

THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

MSA - Q1 2015 MSA Safety Inc Earnings Call

EVENT DATE/TIME: APRIL 28, 2015 / 12:30PM GMT



CORPORATE PARTICIPANTS

Ken Krause *MSA Safety Inc. - Executive Director - Global Finance, Assistant Treasurer*

William Lambert *MSA Safety Inc. - President, CEO*

Stacy McMahan *MSA Safety Inc. - SVP, CFO*

CONFERENCE CALL PARTICIPANTS

Walter Liptak *Global Hunter Securities - Analyst*

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

Stanley Elliot *Stifel, Nicolaus & Company, Inc. - Analyst*

PRESENTATION

Operator

Welcome to the MSA First Quarter Earnings Conference Call. My name is John and I will be your operator for today's call. At this time all participants are in a listen-only mode. Later, we will conduct a question-and-answer session. Please note that this conference is being recorded. And I will now turn the call over to Ken Krause. You may begin, Ken.

Ken Krause - *MSA Safety Inc. - Executive Director - Global Finance, Assistant Treasurer*

Thank you, John. Good morning, everyone, and welcome to our first quarter conference call for 2015. I am Ken Krause, Executive Director of Global Finance. We apologize for the delay that we just had in launching our first quarter conference call, our service provider - our webcasting service provider was having some technical difficulties, but believe those difficulties have since been resolved.

Joining me on the call this morning are Bill Lambert, President and Chief Executive Officer; Stacy McMahan, Senior Vice President and Chief Financial Officer; Ron Herring, President of MSA Europe; Kerry Bove, President of MSA International; and Nish Vartanian, President of MSA North America.

Our first quarter press release was issued last night and is available on our website at www.msasafety.com. This morning, Bill Lambert will provide his commentary on our quarter. Stacy will then review our financials and then Bill will conclude with his closing comments. After that, we will open up the call for your questions.

Before we begin, I need to remind everyone that the matters discussed on this call excluding historical information are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements including without limitations, all projections and anticipated levels of future performance 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 from time to time in our filings with the Securities and Exchange Commission including our most recent 10-K which was filed on February 25, 2015. 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, our own website and many other commercial sites.

In addition, 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 statements are included in our press release and on the Investor Relations section of our website.

With that, let me introduce MSA's President and Chief Executive Officer, Bill Lambert.



William Lambert - MSA Safety Inc. - President, CEO

Thank you, Ken, and good morning, everyone. As always, I want to begin by saying thank you for joining us this morning on this conference call and for your continued interest in MSA. Presumably, all of you have seen our first quarter press release issued last night and have our financial figures with all comparisons corresponding to the equivalent period in 2014.

I will begin this morning by reviewing the highlights of our first quarter. I also will give you some insight into our refreshed corporate strategy, a process we began and completed in 2014. Of course, I also want to give everyone a progress update on our recently launched G1 SCBA platform. And after that I will turn the call over to Stacy for a review of our financial results and then we'll open up the call for your questions.

As you saw in our press release, sales in the first quarter from continuing operations were \$257 million, reflecting local currency growth of 4% from a year ago. Our performance was clearly driven by our continued focus on core product revenue growth with our SCBA business leading the way. Our Q1 growth was however offset by the impacts of the strong U.S. dollar on our international results.

For the quarter, sales from our core product lines comprised 81% of total revenue with strong results across most of our product categories. As you may have noticed in our press release sales growth exhibit and included in the 81% core sales that I just mentioned, fire and rescue helmets are now included in our core product portfolio. This is just one change that came about from our strategy refresh initiative in 2014 and I'll dive deeper into that in just a minute.

But first, let's take a quick look at our first quarter sales results. Our core product sales grew by 7% in the quarter on a currency neutral basis. G1 SCBA shipments drove these strong results with global breathing apparatus revenue increasing 27% as we chip away at our sizable backlog of SCBA business.

Fixed gas and flame detection and fall protection were also bright spots in the quarter, each growing by 7% and our fire helmets continued a strong trajectory, growing 13% fueled by sales of our new F1 XF fire helmet in Europe and in Asia.

