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MSA - Q4 2019 MSA Safety Inc Earnings Call

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PRESENTATION

Operator

Good morning, and welcome to the MSA Safety, Inc. Fourth Quarter 2019 Earnings Conference Call.

(Operator Instructions) Please note, this event is being recorded.

I would now like to turn the conference over to Elyse Lorenzato, Director Investor Relations, MSA Safety Inc. Please go ahead.

Elyse Lorenzato - *MSA Safety Incorporated - Director of IR*

Thank you, Andrew. Good morning, everyone, and welcome to MSA's Fourth Quarter Earnings Conference Call for 2019. With me here today are Nish Vartanian, President and CEO; and Ken Krause, Senior Vice President, CFO and Treasurer.

Before we begin, I'd like 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 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 Form 10-K filings with the SEC. MSA undertakes no duty to publicly update any forward-looking statements made on this call, except as required by law. We've included certain non-GAAP financial measures as part of our discussion this morning, and the non-GAAP reconciliations as well as our Q4 earnings press release are available on our Investor Relations website at investors.msasafety.com.

With that, I'll turn the call over to our President and CEO, Nish Vartanian.

Nishan J. Vartanian - *MSA Safety Incorporated - President, CEO & Director*

Thanks, Elyse, and welcome, everyone. For all of us at MSA, 2019 marked another year of strong financial performance driven largely by our ability to consistently bring game-changing innovations to market that help protect the lives of workers throughout the world.

Financial highlights for the year include revenue growth of 5%. Earnings grew about 2x the pace of revenue, and we had very healthy levels of cash flow, all in line with our expectations that we discussed at our Investor Day event in New York City back in November and on our past earnings calls.

I want to thank and recognize the entire MSA team for their engagement, dedication to our mission of protecting people's lives. As I've said many times before, our mission is the foundation of our success. It's what drives our associates' passion to develop the most advanced safety technology for our customers, which in turn, enables higher levels of both safety and productivity. This morning, I'll highlight a couple of those unique solutions as well as our progress on another key initiative with which we're making progress.

But first, I'd like to provide a quick overview of our fourth quarter revenue performance, which is a clear indicator that our product solutions are driving MSA's business forward. We realized revenue growth of 5% in constant currency, despite a very difficult comparison from a year ago, particularly in our International segment. While the environment remained choppy in certain short-cycle industrial products, the momentum that we gained from new products in gas detection and fall protection, certainly helped to offset that choppiness. Not only was invoicing strong, the order pace was healthy as we had a book-to-bill ratio of greater than 100% in the quarter. We invested heavily in R&D in the quarter as we move closer to the launch of 2 highly advanced connected products that were showcased at our Investor Day. Ken will provide more texture on our quarterly and full year financials, but I'd like to provide more insight into the investments we're making, and the returns we're seeing.

In the fire service area of our business, we continue to advance development of LUNAR, a wireless handheld device that enables firefighter point-to-point direction and ranging, thermal imaging and motion detection through the use of advanced sensors, cloud and GPS technologies. In the fourth quarter, we conducted voice of customer sessions with several major fire departments. During these sessions, we observed dozens of firefighters and saw firsthand how LUNAR helped them reduce search and rescue time during rescue operations. This new and potentially life-saving technology speaks directly to the mission and passion that I mentioned earlier, and it's why we're so excited to bring LUNAR to market, which we expect to happen later this year.

On the industrial side of our business, we launched the ALTAIR io360 gas detector earlier this month. This product allows customers to establish a network of connected gas detection devices, thereby creating a connected work site with the ease and simplicity of operating a smart home device. And for MSA, this new technology expands our addressable market into the area monitoring space. Given the nature of the product, we expect distributors and end-user customers to trial the device for a period of time before ordering it. So it will have a longer adoption cycle than a typical portable gas detection instrument.

From an innovative perspective, the key breakthroughs for the ALTAIR io360 include battery life that is measured in months, not days; faster sensor response times; and unparalleled ease of use. As we've discussed in the past, MSA's ability to respond to customer needs through innovation is a key driver of our market leadership positions. Our Sales Vitality, the percentage of sales from products developed over the last 5 years was more than 40% this quarter driven by strong momentum with our 5000 series gas monitors and our V-Series fall protection in our G1 and M1 SCBA lines.

