MSA Safety Announces Third Quarter Results

Focus on innovation and productivity drives strong revenue growth, operating margin expansion and cash flow

PITTSBURGH, Oct. 23, 2019 / PRNewswire/ -- Global safety equipment manufacturer MSA Safety Incorporated (NYSE: MSA) today reported results for the third quarter of 2019.

Quarterly Highlights

- Revenue was \$351 million, increasing 6 percent from a year ago on a reported basis and 8 percent on a constant currency basis.
- GAAP operating income increased 49 percent to \$60 million or 17.0 percent of sales, compared to \$40 million or 12.1 percent of sales in the same period a year ago. Adjusted operating income increased 11 percent to \$63 million or 18.0 percent of sales, compared to \$57 million or 17.2 percent of sales in the same period a year ago, driven by gross margin expansion and operating expense leverage.
- GAAP earnings increased 25 percent to\$42 million or \$1.08 per diluted share, compared to\$34 million or \$0.86 per diluted share in the same period a year ago. Adjusted earnings were \$45 million or \$1.15 per diluted share, relatively consistent with the same period a year ago. The company's higher effective tax rate detracted \$0.07 from adjusted earnings in the current period.
- Operating cash flow was \$51 million. MSA paid down \$24 million of debt, funded a \$16 million dividend on common stock, and invested \$10 million in capital expenditures in the quarter.

Comments from Management

"MSA delivered a strong quarter of revenue growth, margin expansion and cash flow," commentedNish Vartanian, MSA President and CEO. "The pace of our top-line growth accelerated in the quarter to 8 percent, largely on continued market-share gains in fall protection and gas detection."

MSA's latest innovations in these product areas include the company's V-Series line of fall protection harnesses and the 5000 series of next generation fixed gas monitors. For the quarter, more than 35 percent of MSA's total sales were from products introduced within the past five years. "This focus on innovation, combined with cost discipline and our continued efforts to enhance productivity, all contributed to our incremental margin profile of more than 30 percent," he said.

Mr. Vartanian noted that the benefits of MSA's broad end market exposure and diversified portfolio were evident in the company's quarterly results. "We were able to realize high-single digit revenue growth despite product certification delays that we - and all manufacturers of firefighting breathing equipment - had to deal with in the U.S. Fire Service market during the third quarter," he commented. In particular, he noted that the certification and launch of the company's next generation G1 self-contained breathing apparatus (SCBA) occurred on September 30, 2019, approximately six weeks later than expected. Mr. Vartanian added that the related impact of lower SCBA volumes in the quarter was mostly offset by revenue growth in firefighter helmets and protective apparel.

"Incoming order pace gained momentum in the quarter with a book-to-bill ratio exceeding 100 percent. With this healthy backlog and a strong balance sheet, we remain well positioned to deliver on our growth expectations for 2019 and make investments that strengthen our positions across key markets," Mr. Vartanian concluded.

MSA Safety Incorporated Condensed Consolidated Statement of Income (Unaudited) (In thousands, except per share amounts)

	Three Months Ended September 30,					Nine Months Ended September 30,			
		2019		2018		2019		2018	
Net sales Cost of products sold Gross profit	\$	351,014 192,313 158,701	\$	331,096 182,794 148,302	\$	1,026,726 556,959 469,767	\$	996,320 546,844 449,476	
Selling, general and administrative Research and development Restructuring charges Currency exchange (gains) losses, net (a) Product liability expense Operating income		82,900 13,520 1,850 (913) 1,730 59,614		78,013 13,296 2,615 (252) 14,627 40,003		245,337 41,482 11,203 17,338 8,155 146,252		240,226 39,752 10,223 2,571 25,469	
Interest expense Loss on extinguishment of debt Other income, net Total other expense, net		4,259 — (2,929) 1,330		4,492 1,494 (4,252) 1,734		11,089 — (8,850) 2,239		14,454 1,494 (8,292) 7,656	
Income before income taxes Provision for income taxes Net income Net income attributable to noncontrolling interests Net income attributable to MSA Safety Incorporated	\$	58,284 15,673 42,611 (372) 42,239	\$	38,269 4,206 34,063 (346) 33,717		144,013 37,913 106,100 (822) 105,278	\$	123,579 23,606 99,973 (706) 99,267	
Earnings per share attributable to MSA Safety Incorporated common shareholders: Basic Diluted	\$	1.09	\$ \$	0.88 0.86	\$	2.72 2.69	\$ \$	2.59 2.55	
Basic shares outstanding Diluted shares outstanding		38,649 39,144		38,417 39,036		38,617 39,130		38,328 38,914	

⁽a) Year-to-date currency exchange losses includes a \$15.4 million non-cash charge related to the recognition of currency translation adjustments associated with the closure of MSA's South Africa affiliates.