As for those parts of our core product portfolio that are most exposed to employment levels within the energy market vertical, and I'm speaking now about our industrial head protection and portable gas detection lines, we saw declines of 7% in head protection and a 4% decline in portable gas detection. This was driven primarily by weakness in North America as our oil and gas customers significantly reduced the number of industry turnarounds, employment levels, as well as their discretionary spending, all due to the dramatic reduction in oil prices we've seen over the past six months.

As we had discussed on our call back in February, we did expect weakness in these areas. While I'm naturally disappointed to see declining sales in any area of our business, this decline in head protection and portable gas detection is not a surprise given the conditions in the North American oil and gas sector, and the pressures we saw developing in ordering patterns, which we communicated to you on the last investors call.

As you might recall, during that call I indicated that I fully expected lower commodity prices to have an impact on head protection and portable gas detection, and we saw that. However, this quarter's overall results showing core product sales growth of 7% on a currency neutral basis are a testament to the value and the effectiveness of our diverse product, market and geographic portfolio. We were still able to deliver on mid-single-digit core growth despite the obstacles in the North American oil and gas market.

As you know, a key pillar of our strategy involves investing in and generating growth in the emerging markets, where the development and enforcement of safety standards enhances demand for our products. For the quarter, we saw a mixed story across these areas, but still showed local currency growth of 4% in emerging markets. More specifically, we realized double-digit growth in Southeast Asia and Spanish Latin America, and 6% growth in China.

However, these gains were offset by a decline in the Middle East on the timing of some larger orders, and in Brazil where the recessionary conditions continue. In fact, if we were to isolate and exclude Brazil from our emerging market's analysis, sales in all other emerging markets combined grew



9% in the quarter. Economic conditions in certain geographies combined with a strong dollar and the effects of weakness in commodity prices continue to present challenges for us, and we expect these to persist into the second quarter.

Now, I would like to take some time to tell you a little bit more about our corporate strategy and the number of recent refinements we have made to that strategy. For those of you who maybe new to MSA, the three key pillars of our strategy, which we first implemented in 2009, include focusing on our core products, investing in emerging markets, and achieving operational excellence. And if you look at our financial results over that time, it is clear that the strategic direction has served us well and continues to produce strong results.

As an example, revenue from our core products has grown at 11% compound annual growth rate over the past five years. Additionally, emerging market sales have grown at a 16% compound annual growth rate over that period. And our gross profit is up nearly 800 basis points over the past five years.

Given the significant success of this strategy, we concluded in 2014 that we needed to lean into it further and by that I mean, we needed to intensify our focus and be even more specific and intentional in the following ways. First, maximize and intensify our efforts to achieve leading market positions in each of our core product markets. Second, to be more selective in differentiating between those emerging markets deserving our maximum attention and investment versus those emerging markets with potential, but not deserving such emphasis at this time.

And lastly, move on from our very successful implementation of several performance improving projects to a methodical process improvement initiative, what we call the MSA Operating System, which is focused on incorporating the concept of continuous improvement and enhancing the customer experience and all that we do on a daily basis. Let me further explain these strategic refinements.

First, while focusing on the core has served us and our customers well. We came to the conclusion that our emphasis now almost beyond finding ways to truly advance our core business. Our aim is quite simple: to achieve market leadership defined as the number one or number two market positions in each of those core product categories. To get there, we will continue to disproportionately invest in the pursuit of market leadership positions across all of our core product areas. We've been quite successful in these areas through a combination of both organic and inorganic activity, and we'll continue to increase our efforts in both of these areas.

While our new product development area has a very long track record of success, we recently have started to invest in building out corporate development resources focused on helping to drive inorganic activities on our core product areas. I look forward to talking more about these activities in quarters and years to come.

Our second refinement in this area of our strategy is related to our strong market position in the fire service. While many of you know about our leading position in SCBA, perhaps you are not as aware that we have the number one global market position in fire helmets. We recently invested in developing and launching a revolutionary new fire helmet for markets outside of North America, we call it the F1XF, and it's showing great success.

