14.8% on a reported basis, improving 270 basis points from a year ago. We hit 15% operating margin for the full year when you exclude deal costs and the dilution associated with Senscient, the acquisition we closed late in Q3.

As you know, 15% operating margin has been a key long-term goal for MSA. And I'm pleased that we got there in 2016. Net income was a record at $92 million for the year, growing 30%. And full year free cash flow was $109 million compared to $19 million a year ago. Just as I had indicated to you on the 2015 year-end call a year ago, one of our key focus areas for 2016 was to improve working capital management and convert 100% of net income to free cash flow.

Well, I'm glad to say that we converted 119% of net income to free cash flow and that performance was primarily due to improvements in working capital as we increased our focus in these areas. Working capital finished the year at 21.7% of sales compared to 25.7% of sales in 2015. And we reduced our cash conversion cycle by 19 days or nearly 20%. The higher free cash flow allowed us to reduce our debt balance by $74 million this year, and we finished the year at 1.8x debt-to-EBITDA.

Lastly, we made solid strides in collecting our insurance receivables. In addition to the bad faith award we announced a week or so ago, we recently reached an agreement in principle with another one of our insurance carriers.

These recent developments continued to demonstrate strong progress towards collecting the insurance receivable, which was just under $250 million at the end of the second quarter of 2016. In the third quarter, our receivable balance moved to $155 million, when we successfully settled with two carriers and reclassified approximately $100 million to notes receivables. We collected $37 million in the fourth quarter, reducing the notes balance. And we expect collections of $25 million to $30 million in the first half of 2017, as a result of the recent settlement I mentioned and others we've reached in the past.

Now let me walk through the quarterly financial results. Sales in the fourth quarter were $296 million, down 4% on a constant-currency basis or 7% on an organic constant-currency basis. Just as I communicated to you in the October call, we expected a difficult top line comparison this quarter versus the strong quarter we had a year ago in SCBA. Quarterly core product sales decreased by 3% on a constant-currency basis or 7% on a constant currency organic basis.

Lower SCBA sales decreased quarterly core product sales by 8%. While Bill walked you through the nuances of the SCBA year-over-year comparison, which was the primary driver of the revenue decline in the quarter, I'd like to take a moment to discuss trends that we're seeing in other areas of the core.

In the quarter, we saw an uptick in incoming orders and sales of industrial head protection, with revenue in this area increasing 4% in the quarter after being down 3% for the nine months ended September 30th. The pickup in these areas is attributable to strengthening conditions across industrial applications. And the strength in head protection continued thus far into 2017, with incoming orders up 18% from a year ago.

Revenue from portable gas detection was down 1% in the quarter on a tough comp in International. But we were able to increase sales in this area by 3% for the full year. Good results after seeing revenues in this area off by 7% in 2015. And the outlook looks to be improving with order activity in this area up 16%, thus far, in 2017, another good sign helping to provide a sense of optimism to start the year.

FGFD revenue increased by 4% in the quarter reflecting the acquisition of Senscient. For the full year, FGFD was flat with 2015 on a consolidated basis, but up 9% in the International segment on continued strong demand out of the Middle East, where the cost of extraction is much lower.

A clear bright spot for us in the quarter and for the year was gross profit performance. Our gross profit rate for the quarter was 46.7%, improving 390 basis points from a year ago, despite a less favorable mix. Our value engineering activities associated with the G1 SCBA are reducing product costs and continuing to narrow the margin gap to the corporate average.

In the quarter, gross margins on breathing apparatus in the Americas, where the primary product is the G1, were up 590 basis points from a year ago. We also saw improvements in indirect costs, such as warranty expense. We made good progress this year in this area. Despite having a less favorable mix with SCBA and fall protection sales, we were able to increase gross profit by 130 basis points for the full year compared to 2015.

SG&A costs were $78 million in the quarter, down 6% on a reported basis. If you recall, we incurred just under $8 million of deal costs in the fourth quarter of 2015, related to the acquisition of Latchways. Excluding these strategic transaction costs, which are primarily associated with Latchways and Senscient, constant currency organic SG&A was flat in the quarter associated with higher year-end bonuses on the higher level of profitability and cash flow.