MSA Safety Incorporated Condensed Consolidated Balance Sheet (Unaudited) (In thousands)

	Sept	ember 30, 2019	Dece	ember 31, 2018
Assets				
Cash and cash equivalents	\$	108,481	\$	140,095
Trade receivables, net		248,406		245,032
Inventories		192,199		156,602
Notes receivable, insurance companies		3,646		3,555
Other current assets		133,696		111,339
Total current assets		686,428		656,623
Property, net		158,957		157,940
Operating lease assets, net		50,470		_
Prepaid pension cost		68,387		57,568
Goodwill		428,629		413,640
Notes receivable, insurance companies, noncurrent		51,980		56,012
Insurance receivable, noncurrent		48,029		56,866
Other noncurrent assets		206,263		209,363
Total assets	\$	1,699,143	\$	1,608,012
Liabilities and shareholders' equity				
Notes payable and current portion of long-term debt, net	\$	20,000	\$	20,063
Accounts payable		69,773		78,367
Other current liabilities		172,435		183,630
Total current liabilities		262,208		282,060
Long-term debt, net		352,073		341,311
Pensions and other employee benefits		163,342		166,101
Noncurrent operating lease liabilities		40,836		· —
Deferred tax liabilities		11,251		7,164
Product liability and other noncurrent liabilities		161,128		171,857
Total shareholders' equity		708,305		639,519
Total liabilities and shareholders' equity	\$	1,699,143	\$	1,608,012

MSA Safety Incorporated Condensed Consolidated Statement of Cash Flows (Unaudited) (In thousands)

		onths Ended mber 30,	Nine Months Ended September 30,			
	2019	2018	2019	2018		
Net income	\$ 42,611	\$ 34,063	\$ 106,100	\$ 99,973		
Depreciation and amortization	9,547	9,378	28,339	28,585		
Change in working capital and other operating	(1,453)	77,374	(46,189)	57,639		
Cash flow from operating activities	50,705	120,815	88,250	186,197		
Capital expenditures	(9,998)	(9,808)	(23,523)	(18,620)		
Acquisition, net of cash acquired			(33,196)	· -		
Change in short-term investments	113	(57,090)	(17,189)	(57,090)		
Property disposals	42	942	123	4,001		
Cash flow used in investing activities	(9,843)	(65,956)	(73,785)	(71,709)		
Change in debt	(24,127)	(38,390)	12,937	(80,675)		
Cash dividends paid	(16,281)	(14,624)	(47,215)	(42,605)		
Other financing	836	(1,313)	(6,555)	(575)		
Cash flow used in financing activities	(39,572)	(54,327)	(40,833)	(123,855)		
Effect of exchange rate changes on cash,						
cash equivalents and restricted cash	(4,393)	(1,822)	(5,378)	(9,952)		
Decrease in cash, cash equivalents and restricted cash	\$ (3,103)	\$ (1,290)	\$ (31,746)	\$ (19,319)		

MSA Safety Incorporated Segment Information (Unaudited) (In thousands, except percentage amounts)

	Americas	11	nternational	Corp	orate	,	Jonsolidated	
Three Months Ended September 30, 2019				_				
Sales to external customers	\$ 234,624	\$	116,390	\$	_	\$	351,014	
Operating income							59,614	

