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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the MSA First Quarter Earnings Call. At this time, all lines have been placed in listen-only mode and the floor will be open for questions following the presentation. (Operator Instructions) At this time, it is my pleasure to introduce your host, Mark Deasy. Please begin.

Mark Deasy - MSA Safety Incorporated - Director of Global Public Relations

Thank you, Joe, and good morning, everybody. I, too, would like to welcome you to our first quarter earnings conference call for 2016. Joining me this morning are Bill Lambert, Chairman, President, and Chief Executive Officer; Ken Krause, Vice President, Chief Financial Officer and Treasurer; Ron Herring, Senior Vice President, President of MSA International; and Nish Vartanian, Senior Vice President and President for MSA Americas. Our first 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 Securities and Exchange Commission, including our most recent Form 10-K, which was filed on February 29 of this year.

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 and 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 have 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 available on our Investor Relations website at investors.msasafety.com. You will find this information in our quarterly results section, which is located under the Financial Information header.

That concludes our forward-looking statements. So with that, I will turn the call over to our Chairman, President, and Chief Executive Officer, Bill Lambert. Bill?
Thank you, Mark, and good morning, everyone. As always, I want to begin by saying thank you for joining us this morning and for your continued interest in MSA.

As you saw in our press release issued last night, we are off to a good start in 2016. We had solid revenue growth. Our cost reduction efforts are yielding margin expansion, and our recent acquisition is helping contribute to our overall earnings growth. I’m pleased by how the MSA team is executing well despite external headwinds that continue to impact our business, most notably, the stronger U.S. dollar, the challenging economic conditions in certain emerging markets, and of course, lower oil prices that continue to adversely impact employment levels and investment levels in the oil and gas industry, which, in turn, directly impacts demand for some of our core product lines. Ken will give you additional insight on these macro trends as well as our outlook ahead in his more detailed commentary about the quarter.

What I would like to do now is give you an update on two particular areas, where we’ve made strategic investments to drive growth in our business. First and foremost is the fire service market. And in that context, I want to tell you about some new technologies we showcased at last week’s Fire Department Instructors Conference held in Indianapolis. Then I’d like to give you an update on the progress we’re making with Latchways, the highly strategic fall protection acquisition we made last fall. After that, I’ll turn it over to Ken for his financial review.

It’s evident that our SCBA product line continues to be a top performer within our core product portfolio. In local currency, quarterly breathing apparatus revenue was up 57% in the Americas segment, driving consolidated breathing apparatus growth of 40% for the company. The demand we have seen thus far for our G1 SCBA and the unprecedented growth rates it brings are a clear indicator that this product is an exceptional catalyst for MSA to capture market share. I can tell you that our order pace remains strong for the G1, and we continue to see an elevated level of demand, both from the ongoing product replacement cycle and through our ability to convert fire departments, who were previously using competitive SCBA.

As an example of this, in the first quarter, more than 50% of incoming orders for the G1 SCBA represented a competitive conversion, which is relatively consistent with the share capture trends that we saw developing throughout 2015. I’m pleased to report that our operations team has continued on a strong trajectory to keep pace with this demand. And we’re realizing the desired improvements in our margins. While margins on SCBA are still below MSA’s corporate average, we’re seeing the desired improvements in the G1 as we start to realize benefits within operations from our value-engineering processes.

Demand for the G1 remains strong, and the ongoing replacement cycle should continue to provide healthy volume that is accretive to operating margins. But it’s important to remember that our prior year comparisons are going to become much tougher as we move into the second half of this year. If you remember, we made substantial progress in ramping up SCBA production by the second quarter of last year, and we were fully ramped up by the third quarter. So while we continue to see strong opportunity for share gain in both the U.S. and the international fire service markets, it’s natural to expect these unprecedented growth rates to moderate from those we have achieved over the past several quarters.

When we introduced the G1 SCBA in 2014, we explained that it was not just a new product. Rather, this new SCBA represented a foundational platform that gives fire departments the ability to protect firefighters like never before and to cost effectively keep up with the pace of technological change, and to do so for many years to come.