Additionally, we continue to see strong results in our iconic Cairns brand of fire helmets here in North America. We feel the combination of our product leadership positions in fire helmets, unparalleled brand loyalty from our customers, and our ability to further enhance MSA's competitive position in the fire service, which as you know, was a key segment of our growth strategy, deserves a level of investment consistent with our other core areas.

The second pillar of our strategy focuses on emerging markets. We've been successful in establishing a presence in key emerging markets throughout the world with about 30% of our annual sales recognized in the emerging markets. But as part of our refined strategy, we're taking a more rigorous approach to refining our global footprint and our go-to-market approach, while devoting resources to those countries and industries with the highest growth potential.

Today, this means we're targeting the Middle East, Southeast Asia, Latin America, and China, and focusing on the key markets of the fire service, utilities, oil and gas, construction and mining. In other words, our strategy refinements are about deliberate and focused investment and not just about planning flags to grow MSA's brand presence.



The third pillar of our strategy focuses on achieving operational excellence, an area that is essential to improving our profitability, ensuring that the customer experience we provide is like no other. You're well aware of key initiatives that we've already implemented to improve operational excellence, like our Europe 2.0 restructuring program and our focus on improvements in inventory, delivery, logistics, and customer support. But our emphasis now is on expanding our operational excellence efforts to include process excellence, and that is enabled by what we call the MSA Operating System.

Today, our vision is to deploy the system in every single function at MSA and at every level of the organization to further drive a culture of continuous improvement and tactical problem solving, while enhancing performance and eliminating waste. And ultimately, the cumulative impact of these efforts what we envision as the real payoff is providing our customers within an end-to-end customer experience unmatched in our industry, and experience that truly drives customer loyalty.

Obviously to drive customer satisfaction, you have to be innovating on the product front. And on the new product development front, I'm pleased to report that our sales vitality metric was strong in the first quarter. 37% of core sales were from products developed and launched in the past five years, and 33% of overall sales were from products developed in the past five years. The G1 is supporting the strong NPD results, along with continued success of the Altair platform within our portable gas detection line and the Fas Trac3 suspension system and the F1XF fire helmet within head protection. The R&D investments we have made continue to yield strong results and lead growth within our core.

Let's look closer at our recent activity on the G1, our revolutionary new platform SCBA that we launched in late 2014. I attended the FDIC Trade Show in Indianapolis just last week. And let me tell you, the customer response continues to indicate that we hit the mark with this product.

In line with the trends we saw at the show, broad market interest in the G1 remains very high and incoming order activity has continued to be robust, since we last spoke to you in February. We're successfully converting competitor accounts and realizing unprecedented increase demand stemming from the ongoing replacement cycle.

Our global total SCBA backlog is approximately \$82 million. That's relatively consistent with our balance on the February call, despite good shipment activity during the first quarter. We continue to ramp up shipping in the G1, but it's just keeping pace with the strong incoming order activity that we are seeing. Back in November, we communicated that the supply chain ramp up would occur over a six-month period. We're in the middle of those efforts right now, and we are on track to reach our increased production goals by mid-year.

Just looking at the first quarter, production levels in March exceed that of January and February combined, and you're seeing the increased level of invoicing coming through our results. So we're moving in the right direction and we'll continue with our manufacturing and delivery ramp up over the next several months. Clearly, this strength in the North American fire service is helping to off set weakness we're seeing in the oil and gas end markets. From the launch of the G1 SCBA to the continued success of our Europe 2.0 initiative we're certainly making some great strides here at MSA as we turn the page on our second century in business.

And we're doing it in the right way. Integrity is the foundational value upon which our business runs, and it is the center of everything that we do. That is why I am so proud to share with you that MSA has been recognized by the Ethisphere Institute as a 2015 world's most ethical companies.

The world's most ethical companies designation recognizes those organizations that have had a material impact on the way business is conducted by fostering a culture of ethics and transparency at every level of an organization. Of the 132 companies recognized this year MSA is one of only six U.S. industrial manufacturing companies to be honored, and the only company recognized in the safety equipment category.

The selection speaks volumes to how our associates truly embrace ethical behavior and our core value system each and every day, a practice that ensures long-term value for all MSA stakeholders.