Operating margin %							17.0	%
Restructuring charges Currency exchange (gains), net Product liability expense Strategic transaction costs Adjusted operating income (loss) Adjusted operating margin % Depreciation and amortization Adjusted EBITDA	58,971 25.1 65,342	%	13,776 11.8 16.854	%	`	9,514) 9,416)	1,850 (913) 1,730 952 63,233 18.0 9,547 72,780	%
Adjusted EBITDA %	27.8	%	14.5	%	(0	,,110)	20.7	%
Three Months Ended September 30, 2018 Sales to external customers Operating income Operating margin % Restructuring charges Currency exchange (gains), net Product liability expense	\$ 209,343		\$ 121,753		\$	_	\$ 331,096 40,003 12.1 2,615 (252) 14,627	%
Strategic transaction costs Adjusted operating income (loss) Adjusted operating margin % Depreciation and amortization	51,532 24.6	%	13,329 10.9	%	(7	',812)	56 57,049 17.2 9,378	%
Adjusted EBITDA Adjusted EBITDA %	57,573 27.5	%	16,559 13.6	%	(7	7,705)	66,427 20.1	%
	Americas		International		Cor	porate	 Consolidated	
Nine Months Ended September 30, 2019 Sales to external customers Operating income Operating margin % Restructuring charges Currency exchange losses, net Product liability expense	\$ Americas 679,699		\$ International 347,027		Cor	porate —	\$ 1,026,726 146,252 14.2 11,203 17,338 8,155	%
Sales to external customers Operating income Operating margin % Restructuring charges Currency exchange losses, net Product liability expense Strategic transaction costs Adjusted operating income (loss) Adjusted operating margin %	\$ 	%	 	%	\$	oorate 5,466)	\$ 1,026,726 146,252 14.2 11,203 17,338 8,155 2,937 185,885 18.1	%
Sales to external customers Operating income Operating margin % Restructuring charges Currency exchange losses, net Product liability expense Strategic transaction costs Adjusted operating income (loss)	\$ 679,699 171,463	%	 347,027		\$ (25	_	\$ 1,026,726 146,252 14.2 11,203 17,338 8,155 2,937 185,885	
Sales to external customers Operating income Operating margin % Restructuring charges Currency exchange losses, net Product liability expense Strategic transaction costs Adjusted operating income (loss) Adjusted operating margin % Depreciation and amortization Adjusted EBITDA Adjusted EBITDA % Nine Months Ended September 30, 2018 Sales to external customers Operating income Operating margin % Restructuring charges Currency exchange losses, net Product liability expense	\$ 679,699 171,463 25.2 190,084		 347,027 39,888 11.5 49,313		\$ (25	<u> </u>	\$ 1,026,726 146,252 14.2 11,203 17,338 8,155 2,937 185,885 18.1 28,339 214,224 20.9 996,320 131,235 13.2 10,223 2,571 25,469	%
Sales to external customers Operating income Operating margin % Restructuring charges Currency exchange losses, net Product liability expense Strategic transaction costs Adjusted operating income (loss) Adjusted operating margin % Depreciation and amortization Adjusted EBITDA Adjusted EBITDA % Nine Months Ended September 30, 2018 Sales to external customers Operating income Operating margin % Restructuring charges Currency exchange losses, net	679,699 171,463 25.2 190,084 28.0		\$ 39,888 11.5 49,313 14.2	%	\$ (25 (25	<u> </u>	1,026,726 146,252 14,2 11,203 17,338 8,155 2,937 185,885 18.1 28,339 214,224 20.9 996,320 131,235 13.2 10,223 2,571	% %

The Americas segment is comprised of our operations in North America and Latin America geographies. The International segment is comprised of our operations in all geographies outside of the Americas. Certain global expenses are allocated to each segment in a manner consistent with where the benefits from the expenses are derived.

Adjusted operating income (loss), adjusted operating margin, adjusted earnings before interest, taxes, depreciation and amortization (EBITDA) and adjusted EBITDA margin are the measures used by the chief operating decision maker to evaluate segment performance and allocate resources. As such, management believes that adjusted operating income (loss), adjusted operating margin, adjusted EBITDA and adjusted EBITDA margin are useful metrics for investors. Adjusted operating income (loss) is defined as operating income excluding restructuring charges, currency exchange gains / losses, product liability expense and strategic transaction costs and adjusted operating margin is defined as adjusted operating income (loss) glivided by segment sales to external customers. Adjusted EBITDA is defined as adjusted operating income (loss) plus depreciation and amortization and adjusted EBITDA margin is defined as adjusted EBITDA divided by segment sales to external customers. Adjusted operating income (loss), adjusted operating margin, adjusted EBITDA and adjusted EBITDA margin are not recognized terms under GAAP and therefore do not purport to be alternatives to operating income or operating margin as a measure of operating performance. The Company's definition of adjusted operating income (loss), adjusted operating margin, adjusted EBITDA and adjusted EBITDA margin may not be comparable to similarly titled measures of other companies. As such, management believes that it is appropriate to consider operating income determined on a GAAP basis in addition to these non-GAAP measures.