To demonstrate what we meant by that vision and let firefighters truly see what’s possible with the G1 platform, we introduced several new and very exciting G1 options and accessories at last week’s Fire Department Instructors Conference in Indianapolis, which, as many of you know, is the largest fire service trade show in North America. Those who were at the show will tell you the excitement MSA generated centered around a personal thermal imaging camera that we integrated into the G1’s central control module. At last year’s show, this integrated TIC was just an advanced concept. But after seeing firefighters’ overwhelmingly positive reaction to that idea, we worked hard to bring this idea to market, and that’s exactly what we’ve done.

Our integrated thermal imaging camera has been submitted for regulatory approval and is now available on a preorder basis. Once approved, the G1s already in the field can be easily upgraded and retrofitted with our new integrated TIC.
At this year’s FDIC, we also introduced three additional prototype concepts that allow incident commanders to remotely monitor a broad range of firefighter data, including exertion levels, early warning detection for falls, and a point-to-point location system that shows a firefighter’s position relative to other members of the team. After spending time at the show and getting valuable firsthand feedback from our customers, I can tell you that the market buzz over these new features is palpable, and the excitement reflects just how impressed firefighters are by the innovative technologies that we continue to introduce and build on with the G1 SCBA platform.

While the G1 is certainly a highlight within our portfolio, we are seeing bright spots in other core areas as well. As an example, we continue to see strong performance in fire helmets, with local currency revenue in this area up 21% in the Americas segment. Additionally, solid invoicing in the Middle East and Mexico drove strong growth in fixed gas and flame detection products in emerging markets, where the cost of oil extraction is generally much lower and we’re not seeing the pullback in CapEx spending that we’ve seen in the U.S. energy markets.

The negative growth we saw in other core areas such as portable gas detection and industrial head protection are reflective of the headwinds we continue to see in the energy industry, specifically in the US-based oil and gas business. However, while the challenges in the energy market persist, we were still able to recognize 7% organic local currency sales growth across the total business in the quarter, which I believe is a good example of how our new product development efforts and diversified portfolio are yielding strong returns and driving growth even in the face of these challenges.

Investing in research and development, bringing new and innovative products to our markets around the world has always been central to the MSA mission, and it's a core strength of the company. As evidence of this, our sales vitality, which is a measure of percent of sales from products introduced in the last five years, was 34% in the first quarter. This is solid performance and provides reinforcement and confidence for our R&D investment commitment.

Switching gears to another strategic investment within our core product portfolio, I’d like to provide an update on our progress with the integration of Latchways. After the transaction closed last year, we immediately began executing our integration plans to harness the combined power of these two great organizations. After only a few short months, we’re already seeing solid returns. As you saw in the press release, Latchways quarterly sales were $16 million and reflect a 19% growth rate in local currency terms from the same period a year ago. And we’re already seeing earnings accretion. On a fully loaded basis with incremental interest and purchase accounting, Latchways earnings were just over $1 million or $0.03 per diluted share.

In addition to those numbers, the order pace and backlog pipeline continue to be healthy, and we’re seeing solid opportunities in areas that were not previously strongholds for MSA fall protection, such as in electric utilities, aircraft production and maintenance, and wind energy, all helping us diversify our fall protection portfolio away from the oil and gas market.

There is still work ahead as we execute our Latchways integration plan, but I am certainly encouraged by our progress so far. MSA now has a strong global market position in fall protection, and I see opportunity to capture additional market share as we execute our growth strategy in this important and growing area of worker safety.

Whether we’re capitalizing on unique opportunities in the fall protection market, developing innovative technologies for the fire service or facing challenging market dynamics in the energy industry, one overriding theme holds constant in all that we do at MSA, and that is acting with integrity. It’s our foundational value, and that’s why I’m so proud that MSA has been recognized by the Ethisphere Institute as a 2016 World’s Most Ethical Company; our second consecutive year of earning this distinction.

Beyond protecting the health and safety of workers around the world, ensuring long-term value for all of our stakeholders is the most important job that we have, and I firmly believe that conducting our business in accordance with the highest ethical standards is essential to creating and preserving that value. Our associates around the world are the driving force of our integrity-focused culture, and I want to thank them for living our values every day, embracing ethical behavior, and personifying integrity in all that we do.