We incurred an additional $1 million of bonus in the quarter and $3 million in the full year related to our strong financial performance this year. Backing that out, constant currency organic SG&A was down $1 million in the quarter and $12 million for the year. Streamlining our cost structure will remain a key focus area this year, and we are on track to get an additional $10 million of cost savings in 2017, just as we communicated back in October.

And while we continued to look at ways to reduce operating costs, we are committed to investing in areas that drive leadership positions in our core product areas, such as research and development. We continue to fund those activities at 4.1% of sales in the quarter and year, right in line with the targeted range of 4% to 4.5% of sales that we've communicated to you in the past.

GAAP operating income improved 50% in the quarter to $48 million or 16.1% of sales. Adjusted operating margin, which excludes restructuring and currency exchange losses, in the fourth quarter was 16.2% of sales, which includes 50 basis points of dilution related to the acquisition of Senscient.

For the year, adjusted operating margin was 14.8% of sales or 270 basis points higher than a year ago, and that includes 20 basis points of dilution for Senscient.

Adjusted operating income finished the full year up 24% on the 2% increase in as reported revenue. Revenue growth improved product margins and reductions in our cost structure allowed us to generate significant improvements in profitability and reach our long-term operating margin target of 15%, excluding our recent acquisition of Senscient.

Our effective tax rate this quarter, excluding exit taxes, was 36.5% compared to 29% in the same quarter a year ago. About half of the quarterly rate increase is due to the timing of the approval of the R&D tax credit as we booked the full year benefit for 2015 in the fourth quarter a year ago.

The remaining rate increase is driven by a less favorable mix as we earned more income in higher tax jurisdictions, like the U.S. The mix impact was the largest driver of the full year tax rate as well, which was 33.8% compared to 33.1% in 2015, excluding exit taxes.

If you look at the profitability profile, we earned nearly 70% of our pretax income in the U.S., which, as you know, has the highest corporate tax rate of any developed nation in the world.

Net income was $25 million in the quarter or $0.66 per share on a GAAP basis compared to $21 million or $0.55 per share in the same period a year ago, an increase of 21%. Adjusted earnings were $0.78 per diluted share in the quarter. For the full year, adjusted earnings were $105 million or $2.77 per share, increasing 10% from a year ago.

We saw significant improvements in free cash flow in the quarter to drive free cash flow conversion to 119% for the year. Quarterly free cash flow was $94 million or nearly 400% of net income, increasing from $34 million a year ago.

Higher net income, collection of accounts receivables, lower inventory and product liability cash inflows, all contributed to the improvement. For the full year, free cash flow was $109 million or 119% of net income compared to $19 million in 2015. The higher cash flow is a result of higher net income and working capital management, notably accounts receivable and inventory.

As I mentioned at the beginning of my commentary, we saw a significant improvement in working capital as a percentage of net sales, finishing the year at 21.7% of sales or 400 basis points lower than a year ago.

It's important to highlight the cash flow improvements for the year were primarily driven by improvements in working capital and profitability. Looking closer at the cash impact of product liability for the year, net cash outflows from product liability were $18 million compared to $22 million in 2015.

In the fourth quarter, our collection of $37 million compares favorably to outflows of $5 million in the fourth quarter a year ago. While product liability was an important driver of the quarterly improvement in cash flow, it had a very minimal impact on the full year comparison.

Our ending cash balance was just over $110 million and our ending debt balance was $391 million, down $74 million from the end of 2015. We finished the year with debt-to-EBITDA of 1.8x compared to 2.5x at the end of 2015. On a net basis, net-debt-to-EBITDA was 1.3x at year-end.

If you recall, we talked about getting to this level by the end of 2017. We, in fact, got there early.

In summary, we closed out the year strong and saw significant improvements in profitability and cash flow in 2016, laying a strong foundation for continued improvements moving forward.