MSA Safety Incorporated Reconciliation of As Reported Financial Measures to Non-GAAP Financial Measures Constant currency revenue growth (Unaudited)

Consolidated

		THIEE MO	nins Ended Sepie	111061 30, 2019				
							Non-	
Breathing Apparatus	Firefighter Helmets and Protective Apparel	Industrial Head Protection	Portable Gas Detection	Fixed Gas and Flame Detection	Fall Protection	Core Sales	Core Sales	Net Sales

Three Months Ended Contember 20, 2010

GAAP reported sales change	(11)	%	19	%	2	2	%	12	%	17	%	. 24	ļ	%	7	%	(3)	9	%	6	%
Plus: Currency translation effects	1	%	2	%	2	2	%	2	%	1	%	. 3	}	%	2	%	2	9	<u>/</u>	2	%
Constant currency sales change	(10)	%	21	%	2	1	%	14	%	18	%	. 27	,	%	9	%	(1)	9	%	8	%

		Nine Months Ended September 30, 2019											
OAAD was asked	Breathing Apparatus	Firefighter Helmets and Protective Apparel	Industrial Head Protection	Portable Gas Detection	Fixed Gas and Flame Detection	Fall Protection	Core Sales	Non- Core Sales	Net Sales				
GAAP reported sales change	(4) %	6 %	1 %	4 %	9 %	21 %	4 %	(6) %	3 %				
Plus: Currency translation effects	2 %	2 %	2 %	2 %	3 %	4 %	3 %	3 %	2 %				
Constant currency sales change	(2) %	8 %	3 %	6 %	12 %	25 %	7 %	(3) %	5 %				

Management believes that constant currency revenue growth is a useful metric for investors, as foreign currency translation can have a material impact on revenue growth trends. Constant currency revenue growth highlights ongoing business performance excluding the impact of fluctuating foreign currencies, which is outside of management's control. There can be no assurances that MSA's definition of constant currency revenue growth is consistent with that of other companies. As such, management believes that it is appropriate to consider revenue growth determined on a GAAP basis in addition to this non-GAAP financial measure.

MSA Safety Incorporated Reconciliation of As Reported Financial Measures to Non-GAAP Financial Measures Constant currency revenue growth (Unaudited)

Americas Segment

	Three Months Ended September 30, 2019							
GAAP reported	Breathing Apparatus	Firefighter Helmets and Protective Apparel	Industrial Head Protection	Portable Gas Detection	Fixed Gas and Flame Detection	Fall Core Protection Sales	Non- Core Sales	Net Sales
sales change	(8) %	15 %	1 %	13 %	27 %	40 % 11 %	22 %	12 %
Plus: Currency translation effects	— %	1 %	1 %	1 %	— %	1 % — %	1 %	1 %
Constant currency sales change	(8) %	16 %	2 %	14 %	27 %	41 % 11 %	23 %	13 %

		Nine Months Ended September 30, 2019							
GAAP reported	Breathing Apparatus	Firefighter Helmets and Protective Apparel	Industrial Head Protection	Portable Gas Detection	Fixed Gas and Flame Detection	Fall Protection	Core Sales	Non- Core Sales	Net Sales
sales change	1 %	6 %	- %	4 %	16 %	31 %	7 %	9 %	7 %
Plus: Currency translation effects	— %	— %	1 %	1 %	— %	1 %	1 %	1 %	1 %
Constant currency sales change	1 %	6 %	1 %	5 %	16 %	32 %	8 %	10 %	8 %

Management believes that constant currency revenue growth is a useful metric for investors, as foreign currency translation can have a material impact on revenue growth trends. Constant currency revenue growth highlights ongoing business performance excluding the impact of fluctuating foreign currencies, which is outside of management's control. There can be no assurances that MSA's definition of constant currency revenue growth is consistent with that of other companies. As such, management believes that it is appropriate to consider revenue growth determined on a GAAP basis in addition to this non-GAAP financial measure.