With that, I’d like to turn the call over to Ken for his more detailed financial review of Q1 performance. Ken?
Ken Krause - MSA Safety Incorporated - CFO, VP, Treasurer

Thanks, Bill, and good morning, everyone. I’d like to take some time to walk you through our first quarter financial results and to provide more insight into the drivers of performance. Additional information will be available when we file our Form 10-Q with the Securities and Exchange Commission.

We had a strong start to the year. Although market conditions continued to be challenging, we executed well with a strong focus on driving growth in core product revenue while closely managing our cost structure, driving improvements in both profitability and margins.

To touch on a few highlights. We grew local currency sales by 13%, and 7% excluding Latchways. Local currency core product revenues increased 15%, and 8% excluding Latchways. The restructuring program we executed in 2015 as well as the discretionary cost controls that we continue to implement are yielding solid results.

Excluding Latchways-related operating costs, local currency SG&A expense was down 5% year-over-year on the 7% increase in local currency organic revenue. That helped drive 330 basis points of operating leverage on SG&A.

Lastly, our integration efforts of our most recent acquisition are progressing well. The acquisition was accretive to both operating margins and earnings in the quarter, while local currency revenue in this business was up 19%. As you know, this was our first full quarter post-acquisition, so I’m quite pleased that we’re seeing accretion so early in the integration process.

Let’s take a closer look at the quarterly financial results. Sales from continuing operations in the first quarter were $279 million, which includes $16 million of Latchways sales. Sales, excluding Latchways, were up 3% on a reported basis and 7% on a local currency basis in the quarter, reflecting a 4% headwind associated with FX.

Looking at the drivers of the foreign exchange headwind:

About 20% of our business is in euro-based geographies. While we saw strengthening of the euro sequentially during the quarter, the year-over-year comparison weakened by about 4% and had a negative impact on our revenue in those areas. Additionally, just under 25% of our revenue is in emerging markets. The currencies in these commodity-based markets weakened significantly from Q1 of last year versus the U.S. dollar, causing a 12% foreign exchange headwind in our emerging markets.

Before we continue discussing our operating results, I want to call your attention to the changes in our segment reporting that you may have noticed when reviewing our press release. Back on the October call, Bill indicated that we were completing an executive realignment to ensure that we are positioned to continue pushing toward our strategic goals. This realignment is now complete.

Naturally, our new executive leadership structure prompted a change in our financial reporting segments to align with the new way we are managing our global business. We have transitioned from reporting four segments, North America, Europe, International, and corporate to reporting three segments, MSA Americas, MSA International, and corporate. This newly-created segment of MSA Americas includes our business in the U.S., Canada, Mexico, and South America. The new International segment includes our businesses in all other parts of the world, including Europe, Africa, the Middle East, India, China, Southeast Asia, and Australia. We will be filing an 8-K with the SEC containing our 2015 quarterly results restated in this new segment structure. We firmly believe that organizing into the Americas and International segment will allow Nish Vartanian and Ron Herring to focus exclusively on driving achievement of our long-term financial plans in their respective segments, while Kerry Bove will focus exclusively on executing pillars of MSA’s corporate strategy.

Now let’s get back to the financial review. Looking closer at the year-over-year quarterly results comparison, core product sales increased by 15% on a local currency basis or 8%, excluding Latchways. The G1 SCBA continues to be a key driver of results as we gain share in the U.S. fire service. Breathing apparatus revenue in the Americas segment was up 57% in the quarter.
In addition to our success in SCBA in the U.S. fire service, I also want to take a moment to highlight the healthy growth we’re seeing in international markets in fire service. For example, we delivered a large order in Chile this quarter as the national fire service in that region has adopted the G1. We also delivered a large order in China for our AG2100 SCBA, a model designed in China, for China. All of these wins resulted in global SCBA growth of 40% this quarter. These improvements were partially offset by portable gas detection, down 10%; and industrial head protection, down 8%, as lower employment levels in the energy market continue to impact demand for these products, particularly in North America. FGFD revenue was down 1% in the quarter as strong growth in emerging markets was offset by weaker results in the U.S. on lower CapEx spending in energy markets.