To quickly recap the results, revenue was up 4% in constant currency for the year and gross profit increased to 130 basis points, helping drive record net income in 2016 of $92 million. We improved adjusted operating margins by 270 basis points and reached our long-term target, all while driving improvements in free cash flow on stronger working capital management, converting 119% of net income to free cash flow.

One thing I want to call out is the tough comparison that we expect in Q1 in a few product categories, notably ballistic helmets in SCBA. We saw strength in ballistics as we cleared a substantial amount of backlog last year. In addition, we shipped large SCBA orders into Chile and China.

While the quarter-to-quarter activity can be choppy, we are seeing early signs of strength in industrial markets and an uptick in order pace and personal protective equipment and currently expect low to mid-single-digit constant currency organic revenue growth for the full year in 2017. And while we continue to closely manage our cost structure to drive further earnings leverage, we are committed to making investments that drive profitable growth.

I will now turn the call back over to Bill for some concluding commentary. Bill?

Bill Lambert - *MSA Safety, Inc. - Chairman, President and CEO*

Thank you, Ken. Looking at our 2016 revenue growth, operating margin expansion and record net income, it's clear that the strategic investments we've made in R&D, acquisitions and productivity initiatives have been successful in driving value during a challenging economic cycle.

As Ken mentioned, we've seen upticks in our incoming order pace in our short cycle PPE business, product lines like head protection and portable instruments that echo the improving macro conditions we're seeing across our end markets.

The industrial landscape seems to also be strengthening. U.S. rig count continues to increase and was up 25% in the fourth quarter alone. And U.S. drillers expect to increase capital investment budgets in 2017. Utilities are also expected to expand capital spending, including grid modernization and upgrading an aging infrastructure, and those activities all require personal protective equipment.

While it's too early to say we are moving away from a slower growth industrial environment, these trends, along with recent incoming order pace activity, point to improving fundamentals as we head into 2017. Combined with the investments we've made in growth initiatives, while improving our cost structure, I believe MSA is well-positioned to continue creating shareholder value in 2017 and beyond. Thank you for your attention this morning.

At this time, Ron Herring and Nish Vartanian have joined Ken and me. And we will be happy to take any questions that you might have. Please remember that MSA does not give guidance, and that precludes most discussion related to our expectations for the future sales and earnings.

Having said that, we'll now open the call up for your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) We will go ahead with our first question from Richard.

Richard Eastman - *Robert W. Baird & Co. Incorporated - Analyst*

Although, it may not sound like guidance, I think I actually heard a little bit of commentary there about what the core sales might actually look like in '17, so I'll take that as a gift.

Just a quick question, Bill, maybe around the core growth rate here for the products in the fourth quarter. I know we had the tough comp in the SCBA side. But we saw fire helmets kind of backed off, this noncore or revenue also kind of declined meaningfully. I presume that might be the ballistic helmets. But did the fourth quarter, in total, come in at plan despite the tough comparison? Maybe if you could just -- maybe flag a soft spot or two if, in fact, there was one?

Bill Lambert - *MSA Safety, Inc. - Chairman, President and CEO*

Yes, I think fire helmets is a bit of a soft spot to us. The fourth quarter was impacted by large orders and shipments of the previous year. But fire and rescue helmets is a bit of a soft spot for us. We were a little bit disappointed with the 5% decline in sales for the full year, looking at the organic constant currency change there.

The noncore sales is really driven more -- not, so much by the ballistic helmet orders, although that was an impact there, but by some of the other areas, where we're deemphasizing our efforts.

But I think, that offsetting that, we held pretty constant in fixed gas and flame detection, which was good to see in a challenging environment. Portable gas detection actually leveled off. And we actually saw a 3% growth for the year, and that was good to see. And our incoming order pace there is looking a bit better, and the same with industrial head protection. Ken gave some pretty meaningful improvements that we're seeing on the industrial head protection side.

So SCBA was the big-ticket item. And if there is an area of concern, if you will, or a soft spot as you indicated, Rick, it would be fire and rescue helmets and a bit of our organic growth in fall protection. We didn't see quite what we wanted to see outside of the Latchways area, which was great success. Some of the other fall protection areas of our business were of concern.