MSA Safety Incorporated Reconciliation of As Reported Financial Measures to Non-GAAP Financial Measures Constant currency revenue growth (Unaudited)

International Segment

GAAP reported	Breathing Apparatus	Firefighter Helmets and Protective Apparel	Industrial Head Protection	Portable Gas Detection	Fixed Gas and Flame Detection	Fall Protection	Core Sales	Non- Core Sales	Net Sales
sales change	(17) %	43 %	6 %	10 %	6 %	2 %	1 %	(28) %	(4) %
Plus: Currency translation effects	3 %	6 %	3 %	3 %	3 %	5 %	3 %	3 %	3 %
Constant currency sales change	(14) %	49 %	9 %	13 %	9 %	7 %	4 %	(25) %	(1) %

			Nine Mo	onths Ended Septe	ember 30, 2019			
GAAP reported	Breathing Apparatus	Firefighter Helmets and Protective Apparel	Industrial Head Protection	Portable Gas Detection	Fixed Gas and Flame Detection	Fall Core Protection Sale		Net Sales
sales change	(12) %	8 %	5 %	3 %	2 %	8 % — 9	% (21) %	(4) %
Plus: Currency translation effects	5 %	7 %	6 %	6 %	5 %	6 % 5 9	<u>6</u> 4 %	5 %
Constant currency sales change	(7) %	15 %	11 %	9 %	7 %	14 % 5 9	<u>(17) %</u>	1 %

Management believes that constant currency revenue growth is a useful metric for investors, as foreign currency translation can have a material impact on revenue growth trends. Constant currency revenue growth highlights ongoing business performance excluding the impact of fluctuating foreign currencies, which is outside of management's control. There can be no assurances that MSA's definition of constant currency revenue growth is consistent with that of other companies. As such, management believes that it is appropriate to consider revenue growth determined on a GAAP basis in addition to this non-GAAP financial measure.

MSA Safety Incorporated Supplemental Segment Information (Unaudited)

Summary of constant currency revenue growth by segment and product group

	Three Months Ended September 30, 2019						
	Consolidated		Ame	Americas		International	
Fall Protection	27	%	41	%	7	%	
Firefighter Helmets and Protective Apparel	21	%	16	%	49	%	
Fixed Gas and Flame Detection	18	%	27	%	9	%	
Portable Gas Detection	14	%	14	%	13	%	
Industrial Head Protection	4	%	2	%	9	%	
Breathing Apparatus	(10)	%	(8)	%	(14)	%	
Core Sales	9	%	11	%	4	%	
Non-Core Sales	(1)	%	23	%	(25)	%	
Net Sales	8	%	13	%	(1)	%	

	Nine Months Ended September 30, 2019						
	Consoli	dated	Ame	Americas		International	
Fall Protection	25	%	32	%	14	%	•
Firefighter Helmets and Protective Apparel	8	%	6	%	15	%	
Fixed Gas and Flame Detection	12	%	16	%	7	%	
Portable Gas Detection	6	%	5	%	9	%	
Industrial Head Protection	3	%	1	%	11	%	
Breathing Apparatus	(2)	%	1	%	(7)	%	
Core Sales	7	%	8	%	5	%	
Non-Core Sales	(3)	%	10	%	(17)	%	
Net Sales	5	%	8	%	1	%	

MSA Safety Incorporated Reconciliation of As Reported Financial Measures to Non-GAAP Financial Measures Adjusted earnings (Unaudited) Adjusted earnings per diluted share (Unaudited) (In thousands, except per share amounts)

Three Months Ended September 30,				Nine Months Ended September 30,			
_	2019	2018	% Change	2019	2018	% Change	

Net income attributable to MSA Safety Incorporated	\$ 42,239	\$ 33,717	25%	105,278	99,267	6%
Tax (benefit) associated with U.S. Tax Reform	_	(1,956)		_	(1,956)	
Non-deductible non-cash charge related to the recognition of currency translation adjustments ^(a)	_	_		15,359	_	
Tax benefit associated with ASU 2016-09: Improvements to employee share-based payment accounting	(187)	(430)		(2,180)	(2,306)	
Subtotal	42,052	31,331	34%	118,457	95,005	25%
Product liability expense Restructuring charges Strategic transaction costs Currency exchange (gains) losses, net Loss on extinguishment of debt Asset related losses (gains), net Income tax expense on adjustments Adjusted earnings	1,730 1,850 952 (913) — 38 (878) \$ 44,831	14,627 2,615 56 (252) 1,494 (733) (4,024) \$ 45,114	(1)%	8,155 11,203 2,937 1,979 — 271 (5,912) \$ 137,090	25,469 10,223 208 2,571 1,494 415 (9,645) \$ 125,740	9%
Adjusted earnings per diluted share	\$ 1.15	\$ 1.16	(1)%	\$ 3.50	\$ 3.23	8%

⁽a) Included in Currency exchange (gains) losses, net on the Statement of Income.