We continue to deal with sluggish conditions that are impacting revenue from products sold into energy end markets. As we’ve communicated on past calls, a significant portion of our portable gas detection and industrial head protection sales are correlated to employment levels in the oil and gas industry. We estimate the total exposure level within these products reflects about 10% of consolidated revenue. If you recall, we saw a steep pullback in the first quarter of 2015 in head protection and portable gas detection, and order activity remained relatively consistent at those levels for the duration of 2015. While we have seen a seasonal uptick in order activity, which is typical this time of the year, we are not seeing any indication of a broad-based recovery.

Orders in these areas in the quarter were relatively consistent with a year ago. We continue to feel that there is some opportunity for modest growth in these products in 2016, but of course, we are cautious due to the ongoing challenges we are seeing in these end markets.

Continuing to look at energy exposure, another 5% to 10% of our consolidated revenue, primarily in the FGFD product line, is more susceptible to a pullback in capital equipment spending. The FGFD business continues to be a mixed story, varying by geography. For example, in the Middle East, where the cost of extraction is lower relative to other regions, incoming orders for FGFD were up double digits in the quarter, as we continue to see healthy project activity in that region.

However, in the U.S., project business has been weak, and revenue results are down year-over-year. The balance of these trends results in a global FGFD business that is holding up well despite the challenging market conditions. Our results in this area in the quarter were down 1%, and that is working off a very strong comparison versus the first quarter a year ago. The recurring revenue stream within FGFD as well as the diversification of our entire product portfolio by market and geography continues to provide balance for us, allowing us to grow on a consolidated basis despite end market headwinds.

Shifting gears, let’s take a look at our results in emerging markets. Revenue in these areas increased by 6% in the quarter, driven by large FGFD project shipments in the Middle East and Mexico and an uptick in revenue in China on shipments into the fire service market. While we saw improvement in the quarter in order activity in Brazil, we continue to see recessionary conditions in that geography and continue to closely manage additional investments and operating costs there.

Our gross profit rate for this quarter was 43.2%, decreasing 230 basis points from a year ago. Excluding purchase accounting related to the Latchways acquisition, gross profit was down 180 basis points from a year ago. The decline was primarily related to the shift in product mix that we saw in the quarter from invoicing higher levels of SCBA, invoicing a higher level of large orders that tend to carry a lower margin than base business, and manufacturing variances in our factories. Although the margin profile of SCBA is below our corporate average, causing the mix impact I just mentioned, we are making progress with our efforts to drive margin improvements on the G1 SCBA through value-engineering activities.

In the quarter, gross margins on breathing apparatus in the U.S., where the primary product is the G1, were up 100 basis points from a year ago on reduced product costs and efficiencies gained from higher volume.

Selling, general and administrative costs were $79 million in the quarter, decreasing $2 million from a year ago on a reported basis. Similar to many other global industrial companies, we’ve had to make some tough decisions recently to continue driving increased profitability in this slow growth environment. The restructuring program executed in the second half of 2015 was designed to drive $10 million of operating expense savings in 2016, and we are capturing those savings.

Including Latchways base selling, general and administrative costs, local currency SG&A increased 1% on the 13% increase in local currency revenue. Excluding Latchways SG&A and related integration costs, SG&A was down $4 million or 5% in local currency on the 7% increase in organic revenue.
As you can see, the restructuring steps we have taken to reduce operating costs, both from headcount reduction and implementing discretionary spending controls, are proving effective in driving operating leverage.

Our investment in research and development this quarter was $10 million or 3.7% of sales. As Bill indicated in his comments, we continue to raise the bar for technological advancements in the fire service by building upon our revolutionary G1 platform, and we carry that spirit of innovation through all of our core product development initiatives. With 34% of sales derived from products developed and launched over the past five years, it is easy to see that we are getting strong returns on these investments.

Operating margin in the [first](corrected by company after the call) quarter was 11.2% of sales, reflecting a 160-basis-point improvement from a year ago. As reported, operating income increased by 27% on the increased sales volume and improved operating expense control I discussed a moment ago.

Excluding exit taxes associated with our European reorganization from both periods, our effective tax rate this quarter was 34.7%, up 300 basis points from a year ago, due to a higher level of profitability in the U.S. In the quarter, we incurred just under $4 million of exit tax charges associated with four entities coming into our principal operating company model in Switzerland, aligned with the range we communicated to you on the February call.