Richard Eastman - *Robert W. Baird & Co. Incorporated - Analyst*

And just with the SCBA, and again I understand the tough comp with the fire helmets. There isn't any issue on the municipal funding side. Are the dollars there? And it sounds like the orders were there on the SCBA side. So was there any municipal funding lock up here with the election or anything like that, that may be influenced the fire helmet and SCBA business in the quarter?

Nish Vartanian - *MSA Safety, Inc. - SVP and President of MSA Americas*

Rick, this is Nish. And we didn't see that. What we saw was in the third quarter, there was a little sluggishness in order pace. And that was really a function of fire departments waiting to see if they would get some federal grants. And once that settled out, business picked up. As you heard, the bookings pace for the fourth quarter was very strong and the pipeline continues to be robust for us. So the funding for breathing apparatus and replacement units, we don't see that as being an issue.

Richard Eastman - *Robert W. Baird & Co. Incorporated - Analyst*

Okay. Just last question --

Bill Lambert - *MSA Safety, Inc. - Chairman, President and CEO*

Any impact, Nish, on fire helmets?

Nish Vartanian - *MSA Safety, Inc. - SVP and President of MSA Americas*

No, on fire helmets, I think it was just a little choppiness in the business. And that's what you saw in the fourth quarter with the general slowdown. But business in general was, overall, and the funding, we're in pretty good shape.

Richard Eastman - *Robert W. Baird & Co. Incorporated - Analyst*

Okay. And just a last question. Any update on kind of the new product that's expected on the fixed gas and flame side of the business?

Bill Lambert - *MSA Safety, Inc. - Chairman, President and CEO*

We do, Rick. We are launching our X5000 and S5000 instruments here. The approval cycle there has been extensive, and it has taken a bit longer than what we had expected. But we are really, within the next month, certainly, we expect to be shipping that product. So the approval cycle took a little bit longer than what we thought it would. But there are literally thousands of tests that had to be done through the approval agencies around the world. And getting those approvals through just took longer than thought. But we're very close to launching that new product line.

Operator

Our next question from Edward Marshall, Sidoti & Company. Go ahead.

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

So I wanted to talk about the fall equipment growth that you saw in the quarter, especially from the organic basis. And I'm curious if that growth is attributable to your standalone business, your core business of fall equipment. Or are you getting some sales synergies from the, overall, there were some geographic and product specific synergies that you're anticipating with the acquisition. I wanted to kind of get your thoughts on the differences there?

Bill Lambert - *MSA Safety, Inc. - Chairman, President and CEO*

Well, the fall protection piece we look at for 2016 kind of in two major segments, that is the organic piece that we had prior to the Latchways acquisition, and then we look at Latchways. And then we look at the combined synergy of the two organizations coming together throughout 2016.

So let's take those, I talked a lot in my commentary about the Latchways piece, sales up 24% year-over-year for Latchways, just phenomenal performance there. All the things that we thought we might get out of that organization. We got out of it. We exceeded a lot of our profitable targets there. And we exceeded our cost synergy targets.

On the sales synergy side, we did a good job as well. So bringing the Latchways line into the MSA sales organization on a global basis, we saw some nice growth and cost synergies there. So that only then leaves the organic piece of MSA's fall protection. And there, we did not hit the targets that we'd established for ourselves in 2016.

In the North American market, we were -- we saw increased price competition from international imports and that price competition was severe on some of the textile goods that we produce. A lot of our harnesses in the organic side of fall protection are produced in Mexico. And we know that the cost, or I should say that the peso devaluation throughout 2016 had an impact on us. So that was a little on the concerning side. And as I indicated in the previous question, that was a soft spot for us. And we've taken some steps here for 2017 to correct that.

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

So to be clear, the 18% growth that you saw in 4Q on a constant-currency basis organically, that's mainly from the sales synergies that you received through Latchways. And I know it's a fine line whether that's acquired growth or organic growth, but I just wanted to be clear on that. It looks like that process is actually working out for you quite well.