In fall protection, we launched 50 new products over 3 years; increased MSA's training centers from 3 to 12; tripled our manufacturing capacity. And it's great to see the returns on those investments with annual revenue growth of 29% in Americas fall protection. We're also seeing good traction with the M1 SCBA in our International segment. The MSA team secured an exciting win in the quarter with Taiwan Fire Department, who not only specified our M1 SCBA, but they were also the first to order a significant portion of their units with optional advanced electronics. While we had a difficult comparison in International SCBA due to a large order in the second half of 2018, it's encouraging to see the momentum with the M1. Looking forward, I'm confident that our 2019 R&D investments will be drivers of growth in the coming years.

Switching gears to highlight another program that is and will continue to be a factor in our success, it was very encouraging to see the continued margin improvement in our International segment for the quarter and full year. Bob Leenen and our entire international team continued to execute a road map to drive growth in select markets, optimize our channels approach and rationalize the cost structure.

In Europe, where our cost reduction programs have been focused, our full year SG&A was down 4% on revenue, that is up 1% and core product revenue that is up 4%. So we are realizing expected savings from these restructuring efforts. For the year, International segment operating margins was up [40 basis points to 12.3%] (corrected by company after the call) of sales and that's after generating 90 basis points of improvement in 2018, and we look forward to making additional margin progress in the International segment in 2020.

Before I hand the call over to Ken, I'd like to briefly discuss the coronavirus outbreak and provide an update on our operations in China. First and foremost, our priority is the health and safety of our colleagues in China. And at this point, we're not aware of any MSA employees contracting the virus. We're taking precautions and following the government guidelines to ensure that, that continues to be the case. As we've discussed in the past, about 5% of MSA's revenue is in China, and we have a manufacturing plant in Suzhou. Our factory reopened at partial capacity after the government imposed extension of the Chinese New Year in holiday, and we've been working to ramp up production. Like many other companies, we have elements of our supply chain that are global, and we source certain components directly and indirectly from China. While we're comfortable with our inventory positions in the near term, we're navigating through the unknowns about how this situation will evolve. We'll continue to assess the risk as we move through the first quarter.

With that, I'll now turn the call over to Ken for a financial review. Ken?

Kenneth D. Krause - *MSA Safety Incorporated - Senior VP, CFO & Treasurer*

Thanks, Nish, and good morning, everyone. Before I discuss the quarter in more detail, I'd like to start with a few highlights of our full year performance. We finished the year well with revenue growth of 5% on a constant currency basis for both the quarter and the full year. We had a strong finish in orders as well with a quarterly book-to-bill in excess of 1x. It is great to see the sustained mid-single-digit growth in our business, and we are entering 2020 with a very healthy backlog. We remain favorable on the price cost equation and executed a number of restructuring programs that drove incremental operating margins north of 35% for the year. As a result, full year margins increased 60 basis points from 2018, which includes about 40 basis points of dilution from our acquisition of Sierra Monitor.

Our strong free cash flow results in Q4 and for the full year reflect our ongoing focus on improving working capital. We continue to execute around the balanced capital allocation strategy in 2019. We deployed $33 million for the Sierra acquisition and funded $64 million of dividends to shareholders, representing an 11% increase from a year ago.

Now I'd like to walk you through our fourth quarter results. Quarterly revenue increased 5% in constant currency. We had a 1% foreign currency headwind on revenue. Fixed gas and flame detection, or FGFD, was a leading driver of growth as we continue to see great momentum with our 5000 series gas monitors across both our reporting segments. Our new V-Series family of fall protection products continue to drive growth in the Americas and was a major contributor to our sales vitality metric in 2019.

Looking at our SCBA business, after a softer third quarter driven by product approval and funding delays in the U.S., which impacted all manufacturers, we saw a significant rebound in America's SCBA performance. As indicated on our third quarter call, we expected these delays to cause revenue to shake out over a couple of quarters and that is what's happening.