Net income from continuing operations was $13 million in the quarter or $0.34 per diluted share on a GAAP basis. Adjusted earnings were $0.48 per diluted share in the quarter compared to $0.42 per diluted share a year ago. Latchways was accretive to quarterly earnings by $1 million or $0.03 per diluted share on a fully loaded GAAP basis.

With sales growth of 19% in local currency and earnings accretion in the first full quarter of ownership, Latchways is delivering strong performance, and we will continue pushing hard to ensure that we drive maximum value from this highly strategic investment. We continue to model accretion in the range of $0.05 to $0.10 per share for the full year of 2016 on a GAAP basis, driven primarily by cost synergies and a recovery in Latchways-based business.

Quarterly free cash flow was a use of $17 million in the quarter, improving $7 million from a year-ago, despite making a $21 million payment in the quarter associated with the product liability settlement we discussed with you in early 2015. In addition, we saw an uptick in working capital to support the revenue growth we achieved in the quarter.

Our total debt balance was $478 million at the end of the quarter. And our cash balance was $112 million, resulting in a net debt of $366 million. Debt-to-EBITDA at quarter end was 2.5x or 1.9x on a net debt basis.

And as we disclosed in our 10-K in February, we divested of Select PPE, our South African distribution business, which had previously been reported in discontinued operations. As you probably remember, we made the decision to move away from this noncore business as it did not align with our strategic focus. After this transaction and other divestitures that we have completed over the past several years, our portfolio is now 80% core, up from only 58% in 2009. We received approximately $16 million, and the income statement impact of the divestiture was negligible.

In summary, we had a good start to the year. And while business activity in fire service provides a sense of optimism, certain industrial-related end markets like energy continue to be challenging. Although we are seeing some improvements in these areas, we continue to expect a slow growth environment for 2016, and that requires us to continue to be very diligent in managing our cost structure.

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

Bill Lambert - MSA Safety Incorporated - Chairman, CEO, President

Thank you, Ken. Our quarterly results were strong and provide a solid foundation as we head into the second quarter and begin to think about the back half of the year. In looking back on the quarter, I'm pleased we exceeded our local currency sales target range, we drove operating leverage through our reduced cost structure, and we're seeing a return on the investments and commitment to R&D in our core product areas. And while
I’m encouraged by the results we posted this quarter, my optimism is balanced by the challenges that we continue to face in some of our key industrial markets and geographies. As we navigate these macro headwinds, we’re keeping a keen focus on managing our cost structure while also making strategic investments to capture market share, drive profitable growth and enhance value for all MSA stakeholders.

Thank you for your attention this morning. And at this time, Ron Herring and Nish Vartanian have joined Ken and me, and we’ll be happy to take any questions that you may have. Please remember that MSA does not give guidance, and that precludes most discussion related to our expectations for future sales and earnings.

Having said that, we will now open the call to your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question is from Richard Eastman of Robert W. Baird.

Richard Eastman - Robert W. Baird - Analyst

Good morning, Bill, could you maybe elaborate maybe a little bit further on just the tone in the SCBA market in G1. It sounds like, again, order rates are continuing at a very good pace. Your conversion number is pretty interesting and impressive. But, again, as that product line kind of plays out through the year, we do hit the tough comps, but it’s still – it seems like the momentum is there and the conversions are there to drive growth for the full year on the SCBA side. And then second part of that question would just be, have we seen any traction in Europe on the G1, which was approved, I think, about six to nine months ago?

Bill Lambert - MSA Safety Incorporated - Chairman, CEO, President

Yes. Answering the first part of your question, Rick, we do see opportunity to continue to grow the business in the SCBA area, especially through the G1 and especially here in the U.S. and North America. So I think that full year, when we look back at full year, we’ll see nice growth, we’ll see continued and strong growth in the SCBA area for the business.

We’re in the midst of that replacement cycle that we’ve talked to you about in the past, and we would expect that replacement cycle to last at least another two to three years. And so, when thinking about that market opportunity, remember, there was probably $3 billion of firefighter grants that were pumped into the market from 2002 to 2006 or 2007, in that range. And we estimated that about 30% to maybe higher, 50% of that total amount was used to purchase SCBA. So the opportunity is quite significant not just for replacement of MSA SCBA, but replacement of competitive SCBA that was purchased during that time period. So a lot of those units are coming out of service. And so the comps will become more difficult. And we just want to temper some of that expectation as we go forward, but that does not diminish at all our belief in the strength of the G1 and what we might be able to do capture, continue to capture SCBA market share in this U.S. fire service business.