Bill Lambert - *MSA Safety, Inc. - Chairman, President and CEO*

Yes, I think that -- I think the last part of your statement there is absolutely true. No question about it, Ed.

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

Good. You had nice growth in fixed gas and flame detection for the quarter and the year. I wanted to know if you would talk about that business related to new products. Or is there also a recovery in the market as you might assume based on the way energy commodities are trading. And maybe talk about the backlog and what you anticipate for 2017?

Bill Lambert - *MSA Safety, Inc. - Chairman, President and CEO*

Well, I think that the market is certainly improving there, especially when you look at the U.S. market for oil and gas and petrochem, those are the major industries for our fixed gas and flame detection line. The highlight of 2016 for FGFD was really the Middle East in our international segment. We didn't see near the softness or declines in business in the international side, as we saw in the U.S. market with the sharp declines in oil and gas prices from, say, 2014 onwards.

So the outlook is improving. As I said in my commentary, the U.S. market has certainly bottomed since the May 2016 lows that we've seen on oil rig count and that sort of thing.

So we see an improving outlook. We do have new products that are coming to market. I mentioned earlier, the X5000, S5000. This is a complete new line of fixed gas and flame detection instruments, revolutionary in many new ways. This is a slower cycle market, so I don't want to kind of overhype its impact on 2017 results, but getting it introduced, getting it into field trials with large oil and gas customers is important. And we've got great optimism for it based on all the alpha testing, beta testing that we've done.

So we're really excited about that new product. It's taken us a little bit longer to get it to market than what we expected. But we think we're in fine position here, as the oil and gas market begins to improve.

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

Got it. And I know a lot of your SCBA are direct sales. I'm curious if any of the improvements that you saw in 4Q is related to any volume incentives with vendors?

Nish Vartanian - *MSA Safety, Inc. - SVP and President of MSA Americas*

No, not at all. Really no volume incentives with partners. It's just good old pricing in the marketplace and some value engineering and operations and better buying of products, good variances within the plants and sourcing some of the components that go into that breathing apparatus. So just good healthy improvement, overall, in the business. And no reason why we don't see that continuing into '17.

Operator

Next question from Rudy Hokanson from Barrington Research.

Rudy Hokanson - *Barrington Research Associates, Inc. - Analyst*

Several questions. One, is there any particular focus on your working capital for 2017? You did a really good job in 2016. Are there any particular relationships or metrics that you're focused on?

Ken Krause - *MSA Safety, Inc. - VP, CFO and Treasurer*

Rudy, it's Ken. I'll take that question. I would say that 2016, first starting with 2016, I think a major change that we had with respect to working capital is in some of our incentive compensation metrics and focusing in the organization on working capital as a percentage of sales. It was the first year that we implemented that metric. And I think that really raised the focus area for the organization. That coupled with enhanced reporting, enhanced focus with respect to both receivables and inventory across finance, supplies and supply chain, I think has really yielded some good results.

I would be reluctant to say that we would expect the same level of improvement going into 2017. But we certainly are managing it to see slight improvements in turns and in DSO performance. So look forward to continuing to focus in on this area, continuing to manage it in order to keep levels at -- commensurate with our growth expectations.

Rudy Hokanson - *Barrington Research Associates, Inc. - Analyst*

Okay. And then in terms of your balance sheet, right now, is there anything you are looking at in terms of either refinancing on the debt or paying down of the debt over the next 12 months?

Ken Krause - *MSA Safety, Inc. - VP, CFO and Treasurer*

Rudy, we actually went through a pretty robust process in December of 2015 on a revolver. And then in January of '16 with a long-term note associated with Latchways. At this point, we're positioned fairly well with a fixed to variable interest rate profile at about 50 to 50. And so we're positioned pretty well. We don't see any major changes to the capital structure going forward, at least at this point.