At this point in time, I would like to now turn the call over to our CFO, Stacy McMahan, to provide an overview of our first quarter financial performance. After Stacy finishes with her report, I'll provide some closing comments and then we'll open the call up for your questions. Stacy?



Stacy McMahan - MSA Safety Inc. - SVP, CFO

Thank you, Bill, and good morning. I will now share further insight into our first quarter financial performance. Additional information will be available when we file our Form 10-Q with the Securities and Exchange Commission later today.

As Bill mentioned, sales from continuing operations in the first quarter were \$257 million, down \$8 million, or 3% from the prior year on a reported basis, and up 4% on a local currency basis, as weaker foreign currencies negatively impacted quarterly revenues by 7% and earnings by 4%.

As Bill commented, we saw a healthy 7% local currency growth across the quarter - across the core during the quarter. The growth in core was driven by higher shipments of SCBA and fire and helmets to the fire service markets and good performance in FGFD partially offset by a lower level of industrial head protection and portable gas detection sales, primarily related to weaker conditions in the energy end markets.

Looking at the sequential quarter comparison, local currency sales have decreased by 15% compared to our record fourth quarter of 2014. Excluding larger orders, local currency sequential quarter sales were down 8%, on the normal seasonal slowdown between the fourth quarter and first quarter coupled with the weaker results in energy markets, primarily North America in portable gas detection and industrial head protection.

In Bill's commentary, he mentioned our exposure to the oil and gas industry. If you recall, we communicated the scope of our energy exposure on the last call. But for those who are new to the MSA story, I would like to take just a few minutes to summarize. We estimate approximately 35% of our business in the energy market vertical. But as you know, not all of this business is at risk, and it is essential to understand the detail behind the exposed areas. About 10% to 15% of our consolidated revenue primarily in industrial head protection and portable gas detection is more exposed to a pullback in employment trends across the energy markets.

We discussed our expectation to see weakness in this area in our last call and our quarterly revenue figures reflect the slowdown primarily in North America. While we have seen a slight uptick in industrial head protection order activity in April, we are very early in the quarter. We are keeping a close eye on order activity and expect challenging conditions in this product area to continue in the second quarter.

Breaking down our energy exposure further, another 5% to 10% of our revenue primarily in the FGFD product line is exposed to a pullback in capital equipment spending. We reported 7% local currency revenue growth in the quarter in FGFD and our order book remains relatively healthy in this area. We continue to see opportunity overseas in areas where rig count has not suffered such as Middle East. While we have not seen any significant slowdown in this area, we do expect a lower level of project related FGFD business in the second-half of the year, assuming oil prices remain low.

MSA has a strong position across several diverse end markets. That breadth within the product portfolio is effective in mitigating headwinds in certain end markets and geographies. This quarter increased sales to the U.S. fire service market with the G1 SCBA launch are instrumental to our core product growth. So you see, although we do have exposure to the oil and gas market, our strong position in other key end markets and especially throughout fire service should help us offset the slowdown that we are seeing in energy end markets.

While I will give you a high level review of our sales today, please refer to the exhibit in our press release highlighting quarterly and early growth by segment and product for additional details. As Bill has already reviewed our consolidated core products results with you, I'll jump into the quarterly segment performance.

In North America, sales in the first quarter were \$134 million, increasing 3% from the same quarter a year ago, and 4% on a local currency basis. Core sales comprised 86% of total segment sales and were up 9% from a year ago on a 62% increase in breathing apparatus revenue, as we continue to ramp up G1 SCBA delivery and make progress against our significant backlog.

Fixed gas and flame detection was also strong in the quarter growing 9%. This growth was partially offset by industrial head protection weakness down 8% and portable gas detection down 19% on the weaker demand throughout energy related markets. Non-core sales representing 14% of the business were down 18% on a lower level of larger orders.

Our European segment reported first quarter sales of \$66 million, up 4% in local currency terms. Core sales comprised 75% of total sales in this segment and increased 3%, as growth across nearly all product categories was partially offset by decline in FGFD sales on lower large orders across

the segment. Non-core sales representing 25% of overall revenue were up 10% on continued shipments of ballistic helmets on the large military order received last year. We have approximately \$8 million of backlog on this order and expect to clear most of this balance in the second quarter.