To answer the second part of your question regarding Europe, the G1 has some limited opportunity in Europe. Some of the advances we’ve made on the G1 have moved into Europe. But remember, the European market does not have that same replacement cycle that I talked about here in the U.S. So there’s a fairly significant difference in that regard. And the price point of the G1 is quite a bit higher than what’s normal for the European market.

So in Europe, the G1 is approved. It is getting attention. It does provide us with opportunity to bid in certain areas and also offer a low cost option. That’s a product that we produce out of our German factory. But the G1 in Europe proper probably doesn’t have this -- anywhere near the same growth potential, at least at this moment, that we see in the U.S. Where we do see the G1, though, internationally is in the Middle East, where we’re seeing some success, and in South America, as I think Ken mentioned in his commentary, where we’re having great success in Chile.
Richard Eastman - Robert W. Baird - Analyst

Okay. And then just one additional question. Could -- and perhaps, this one, I'll direct this one to Ken. But when you look at the fixed gas and flame business, can you maybe just remind us what the Americas versus International mix of that business is in terms of revenue? I mean, is it 2/3, 1/3? Or just a general sense of that.

Ken Krause - MSA Safety Incorporated - CFO, VP, Treasurer

Yes, sure, Rick. If you look at -- it's a fairly global business for us. So it's like many of our product categories are. And so, when you look at the breakout between the new Americas segment and International, it would probably be something like 60-40 between Americas and rest of the world, if you will. So like I said, it's a very global business. And that's why in the quarter when you look at the revenue performance, we were down 5% in the Americas. But I think in the International segment, we were up 5%. And overall, we were down 1%. So it's a global portfolio for us.

Richard Eastman - Robert W. Baird - Analyst

Is the profit margin roughly equal, the gross margin roughly equal on fixed gas and flame irrespective of the market that it goes into?

Ken Krause - MSA Safety Incorporated - CFO, VP, Treasurer

Yes, it is. I mean, when we look around the world, it certainly is a very profitable line for us globally. Where the distinction comes in, though, Rick, like we've talked about in the past, is between the project business and the recurring revenue stream. And so that's why in the quarter, you saw a lot of project business shift and you saw some pressure on the gross profit margin.

Richard Eastman - Robert W. Baird - Analyst

Understand. Okay, great. Thank you.

Operator

Our next question is from Stanley Elliott, Stifel.

Stanley Elliott - Stifel, Nicolaus & Company - Analyst

Hey, guys. Good morning and congratulations on a nice quarter. So Latchways, so far, you did $0.03 in the quarter. You had another strong kind of part of the quarter, where you owned it last time around. I mean are we thinking that maybe the $0.05 to $0.10 might end up being a little conservative given how quickly this has ramped? It sounds like it's exceeded expectations from revenue opportunities as well.

Bill Lambert - MSA Safety Incorporated - Chairman, CEO, President

Yes, hi, good morning, Stanley. Thanks for the positive comments. Yes, Latchways is off to a good solid start. There's no question about it. We're pleased by that 19% local currency revenue growth rate. I'm pleased, as I indicated in my commentary, on how the integration efforts are going and how we're melding these two organizations together. I think it's a little bit early for us to claim victory, and so I think that the range that Ken has provided to investors in the past regarding accretion is still our target.
Stanley Elliott - Stifel, Nicolaus & Company - Analyst

In the past, we've kind of talked about maybe a pickup in North American MRO activity. Certainly, comps do get easier for industrial head protection and then also on the portable gas. Is that still the outlook that we could see a pickup at some of this activity, which might help drive some of this business in the back half of the year?

Bill Lambert - MSA Safety Incorporated - Chairman, CEO, President

That's our expectation, Stanley. I think that we look closely at the U.S. spring and fall refinery turnaround activity. We've got a pretty good expectation of what that activity might be. This spring was a little bit stronger than last year's turnaround activity, but not quite as strong as some of the expectations we had maybe last year. So I would expect that unplanned turnaround activity and the fall turnaround activity, we continue to think that, that should be fairly strong. And if that's strong, that will certainly help our industrial head protection business and our portable gas detection business.