Emerging markets growth was 11% in the quarter and 8% for the year. We continue to see good results across these markets, highlighted by growth and margin expansion in important areas like China, which grew revenue at 17% for the year. We were able to leverage that to more than 25% operating income growth. And while we see the potential for certain risks associated with the coronavirus to have an impact on our results in China in the first quarter, we remain well positioned to drive long-term value in China and across our emerging markets.

Quarterly gross profit margin was down 40 basis points from last year. New products and pricing programs continue to provide nice leverage. However, there was an accounting oriented charge that had an impact in the quarter. We had a $2 million unfavorable adjustment to our LIFO reserve at year-end based on the higher level of inventory associated with improved demand levels in areas like fall protection. That adjustment is a noncash accounting charge, which had a 50 basis point impact on quarterly gross profit. We also incurred $1 million of purchase accounting amortization associated with our recent Sierra Monitor acquisition, which impacted gross margin by about 25 basis points. We incurred this expense in the third quarter as well. The largest portion is related to the inventory step up, which is now fully amortized and will not have an impact on our results in 2020.

SG&A expense was $85 million in the quarter or 22.7% of sales. Excluding Sierra and other corporate development costs, we gained 130 basis points of leverage from SG&A efficiencies compared to a year ago. Organic constant currency SG&A was down 2% in the quarter and was relatively flat for the full year on mid-single-digit revenue growth. For 2019, the Americas underlying SG&A improved by 100 basis points on mid-single-digit revenue growth, and International segment SG&A improved by 90 basis points on 1% constant currency revenue growth. Ongoing productivity programs drove the improvement in the Americas segment, while the progress in International reflects savings from restructuring programs that were actioned throughout 2018 and 2019. Our productivity and restructuring programs remain on track, and it is great to see the improvements across our business, and most notably in Europe, where SG&A was down 10% in the quarter. While we're very focused on rationalizing back-office costs and increasing productivity, we're investing heavily in growth programs, including new product development. To reiterate Nish's comments, quarterly R&D was 4.4% of revenue, increasing 80 basis points as a percentage of revenue on the $3 million or 26% increase in spending. The spending is reflective of our progress in key areas as we move closer to the launch of some exciting new technologies like LUNAR and the ALTAIR io360. And we also completed the launch of the new V-Gard H1 Safety Helmet. While our R&D investment pressure our incremental margins in the quarter, we are committed to taking a long term oriented approach in R&D and continuing to fund projects that support MSA's long-term growth.

GAAP operating income was $40 million in the quarter, which includes $18 million of product liability expense. For the full year, we had expense of $27 million compared to $45 million a year ago associated with self-insured product liability and related defense costs. The quarterly expense is mostly related to incurred but not reported, or IBNR claims. As we've indicated in our filings in the past, we review our cumulative trauma product liability reserve on an ongoing basis. The IBNR portion of the reserve is based on a set of facts and circumstances that were reviewed with our actuaries and external counsel. As part of that review, we reflected changes in underlying assumptions in our model and recognize the charge in the fourth quarter. Our total product liability reserve is $168 million at year-end just about equal to our insurance-related assets of approximately $170 million. Those assets consist of receivables, notes and short-term investments. While the timing of cash flows for product liability and insurance receivable can and do vary from quarter to quarter. We've been very successful in establishing cash flow streams that have allowed us to fund these liabilities without a material impact on our capital allocation priorities. More specifically, over the past 4 years, our average cash conversion has exceeded 100% of net income both with and without the impact of product liability and insurance receivables.

Excluding foreign currency, restructuring, strategic transaction costs and product liability expense, quarterly adjusted operating margin was 17.3%. And while we discussed the noncash inventory charge associated with the LIFO adjustment and higher R&D investment that impacted margin expansion this quarter to the tune of almost 130 basis points, we remain committed to delivering 30% to 40% incremental margin for the business. Our GAAP effective tax rate was about 20% in the quarter and 25% for the year. While we realized the lower quarterly tax rate, our full year adjusted effective tax rate, which neutralizes for the impact of certain noncash related items, finished at 23.8%, slightly more favorable than our expectations of 24% to 25%.