Lastly, continuing sales of \$57 million in our international segment were up 2% in local currency terms. Core sales comprised 76% of total sales and increased 9% on large order FGFD shipments in Asia and Latin America, a strong increase in portable gas detection and fire helmet sales, partially offset by lower breathing apparatus orders and a decline in industrial head protection sales on a recessionary conditions in Brazil. Non-core products representing 24% of sales are down 14% in the quarter on a lower level of sales of mining related products.

Our gross profit rate for this quarter was 45.5%, a decline of 50 basis points from last year. Product margins continue to be strong in the quarter, up 100 basis points, despite a less favorable mix within the core product areas. However, higher inventory related charges weighed on gross profit in the quarter.

Selling, general and administrative costs were \$81 million in the quarter, down \$4 million from a year ago. In local currency terms, costs grew 2% on the 4% increase in revenue, reflecting our initiatives to closely manage discretionary spending in light of challenging conditions in certain end markets. As you might remember, first quarter SG&A includes a seasonal increase approximating \$4 million related to stock compensation and other payroll related expenses consistent with our historical pattern.

First quarter SG&A also includes \$1 million in higher non-cash pension related cost primarily related to the impact of lower interest rates on our defined benefit plan. As we have discussed, we expect continued headwinds in SG&A this year related to pension expense.

Our investment in research and development this quarter was \$11 million, up 4% in local currency compared to a year ago. We've seen a number of new products driving sales recently including the G1 SCBA. As you've heard in Bill's comments, our sales vitality metric continues to improve, reflecting a strong yield on our R&D investments.

We recorded about \$1 million in restructuring expense in the quarter, as we continue to optimize our cost structure throughout the international segment.

Operating margin in the first quarter was 9.6% of sales consistent with a year ago. As we've discussed with you in the past, our relatively fixed cost structure makes sales volume essential in reaching our operating margin goals. The overall lower sales volume and higher non-cash pension expense had an impact on operating margin. In fact, if you exclude pension expense, operating margin for the quarter was up 50 basis points from a year ago.

As we anticipated and discussed in our last call, we have recorded just under \$8 million of exit taxes within the provision for income tax line this quarter associated with our European restructuring program. While this reflects the majority of exit taxes connected to the principle operating company streamlining activities, we do expect to incur additional charges later this year, as we bring the remainder of our European affiliates on to the model. Excluding exit taxes, our base consolidated tax rate this quarter was 31.7%, down from 36.4% a year ago due primarily to a more favorable mix of profits and lower levels of cash repatriation in the current quarter.

Net income from continuing operations was \$9 million in the first quarter, or \$0.25 per diluted share, down 31% from a year ago. Excluding European exit taxes and pre-tax restructuring foreign exchange gains and self-insured legal settlement charges, adjusted earnings were \$16 million, or \$0.42 per diluted share, decreasing \$0.01 from a year ago.

Our cash balance at the end of the quarter was \$86 million, composed predominantly of cash outside of the United States and our debt balance was \$273 million. We used \$24 million of free cash flow in the quarter compared to cash flow generation of \$2 million in the same period a year ago. Lower free cash flow was primarily related to higher working capital related to an increase in inventory to meet growing market demand on our G1 SCBA.

In summary, our diversified portfolio allowed us to navigate through headwinds and commodity based end markets. The G1 SCBA was a strong contributor to results in the quarter, and I continue to see significant opportunity ahead with respect to the fire service market that should help us



offset the impact from weaker conditions in the energy market and certain emerging markets like Brazil. While I remain cautiously optimistic about the year's outlook, we will continue to closely manage discretionary spending and additional investments in light of challenging conditions in certain geographies and end markets.

Thank you for your attention. And Bill, I would take it back to you.

William Lambert - MSA Safety Inc. - President, CEO

Thanks very much, Stacy. Despite the challenges presented by a strong dollar and the external headwinds we face in energy markets in certain geographies, we continue to see bright spots within the business. The G1 ramp-up is gaining traction. Our pipeline of exciting new products is having the desired impact. And with our recently refreshed corporate strategy we see a path of continued growth.