Stanley Elliott - Stifel, Nicolaus & Company - Analyst

Absolutely. And I apologize if I missed this, but did you all give the SCBA backlog coming out of the quarter? And did that -- and maybe you could include any commentary coming out of the FDIC show as it relates to that product, please.

Bill Lambert - MSA Safety Incorporated - Chairman, CEO, President

Yes. We did not give that backlog. But what we said in our last call, that was the backlog had returned to more normalized levels. I think in our last call, we said about $45 million was the backlog level. And we're still in that $45 million to $50 million total SCBA global backlog, which is typical for us. And that provides us with a good healthy amount of activity through our factories and we're quite pleased by that.

Stanley Elliott - Stifel, Nicolaus & Company - Analyst

And last question. I vaguely remember we talked about kind of a mid-single digit sort of a growth for the business expectations here. I know you don't like to give guidance per se, but is that framework still reasonable when we think about how this year might unfold given how strong Q1 has been?

Bill Lambert - MSA Safety Incorporated - Chairman, CEO, President

Yes. I think that, as I indicated in my closing comments, certainly pleased by the strong start to the year, but there are challenges. We recognize some of those challenges, and I was pleased that we exceeded those mid- to high-single digit growth rates that we have talked about in the past. But I would not get too exuberant about it. And we're maintaining some caution here going forward and just trying to control what we can in the way of cost to make sure that the sales that we do achieve flow nicely into operating margin and earnings.

Stanley Elliott - Stifel, Nicolaus & Company - Analyst

Great, guys. Well, congratulations and best of luck.

Operator

Our next question is from Rudy Hokanson.
Good morning, Rudy.

Question on China. Was that something that was above expectations? The sale of the unit that you've made for them, was that a one time deal? Or is that a market that you see is growing now?

That's a product area that we've been working on and trying to provide additional focus to, the SCBA market within fire service within China. There have been some new standards that have come about in that area. And our new breathing apparatus for the China market developed in China, it really hit a home run in the first quarter. We think that's another platform product for us. We see great opportunity for it within the Chinese market, and we're really pleased. We think we're just getting started over there with that product.

Okay, thank you. And then in terms of activity with FGFD in the Middle East, as you were mentioning, and some of the other emerging markets right now, is this an acceleration of growth? Or is it just that these markets have not been hurt the way that the North American market was with the drop in oil prices?

I would think that it's a little more of the latter than the former. I don't think those markets as we talked about, where the cost of extraction is quite a bit lower than it is in other parts of the world, those markets have not been hurt as severely as, say, the U.S. market or the Canadian market has been hurt. And so, we continue to see investment, we continue to see opportunities for growth, and we're trying hard to win that business every day.

Okay. And in looking at the refinery turnaround, part of that activity, the spring turnaround, that will be in your second quarter, correct, as it went into April?

Right. Any spring turnaround activity would most likely -- we'll be able to report that in the second quarter results and probably talk about that in our second quarter call on what we've seen in the way of increased activity associated with turnarounds here in the U.S. market.

Okay. And with the new product -- this is my last question. On the new technology, you were talking about that can go along with the G1, and you were talking about the camera, you started off talking about technologies in the plural. Are there a number of product lines that you're going to be pushing out this year that are ready for the market or should be ready for the market this year besides the camera?
That will -- are you talking, Rudy, specifically with regard to SCBA or more generally across all product lines?

I'm thinking more generally. I'm thinking the camera was the example with the G1 or the SCBA.

Right, right. We will be introducing new technologies in one of our other core product areas, and I think that will be a subject of the second quarter call in July.

Okay, thank you. Those are my questions.

Our last question is coming from Ed Marshall of Sidoti.

Good morning. So I wanted to kind of look at Latchways for a second. And you have had a chance to digest some of it, probably very early still, but I'm kind of curious as to what you found. I think when you acquired the business, you understood that there were probably some distribution issues to resolve. I'm wondering what kind of cost opportunities with the existing fall protection facilities that you might already have and kind of how that all comes together, say, over the next two to three years.