Rudy Hokanson - *Barrington Research Associates, Inc. - Analyst*

Okay. Ken, can you give any indication as to the growth of Latchways or fall protection in 2017, since Latchways did so well in 2016 for the first full year under MSA. Is there this kind of momentum behind just the market for what Latchways has to offer. I mean, you talked about the fall protection market growing mid to maybe high single-digit, but Latchways has been double digit. Is Latchways has something to keep that type of momentum in 2017?

Bill Lambert - *MSA Safety, Inc. - Chairman, President and CEO*

Rudy, we talked often in the past about fall protection. We think that's a sub-segment within the safety industry that is growing at among the highest rates. It certainly the -- when you look at injury statistics, falls in the workplace are among the highest, has the highest incidence of work-related injuries and OSHA compliance violations. So fall protection has a lot of growth opportunity associated with it. And we continue to believe that it's got great opportunities going forward.

Latchways had a spectacular year in 2016, there is no question about that. Can we achieve those kinds of growth rates going forward? What I'd like to see -- I'd like to see that. But I'm not so sure that our -- in fact, I'm certain, our internal plans do not show that kind of continued high-level of growth. But the underlying fundamentals are wonderful. The synergy opportunity that we had hoped to see among our sales organization on a global basis, adopting Latchways product line, was certainly there in 2016. And we still have fairly aggressive growth goals for our overall fall protection business as we look to the future. And there's a lot of support for that optimism.

Rudy Hokanson - *Barrington Research Associates, Inc. - Analyst*

Okay. Thank you. On the SCBA side, you've talked a good deal about ancillary products. And in fact, you're talking, you led off talking about the thermal imaging device camera that you have a lot of hopes for. Can you give us an idea on maybe what percentage of growth or what percentage of sales in SCBA can be viewed as more ancillary than maybe a basic unit, understanding that everybody can sort of order their own customize. But what you might think of this ancillary or something that may be part of that customization. As we look at the total sales, how much of it's due to innovative additional products?

Nish Vartanian - *MSA Safety, Inc. - SVP and President of MSA Americas*

Rudy, that's part of the business. As the accessories, as we get more accessories approved with the breathing apparatus, those are added to the units, which obviously drive higher levels of dollars that we bring in for that each product that we sell, and also improve the gross margin.

So as we get closer with the integrated TIC approval, which we expect to get any day now, we're starting to see greater interest in that product. And so, we're targeting. We think that reasonably, you can maybe get 20% of the breathing apparatus with that integrated TIC on there, which drives obviously more dollars and a little better margin. So there is some nice opportunity there going forward.

Operator

Our last question is from Walter Liptak at Seaport. Go ahead with your question.

Walter Liptak - *Seaport Global Securities LLC - Analyst*

Wanted to see if we can go back to the 2017 revenue outlook. And maybe just to start off, at the end of 2016, what percentage of your sales are energy related?

Ken Krause - *MSA Safety, Inc. - VP, CFO and Treasurer*

Well, we estimate that between 25% to 30% of our business is tied into the energy sector across the and FGFD, and then across some of the more personal protective equipment, head protection, fall protection and portable gas detection.

Walter Liptak - *Seaport Global Securities LLC - Analyst*

Okay, great. And so when you look at the 2017 year-to-date numbers, like in fall protection up 18%. Can you -- have you been able to tie that into energy markets?

Ken Krause - *MSA Safety, Inc. - VP, CFO and Treasurer*

I would say, as Bill had indicated earlier, that the rebound we saw in fall protection was not related to energy. It was primarily related to our access in the utilities, aerospace and other industrial, other industries and end markets.

Walter Liptak - *Seaport Global Securities LLC - Analyst*

Okay. So at this point, how would you guys characterize the energy sector? Is that recovering for you? I know you talked about -- Bill, you talked about rig counts picking up and other things, is there any quote activity or indications from customers that there might be better capital budgets this year?

Bill Lambert - *MSA Safety, Inc. - Chairman, President and CEO*

How about if I ask Ron to comment on that from an international prospectuses since the Middle East was such a strong contributor to performance last year, and also Nish. So Ron, what are you seeing?