At MSA we are focused on providing a customer experience like no other in executing on our mission of protecting the health and safety of workers around the world all while driving a higher level of value for our shareholders.

Thank you very much for your attention and interest in MSA this morning. And at this time, Nish Vartanian, Kerry Bove and Ron Herring have joined Stacy McMahan and me and we will be happy to take any questions that you might have. Please remember that MSA does not give what's referred to as 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

Thank you. We will now begin the question-and-answer session. (Operator Instructions) Now we have a question with - from Walter Liptak from Global Hunter. Go ahead, Walter, with your question.

Walter Liptak - Global Hunter Securities - Analyst

Yes, thanks, good morning, everyone. I want to ask about the SCBA business, the G1, and wonder if you could quantify a little bit for us the production improvement in March that you referred to.

William Lambert - MSA Safety Inc. - President, CEO

Well, as I indicated in my commentary, Walt, what we saw in March was more than what we had produced in January and February. I won't quantify exactly the numbers that we produced in the month of March, nor will I quantify what our end goal is here. But we've got an \$82 million total SCBA backlog across the world as we look at our SCBA business. We got very strong incoming demand and so we have increased our production dramatically here in North America and we are increasing our production efforts to produce the product in Berlin as well.

So we see a point here over the back-half of the year where we will meaningfully reduce that backlog to more normal levels, but right now and as I indicated in my commentary in the first quarter our ability to ship product was just keeping pace with very strong incoming demand.

Walter Liptak - Global Hunter Securities - Analyst

Okay, right, the backlog I think was at \$80 million in December, so your book-to-bill was about \$1 million for the G1.



William Lambert - MSA Safety Inc. - President, CEO

That's about right.

Walter Liptak - Global Hunter Securities - Analyst

Okay. How is the profitability looking for the G1? Is there a ramp to the profits as well?

William Lambert - MSA Safety Inc. - President, CEO

Well, over a longer period of time there will be. I think doing any ramp-up of a new platform product like this we continue to work through our supply chain issues. I think the increased demand activity has caught some of our supply chain partners a little off-guard. And that has some additional expense associated with it. So the operating profit on the G1 is not at our longer-term target, but we are making meaningful improvements. And we see some opportunities to get that into the range that we've targeted for the G1.

Stacy McMahan - MSA Safety Inc. - SVP, CFO

Hey, Walt, if I can just give you a little more color. At a high level we do expect that the G1 will accrete operating margin. But it's important to know that the SCBA as a category is not our most profitable core product category. In fact, it's one of the least profitable core product groups.

As a result, as the sales mix shifts to the G1 SCBA, there is going to be some product mix effect that plays in at the gross profit line. As you saw within the first quarter improvements in other individual product groups within the core and even the adjacent areas offset the less favorable product mix and we're still realizing an improvement in overall gross margins from direct cost certainly.

So we talked to you about our relatively fixed cost structure in the past, and we expect to get operating margin leverage as we more effectively sell into a higher volume of sales, the G1 is certainly a big piece of that at the operating margin level.

Walter Liptak - Global Hunter Securities - Analyst

Okay, got it. Thanks for this. I was hoping to ask one about the 10% to 15% of your revenue that's related to energy employment, their personal protection, and I wondered if you could just give us some color on how they're trending during the quarter, like, is it come down and stayed at like a steady level, or was it ramping its employment ramp down during the quarter?

William Lambert - MSA Safety Inc. - President, CEO

Well, I think as you saw in our press release, the North American portable gas detection declined by 19% in the quarter and head protection declined by 8%, that was primarily driven by the North American oil and gas market. I think the message is pretty consistent with the message we provided on our February call, in that regard, do we expect it to get any worse, no, not at all.

I think that, Stacy indicated in her commentary that we're seeing a slight uptick in demand so far in the second quarter. But we're not seeing any kind of a dramatic turnaround in that part of the business, largely driven by employment levels in North America related to oil and gas, and where they can, our customers can quickly cut their discretionary spending and cut their employment levels.