Well, the channels of distribution that MSA has are much more established, much more mature than what Latchways had. And so as that matures, that's part of our revenue synergy aspect to the acquisition, was that we'd be able to take these great products and product lines that Latchways has. And there are some new products that they are introducing, have introduced and will continue to introduce throughout the year that we can then take broadly to -- and through our distribution channels into the utilities market, into the aviation market as well as oil and gas and construction, where we are strong.

And the distribution channels you established in some of these newer regions such as like wind technology and things of that nature, that's been moving relatively fluid.

Well, we're certainly established in Europe in those areas. In North America here, it's a little bit earlier. But what we do have access in selling our other product lines into those utilities, whether that be hard hats and head protection or respiratory protection. So we've got those channels of
distribution. We’ve got those relationships. Latchways simply did not have that fully developed. Well, they were working on it, but they hadn’t developed it fully.

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**Ed Marshall - Sidoti & Company - Analyst**

Got it. I want to talk about thermal imaging camera as it relates to the SCBA. I think that’s an important product line for you rolling out. And remind me, I know you have handheld thermal imaging cameras. I'm assuming this takes the place of it, so there is some probably cannibalization, but I don’t think it’s a big product line for you. And then I also wanted to kind of ask it from a different angle, too. Do you think it’s going to help you and assist you in making some market share gains on the SCBA? As it’s relatively unique, I don’t think anyone else has a thermal imaging camera incorporated within their SCBA unit, so.

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**Bill Lambert - MSA Safety Incorporated - Chairman, CEO, President**

No one has a thermal imaging camera integrated into the SCBA the way that we have done it. We did a lot of market research on that product before introducing it. And we introduced the concept last year. We made a lot of refinements to it. Went out, tested it in the marketplace, got a lot of feedback and made those adjustments. And we think we have a real winner. There’s no question about it.

There was one other major competitor who also introduced at FDIC a thermal imaging camera, which is integrated into the SCBA, but they took a very different approach. They added what we think is a lot of weight to the face piece. And additionally, it requires five batteries to be mounted to the face piece. We just don’t think it is quite the elegant solution that we have provided, and that’s some of the feedback that we’re getting from the fire service market. So, Ed, to your point, do we think it'll help us to convert accounts and gain share? And the answer is yes. We absolutely believe that to be the case.

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**Ed Marshall - Sidoti & Company - Analyst**

Got it. And then the last question I had, you touched on the selling expense quite a bit, Ken, and I appreciate it. But my question, I guess, is generally, Q1 is a seasonally high quarter. It didn't occur in this year. Was there a physical change? Or was there something that I missed that from a currency perspective that would have made that adjustment there in Q1? And do you anticipate Q2 to follow normal seasonal patterns? Or is this the new run rate?

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**Ken Krause - MSA Safety Incorporated - CFO, VP, Treasurer**

The significant change in SG&A in the quarter certainly had to do with our restructuring efforts. And so, we’ve talked about our target of $10 million year-over-year of improvement in operating costs, in overall costs. And so that certainly had an impact, and you saw that in the first quarter. I think year-over-year, local currency SG&A was down something like $4 million. I wouldn’t say all of that is restructuring effort, but a part of it is. The other part of it is just general delay in certain projects. They’ll come back as you move throughout the year. And I think that theme is very consistent with the theme you see in R&D, where R&D is so – it’s somewhat low here in the first quarter. But as you think about the next several quarters, you would expect us to be back into that 4% to 4.5% range in terms of spending for R&D. So good improvements, good results from the restructuring, but there’s also just some timing that’s going on there.

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**Ed Marshall - Sidoti & Company - Analyst**

Got it. Thanks very much, guys. I really appreciate it.
Operator

Thank you. That does conclude the question-and-answer session. I'd like to turn it back to Mark Deasy for any final or closing remarks.

Mark Deasy - MSA Safety Incorporated - Director of Global Public Relations

Okay. Thank you, Joe. Well, since we have no more questions, that will formally conclude today's call. If you missed a portion of the conference, I want to remind everybody that an audio replay and a 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 again for joining us this morning. And we look forward to talking with you again soon. Have a great day.

Operator

Ladies and gentlemen, on behalf of MSA, we'd like to thank you for your participation. You may now disconnect, and have a wonderful day.