Management believes that adjusted earnings and adjusted earnings per diluted share are useful measures for investors, as management uses these measures to internally assess the company's performance and ongoing operating trends. There can be no assurances that additional special items will not occur in future periods, nor that MSA's definition of adjusted earnings is consistent with that of other companies. As such, management believes that it is appropriate to consider both net income determined on a GAAP basis as well as adjusted earnings.

About MSA:

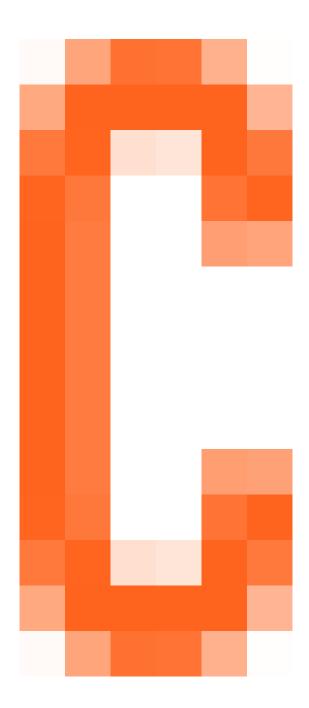
Established in 1914, MSA Safety Incorporated is the global leader in the development, manufacture and supply of safety products that protect people and facility infrastructures. Many MSA products integrate a combination of electronics, mechanical systems and advanced materials to protect users against hazardous or lifethreatening situations. The company's comprehensive product line is used by workers around the world in a broad range of markets, including the oil, gas and petrochemical industry, the fire service, the construction industry, mining and the military. MSA's core products include self-contained breathing apparatus, fixed gas and flame detection systems, portable gas detection instruments, industrial head protection products, firefighter helmets and protective apparel, and fall protection devices. With 2018 revenues of \$1.4 billion, MSA employs approximately 4,800 people worldwide. The company is headquartered north of Pittsburgh in Cranberry Township, Pa., and has manufacturing operations in the United States, Europe, Asia and Latin America. With more than 40 international locations, MSA realizes approximately half of its revenue from outside North America. For more information visit MSA's web site at www.MSAsafety.com.

Cautionary Statement Regarding Forward-Looking Statements:

Except for historical information, certain matters discussed in this press release may be 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 herein. Any number of factors could cause actual results to differ materially from projections or forward looking statements, including without limitation global economic conditions, spending patterns of government agencies, competitive pressures, the impact of acquisitions and related integration activities, product liability claims, the success of new product introductions, currency exchange rate fluctuations and the risks of doing business in foreign countries. A full listing of these risks, uncertainties and other factors are detailed from time-to-time in our filings with the United States Securities and Exchange Commission ("SEC"), including our most recent Form 10-K filed on February 22, 2019. You are strongly urged to review all such filings for a more detailed discussion of such risks and uncertainties. MSA's SEC filings are readily obtainable at no charge at https://investors.MSAsafety.com. MSA undertakes no duty to publicly update any forward looking statements contained herein, except as required by law.

Non-GAAP Financial Measures:

This press release includes certain non-GAAP financial measures. These financial measures include constant currency revenue growth, adjusted operating income, adjusted operating margin, adjusted EBITDA, adjusted EBITDA margin, adjusted earnings and adjusted earnings per diluted share. The presentation of these financial measures does not comply with U.S. generally accepted accounting principles ("GAAP"). For an explanation of these measures, together with a reconciliation to the most directly comparable GAAP financial measure, see the Reconciliation of As Reported Financial Measures to Non-GAAP Financial Measures in the financial tables section above.



View original content to download multimedia: http://www.prnewswire.com/news-releases/msa-safety-announces-third-quarter-results-300944359.html SOURCE MSA Safety

For further information: Media Relations Contact: Mark Deasy (724) 741 - 8570; Investor Relations Contact: Elyse Lorenzato (724) 741 - 8525

https://news.msasafety.com/2019-10-23-MSA-Safety-Announces-Third-Quarter-Results,1