The spring turnaround season for refineries this year has been the weakest that we have seen in some seven years. So I don't believe - we don't believe that we are losing any kind of market share in these product categories at all. We just think that it's shifting out a few quarters for right now.



So we don't expect it to get any worse. Well, in fact, I would expect that it has -- that the response has been swift by those end use customers in North American oil and gas market, and we don't expect it really to get any worse for us.

Walter Liptak - *Global Hunter Securities - Analyst*

Okay, yes. Thank you for that color.

William Lambert - *MSA Safety Inc. - President, CEO*

Let me - excuse me, let me also just kind of provide the - the other side to that coin - that the story on the other side of that coin if you will is that if you - it's interesting to note that the contrast in portable gas detection sales in North America and International and Europe.

So while our North American portable gas detection sales were down 19%, international's portable gas sales were up 14%. Europe was up 25%, so that's indicative of winning share with this new line of portable gas detection instruments that we have. And I think it's another great example of how the diversified product offerings and end market customers and geographic footprint are helping to drive the overall MSA performance.

Walter Liptak - *Global Hunter Securities - Analyst*

Okay, yes. Thanks for - that's a good point. I want to ask one last one about, you've talked before about hitting that 15% operating margin target by the end of 2015. I know you guys don't give guidance, but I wondered what your thoughts were about getting there by the fourth quarter.

Stacy McMahan - *MSA Safety Inc. - SVP, CFO*

Well, we maintain that as our target. We certainly were able to exceed that operating margin in the - in our record quarter in the fourth quarter of 2014. So we're still able to have that as a goal for the year.

Walter Liptak - *Global Hunter Securities - Analyst*

Okay. Okay, very good. Thank you.

Operator

Our next question is from Richard Eastman from Robert Baird.

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

Yes, good morning.

William Lambert - *MSA Safety Inc. - President, CEO*

Hi. Good morning, Rick.



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

Can I ask, when I look at the breakdown core products versus the non-core, the ancillary peripheral products. You restated you kind of pulled the fire helmets out of there and now have that as a core product. But what I'm curious is, how does - what's in that non-core that declined by 9%? And what's the new base of this the non-core revenue? Are we talking about maybe \$200 million a year now?

William Lambert - *MSA Safety Inc. - President, CEO*

Of non-core on an annual basis, that's...

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

If you look at the total sales in Q1, so...

William Lambert - *MSA Safety Inc. - President, CEO*

That's right, Rick. And I think it's just maybe just roughly just a little bit north of that \$200 million for total non-core sales.

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

Okay. And so, where is the exposure there that was down 9%, I mean 18% in North America? Where is the exposure end market, and what's in that number at this point of products?

William Lambert - *MSA Safety Inc. - President, CEO*

Rick, that's primarily in air-purifying respirators and gas masks. As we deemphasize those efforts and focus our efforts on those six core product areas, where we quite honestly have the greatest profitability and see continued growth potential is primarily the de-emphasis in air-purifying respirators and gas masks.

Stacy McMahan - *MSA Safety Inc. - SVP, CFO*

We have a large order to that, went through on respirators in the first quarter of 2014. So that comp was difficult in that category.

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

In North America?

Stacy McMahan - *MSA Safety Inc. - SVP, CFO*

It was in North America.

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

Okay, okay. And then the other question I had, when we speak to the portable gas and the industrial head protection and kind of recognizing the O&G exposure, upstream exposure there, do you have any sense of what the sell-out versus sell-in was through distribution? I mean, was there any



destocking in the channel after the first of the year if you're relative to the announcements that we saw out of the exploration companies in the fourth quarter?

William Lambert - *MSA Safety Inc. - President, CEO*

We certainly saw some of that Rick. In fact, we saw some of that happening late in the year. In December, we saw quite a few of those and channel partners and market channel partners destocking, cutting back on orders, and preparing for what they are experiencing, which is a severe reversal in market.

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

Yes. And is that, again, when you look at those two product lines for the full-year, we're seeing a little recovery, we should see some stabilization. I think the head protection business in general is a core, product line was up maybe mid single-digits, portable gas was up more, but for 2015, are those product lines now maybe expected to be down year-over-year, or can we still think about them as being flattish with some recovery, or again, we still have international growth there and some Europe growth, how do you think of those two product lines for the full-year with this start?