GAAP net income was $31 million and quarterly adjusted earnings were impacted by the noncash inventory item I mentioned and higher R&D investments, finishing at $51 million or $1.29 per share. For the year, adjusted earnings were up 7% on the 3% increase in reported revenue and 5% increase in constant currency revenue. Our long term expectation of growing profitability at a multiple of sales is very much intact.

With that in mind, I do want to clarify that in 2020, we expect lower discount rates on our pension to present an $8 million headwind to noncash pension expense compared to 2019. This impact will be included in the other income of the P&L, and it will affect GAAP net income in 2020.

Quarterly free cash flow was $64 million, which includes about $8 million of net outflows for product liability. Conversion was well above 100% in the quarter, reflecting our continued focus on working capital management. Working capital finished the year at 25% of sales or down 170 basis points from the third quarter. The stronger cash flow enabled us to fund the $16 million dividend and pay down $30 million of debt in the quarter, which puts our debt-to-EBITDA at 1.2x on a gross basis. Our balance sheet provides us with the flexibility to continue investing in our business and pursuing acquisitions.

In summary, for the full year, we achieved mid-single-digit revenue growth, drove 60 basis points of operating margin expansion and generated healthy levels of cash flow while continuing to invest in our business. We had a good finish to the year in terms of order activity and our backlog positions us to continue to deliver mid-single-digit revenue growth in 2020. While there were quarterly specific items that pressured our fourth quarter incremental margins, those items do not change our long-term outlook for this business. We remain committed to the growth, margin improvement and cash flow targets that we discussed at our Investor Day in November.

With that, I'll turn the call back over to Nish for some concluding commentary. Nish?

Nishan J. Vartanian - *MSA Safety Incorporated - President, CEO & Director*

Thanks, Ken. I'm pleased with MSA's performance in 2019 and the progress against our long-term goals. For 2020, we continue to plan for mid-single-digit revenue growth based on our current backlogs and order pace, and we're confident in our market positions. There remains a great deal of macro uncertainty, so we're approaching 2020 and particularly the second half with caution. We've been active in identifying a number of initiatives that we can implement if the business were to slow in the second half of the year. However, we remain focused on enhancing our market leadership positions through disruptive technology and customer-driven innovation and executing ongoing productivity programs to maintain a strong incremental margin profile.

Thank you for your attention this morning. And at this time, Ken and I would be glad to take any questions you may have. Please remember that MSA does not give guidance. Having said that, we'll now open up the call for your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) The first question comes from Stanley Elliott of Stifel.

Stanley Stoker Elliott - *Stifel, Nicolaus & Company, Incorporated, Research Division - VP & Analyst*

Nish, kind of starting off, I mean, you mentioned the mid-single-digit growth, and then you also mentioned caution in the back half. I mean is that implying that there is a difference in terms of the cadence of how the year should progress? I know you don't want to give guidance, but since you brought that up, I thought I would just ask for a clarification.

Nishan J. Vartanian - *MSA Safety Incorporated - President, CEO & Director*

Right. So we expect by year-end, mid-single digits, Stanley. We just don't know how the year will play out. There's obviously some disruption here in the first quarter with China, and then you have the election at the back half -- back end of the year and maybe some tightness in spending. But we think, as we see things today with the backlog we have and the pipeline of business that by year-end, just like this past year, we could see mid-single-digit growth and continue to leverage that.

Stanley Stoker Elliott - *Stifel, Nicolaus & Company, Incorporated, Research Division - VP & Analyst*

Perfect. And then you talked a little bit about the R&D expenses. Can you give us a little more color kind of where the allocation was? Why the need for the acceleration? And what sort of level of spending should we think about in 2020?