Ron Herring - *MSA Safety, Inc. - SVP and President of MSA International, Europe*

Sure, I mean, when we talk about the Middle East, I think the -- what we're seeing really is, we expected it to have bottomed out at this point. And we're still seeing a pretty healthy order pace for FGFD products going through there and interest in SCBA in portable gas detection. So our expectation is actually reasonably strong for 2000 -- looking forward for the FGFD or for the oil and gas market.

Europe is a little bit different. I mean, it's a higher extraction cost and the North Sea is much more challenging area. But the bulk of our business is coming out of the Middle East and our expectation is that will continue to improve.

China, as another example, though is one area where it really was very flat for the year. We moved a lot of our resources over into fire service because of that. And we're seeing some uptick in China. So we're feeling better about the FGFD -- the oil and gas market in China as well. So slight recovery, I'd probably put it [up] from where we were in '16 and in '15.

Nish Vartanian - *MSA Safety, Inc. - SVP and President of MSA Americas*

Yes, so in the Americas, we saw a nice turnaround with head protection and portable gas detection. In those two, we look at somewhat leading indicators of what's going on in the industrial business, overall, and oil and gas is a big part of that segment. So we saw good strong improvement in the fourth quarter, good bookings since August of last year that continues here into the first quarter. So those leading indicators on portable instruments and head protection are doing very nice. It's good to see.

On FGFD for the Americas, we're tied into Pemex and some other players. And as those capital equipment budgets improve, we'll see that business turnaround. We're not seeing a lot of that. We're seeing some projects in the U.S. being released and some funding there for pipeline projects and some other areas, which will help us. But we don't have a strong indication at this point for fixed gas and flame. But certainly as a business improves, that will come along at a little later date, maybe later in 2017.

Walter Liptak - *Seaport Global Securities LLC - Analyst*

Okay, great. And I wonder if I could switch gears and ask about the -- maybe next level of where you think you can get your streamlining. Congratulations, getting to that 15% early. And I understand in 2017, there's still $10 million coming out from the voluntary retirement and other. But have you set new targets, if you had your 15% goal, you're there. What's next as you look out?

Ken Krause - *MSA Safety, Inc. - VP, CFO and Treasurer*

Well, we actually are looking at that right now. And so we're assessing that in contemplating our next target. And so as we go through the first half of 2017, we're analyzing that -- and at some point, most likely into the end of the first half or the end of second half, we'll probably put some new targets out, longer-term targets associated with our expectations for the business.

Operator

We do have an additional question from Richard Eastman at Robert W. Baird.

Richard Eastman - *Robert W. Baird & Co. Incorporated - Analyst*

Bill, could you kind of speak for a minute or two. As I kind of listen to the commentary here, a lot of the -- maybe positive bright spots year in terms of orders, whether it'd be on the head protection side, G1 side, rig count or even in the short-term business, seem reasonably focused on the Americas. And I'm curious, as you look into '17, are you seeing some of these kind of early uptick points in the international market? And would you -- how do you think about the growth in '17, would the U.S. slightly outgrow the international markets? Or are we also seeing some [green shoots] in international?

Bill Lambert - *MSA Safety, Inc. - Chairman, President and CEO*

Well, I'll provide some high-level commentary. But then I'd like to ask Ron to comment more specifically on what he's seeing so far this year.

I mean, certainly it's early in the year and China just coming off its Chinese New Year. And that's always -- it's always difficult to make commentary on just how well China does or doesn't do on an incoming order basis early in the year. But I think we're right about where we had put our time phase plan to be, our seasonal plan to be in that regard.

As Ron indicated, we had some terrific performance out of the Middle East last year. And we see continued optimism there for full year growth out of the Middle East. But maybe Ron, you can provide some other commentary on other elements of Asia and Europe, in particular, on what you're seeing?

Ron Herring - *MSA Safety, Inc. - SVP and President of MSA International, Europe*

Sure. Well, when we get into Pacific Asia, we have seen some reasonable recovery, particularly in fall protection in Australia and the Pacific Asia region. We have some nice large orders out of there last year. We recently received a nice one early this year. And so we're feeling better about Australia. And as China begins to level off a little bit here or begin to improve slightly, our expectation is that some of those other markets will follow along with it.