William Lambert - *MSA Safety Inc. - President, CEO*

Yes, I think that the North American segment of the business for head protection and portable gas detection is so big that it would be hard for us to overcome what we see here, unless we see some, I would classify as dramatic improvement in the price of oil and a return to employment levels - 2014 employment levels, let's say, in the oil and gas sector. And I don't think there are too many people who are predicting that as an outcome in 2015. So I would expect that head protection - industrial head protection and portable gas detection would be flat at best year-over-year and perhaps even down slightly.

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

In total, okay...

William Lambert - *MSA Safety Inc. - President, CEO*

In total.

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

Okay. And then just talk a little bit - one last question, I'll jump out of here. The backlog on the fixed gas and flame, I think Stacy referenced the fact that it was good outside of the U.S., but again is that a product category that given current backlog and tone that you would expect to be up and hold up for the balance of the year?

Stacy McMahan - *MSA Safety Inc. - SVP, CFO*

We are still expecting, yes, the backlog - relatively healthy across, say, this reported segments...

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

Yes.

Stacy McMahan - *MSA Safety Inc. - SVP, CFO*

And we have not seen any indications of the slowdown, because projects are completing as scheduled. But, again, we're just predicting that there could be a lower level of this business in the back-half. So we are somewhat expecting that although we are not seeing indications that people are delaying projects or canceling them it's just that potentially that they could.

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

I see, okay, so cautious there. Okay. Thank you. I will jump off. Thank you very much.

William Lambert - *MSA Safety Inc. - President, CEO*

Thanks, Rick.

Operator

Our next question is from Stanley Elliot from Stifel.

Stanley Elliot - *Stifel, Nicolaus & Company, Inc. - Analyst*

Good morning. Thank you, guys.

William Lambert - *MSA Safety Inc. - President, CEO*

Good morning.

Stanley Elliot - *Stifel, Nicolaus & Company, Inc. - Analyst*

I apologize if I'm going to ask a question that you guys already answered, but what was the core sales growth if you backed out the fire and the rescue helmets?

Stacy McMahan - *MSA Safety Inc. - SVP, CFO*

Just a minute, Stanley, we'll get that for you.

William Lambert - *MSA Safety Inc. - President, CEO*

The year-on-year growth was about \$1 million in fire and rescue helmets, Stan. So if you take our overall growth and back out \$1 million from it in currency neutral terms, it was about \$1 million more in fire and rescue helmets year-over-year.

Stanley Elliot - *Stifel, Nicolaus & Company, Inc. - Analyst*

But not yet and okay. And part of with the core product had been the margin profile had been so much greater than some of the adjacent products or some of the other categories. Does the inclusion of that now moving into the core products, does that kind of chip away that delta, or how do we think about the profitability of that once it gets added to the mix?



William Lambert - *MSA Safety Inc. - President, CEO*

Well, out of our six core product areas Stacy indicated that SCBA was on the lower-end of those six product categories. And I think in previous calls we've indicated that fixed gas and flame detection is among our most profitable areas of the business. And I would put fire helmets pretty much right about in the middle. It's not our most profitable, but it's not at the lower-end either, it's right about in the middle.

Stanley Elliot - *Stifel, Nicolaus & Company, Inc. - Analyst*

Okay, perfect. That's all I had. Thank you very much.

Operator

(Operator Instructions) And I'm showing no further questions. So I'll turn it back over to you Ken for any closing comments.

Ken Krause - *MSA Safety Inc. - Executive Director - Global Finance, Assistant Treasurer*

Great. Thank you, John. Seeing that we have no more questions, That concludes this morning's call. If you missed a portion of the conference call, an audio replay will be available on our website for the next 90 days, as well as the transcript of the call. On behalf of our entire team here, I want to thank you for your continued interest in MSA, and we look forward to talking with you again soon. Have a great day.

Operator

Thank you, ladies and gentlemen. This concludes today's conference.

DISCLAIMER

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2015, Thomson Reuters. All Rights Reserved.