Nishan J. Vartanian - *MSA Safety Incorporated - President, CEO & Director*

Stanley, we've always talked about between 4% and 4.5% on R&D spend. And we are at the upper end of that for the fourth quarter. And as these programs and the products come to market, you may see an uptick in spend on a quarter-to-quarter basis. And periodically, you might even see us dip below 4%. So it's just a matter of where we are in the development of a product, and as we get closer to the launch of a product. So fourth quarter was fairly heavy, but we expect to be somewhere in that 4% to 4.5% range in 2020.

Stanley Stoker Elliott - *Stifel, Nicolaus & Company, Incorporated, Research Division - VP & Analyst*

And then lastly, can you guys talk about the M&A environment? I noticed the transaction costs continue to move up kind of higher. What are some of the characteristics, I guess, that you're looking for in an asset? And then maybe talk a little bit about the leverage capacity or potential deal size out there that you're exploring?

Nishan J. Vartanian - *MSA Safety Incorporated - President, CEO & Director*

Well, I'll answer initially and then flip it over to Ken for some more color. But Stanley, as we've talked about in the past, we're very active when it comes to looking at some inorganic opportunities. Our balance sheet allows for some nice opportunity there. We've had a lot of success with acquisitions in the past. We'll continue to stay very disciplined with our approach to acquisitions to ensure that we continue to add assets that support and enhance our position in the marketplace around our mission and what we do. So we continue to look at our markets that we serve, those core product lines, possible extensions to that core product line, and we've been very active. To be quite honest, the results that we've seen to date really don't equate to the effort that we've put in. There's been a lot of effort around, looking at acquisitions and exploration and the valuations are fairly high. And as you know, from our past activity, we're pretty darn disciplined to make sure that we can make acquisitions that are a good fit for the organization from a cultural standpoint, from a product standpoint, or within the markets we serve and provide a good return for our shareholders. So we're going to continue to be disciplined in that manner as we go forward and continue to look for those opportunities.

With that, I'll turn it over to Ken, if you want to add some color.

Kenneth D. Krause - *MSA Safety Incorporated - Senior VP, CFO & Treasurer*

Yes. The only thing I would add there, Nish, is that we do certainly have opportunities on our balance sheet to continue to be active on the M&A front. I've talked consistently about the expectation that we would be very willing to lever up to 2.5x in this current environment for a deal that would strategically make sense for us. We're very much mindful of where we are in the cycle and also very mindful of continuing and committed to continuing to maintain an investment grade balance sheet, and so that's certainly top of mind with us. But with that said, we have a strong track record of bringing on past M&A that has made a lot of sense. It's been strategic and has added value to the portfolio, and we intend to continue to follow that course as we move forward.

Operator

The next question comes from Richard Eastman of Robert W. Baird.

Richard Charles Eastman - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

I'll start with a simple one for Ken. Could you talk in the adjusted Op margin number? Could you just repeat? I believe that includes the LIFO charge. And also could you just give us a sense of what the Sierra Monitor OpEx was in the quarter?

Kenneth D. Krause - *MSA Safety Incorporated - Senior VP, CFO & Treasurer*

Yes, that's a good question, Rick. And so when we look at the margin performance in the quarter, it was around 17.3% on an adjusted basis. We had about 40 basis points of dilution associated with Sierra Monitor in that margin profile. The LIFO impact was around 50 basis points. And then R&D, of course, was about 80. So if you add those 3 things or if you consider those in the analysis, the margin was around 19% on a more consistently reported basis.

Richard Charles Eastman - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

Okay. And then as we move forward, Ken, just to continue that thought. Again, the business seems to be structured in kind of pushing towards this kind of consistent 30%, 35% incremental. And so we -- should we assume on an adjusted Op profit basis that maybe we could target 50 to 75 basis points of improvement for '20?

Kenneth D. Krause - *MSA Safety Incorporated - Senior VP, CFO & Treasurer*

Rick, when we look at the overall profitability profile, you're correct in expecting and continue to expect incrementals at 30% to 40%. I'll let you go through and model what that might mean on an operating margin basis. But with mid-single-digit growth and with 30% to 40% incrementals, we should expect to see improved operating margins for 2020.

Richard Charles Eastman - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

Yes. And again, I'll just -- I -- through the adjusted in there because it's a little easier to work with. But there is no reason to assume that any of the operating expense metrics fall out of line to deliver that type of incremental.