In regards to Europe, the industrial side of Europe is where we are more bullish than perhaps the government side. And so we're tracking some of that business and looking to see how that, that the recovery in Europe we're seeing some better growth rates out of Germany than expected. And so our hope here is that we see a pretty good recovery out of the Europe and the industrial economy in Europe as well.

And then Bill already covered the Middle East, that's really primarily oil and gas. But there are other industries there that we're tracking, and other geographies within the Middle East that we're tracking. So even in some of the gold mines in Africa is starting to show some opportunities for us.

So generally, it is -- it's obviously a bit of a patchwork quilt of economies and geographies and what's impacting it. But I think we're feeling stronger than we have in previous years. And probably across the board, we're seeing better economic conditions than we've seen in previous years.

Ken Krause - *MSA Safety, Inc. - VP, CFO and Treasurer*

The only thing I would add there, Rick, this is Ken, is the helmet number, the industrial number I spoke about earlier. We all know that we have a really strong brand here in the U.S. But we're also seeing good performance in Brazil of late. And so across Latin America, we're seeing a bit of an improvement with respect to head protection. And then looking at Ron's segment, we're seeing some similar trends in head protection in those areas. And head protection is oftentimes a leading indicator for recovery in the industrial sector. So we're -- it gives us a sense of optimism as we start the year, as we think about the global industrial market.

Richard Eastman - *Robert W. Baird & Co. Incorporated - Analyst*

I see. And does the -- you made - [I'm assuming it's] some very good progress in the international op profit contribution. And I'm curious as we move into '17, is that an area of particular focus? Or is the op profit there expected to improve relative to incremental margins with the sales improvement?

Ken Krause - *MSA Safety, Inc. - VP, CFO and Treasurer*

I'll take that. And looking at the international segment, you're, right. We've made some good progress there. But we're certainly not happy with where we are currently are, and we certainly are looking at further improvement initiatives across that segment.

Obviously, sales and revenue growth helps. But if you look at the performance in that segment in 2016, a lot of the performance that we saw actually came through better leveraging of SG&A restructuring and executing some cost take out. And so we continue to look at that segment of our business. We continue to discuss and develop plans to continue to improve the profitability profile of that business, not just through a -- leveraging of the revenue growth, but through some specific actions on the restructuring side.

Richard Eastman - *Robert W. Baird & Co. Incorporated - Analyst*

Okay. And just one last question. I want to circle back for a second. Just on the fall protection business, Latchways has done quite well. Their product line is, in my mind, more equipment oriented than MSA's core fall protection product line, which as you mentioned Bill, is a little bit more harness related, more competitive. Is there a shift in strategy with Latchways now, for instance, getting more of their product to the U.S. and competing harder on the equipment side here than perhaps more commoditized harness side?

Bill Lambert - *MSA Safety, Inc. - Chairman, President and CEO*

Well, it was an area of opportunity that we identified in our fall protection strategy years ago, that on that hard goods side or mechanicals side that you're talking about, Rick. When you talk about fall protection equipment, there was an area of opportunity we identified and that's what the Latchways acquisition helped us to fill. It's not so much a shift in strategy per se, but you're seeing kind of the results of the execution of that strategy, and there are more legs to that strategy.

The engineered fall protection solutions side of the business is a -- is an opportunity that we have identified and others have identified. And the Latchways acquisition is one element of that, and there are more legs to that. So it's much more than just the harnesses, the soft goods side, it's more of the equipment, it's more on the engineered solutions and bringing even service and training into that mix as well.

Operator

Thank you, gentlemen. We have no further questions.

Mark Deasy - *MSA Safety, Inc. - Director, Corporate Communications*

Okay. Thank you, Annette. Given that we have no more questions that will conclude today's call. Again, I want to remind everybody that if you missed a portion of the call, a replay and transcript will be available on our website for the next 90 days. So on behalf of our entire team here, I want to thank you once again for joining us today. And we look forward to talking with you again soon. Goodbye.