Kenneth D. Krause - *MSA Safety Incorporated - Senior VP, CFO & Treasurer*

No, we are still very much structured to provide 30% to 40% incrementals. In fact, in the quarter, when we look at the operating income that we generated, and you consider the fact that we had $2 million of LIFO, and you had $3 million of R&D higher. If you add those or consider those in the analysis, your incremental margin was around 35%. So we very much are -- and what's good to see in the business is the International margins coming on. With 14-plus percent operating margins on 1% growth, it's hard for me to find a time and go back in time to find a point where we had that type of profitability performance. And that's really being driven by all the work we're seeing on the cost structure side, the productivity side. It positions us well to continue to improve our business and bring on higher levels of profitability.

Richard Charles Eastman - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

And I think I actually personally probably owe you, your due on International. I asked the question. We're going the other direction. So I need to acknowledge the fact that you guys are doing a great job and Bob has certainly done a good job.

Just one more question, if I might. Nish, when you look at 2020, and we're carrying forward this kind of mid-single-digit growth rates. If I look up and down the product categories from your perspective to the short terms businesses stay challenged here, is that maybe where there is more risk than in some of the other businesses where you have a new product driver or you have some backlog. I mean how should we think of the product lines? Do you enter the year thinking each will -- each has kind of in form of target to grow mid-single-digit by product line?

Nishan J. Vartanian - *MSA Safety Incorporated - President, CEO & Director*

That's a fair assessment, Rick. As we look at the short term or short cycle products, especially heavily focused around industrial being the hard hats, right? The hard hats stick out to you, I'm sure. And so that's been very choppy for us. And we don't have any indications that, that is going to turn around in 2020. So do we expect head protection -- industrial head protection and continue to be somewhat choppy as we go into the year. We're excited about the new H1 Helmet. That has a nice sell point on it, but the volume on that is not going to be tremendous. Overall, the market for that is not a huge market, but some of that will offset a bit of it. And -- but we do see some choppiness around industrial head protection and the adoption of the ALTAIR 360 that -- or the A360, that will be a little slower ramp up, a lot like the 5000 series gas detector. So we'll probably see some significant numbers on that around in 2022 -- I mean '21. 2020 will be a ramp-up year for that product. So I think that, that's a fair assessment. In the oil and gas markets, the backlog for FGFD remains really strong. The backlog for breathing apparatus is good coming into the year. So some of those other products were in pretty good shape with.

Richard Charles Eastman - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

Does the traction around the M1, again, give you comfort with a mid-single-digit for SCBA for the year?

Nishan J. Vartanian - *MSA Safety Incorporated - President, CEO & Director*

It really does. And we don't have the large order that we had in 2018 offset. We had that very large order in 2018, and that's out of the system. So we're going against some normal comparables year-over-year, and we're getting some nice traction and good feedback on the product and evaluation. So that certainly will give us some help going forward.

Richard Charles Eastman - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

And -- I'm sorry, I promise just 2 more questions. One on Sierra Monitor, what kind of revenue did it contribute for the quarter?

Kenneth D. Krause - *MSA Safety Incorporated - Senior VP, CFO & Treasurer*

Yes. The number on that, that was about 1% revenue growth in the quarter, Rick, is what we saw in that business.

Richard Charles Eastman - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

Okay. And then last. I know, did this disaster in Australia with the wildfires, did that influence the business? I'm thinking more negatively than nothing -- there is no positives that come out of that. But were there any pluses and minuses to your top line from Australia, which has always historically been a decent market for you?

Nishan J. Vartanian - *MSA Safety Incorporated - President, CEO & Director*

No, there wasn't at all, Rick. It really didn't impact our business at all.

Operator

The next question comes from Edward Marshall of Sidoti & Company.

Edward James Marshall - *Sidoti & Company, LLC - Senior Equity Research Analyst*

So Nish, you talked about -- I think we were at the Investor Day, we talked about higher spend of R&D. I know you're well within your target of 4% to 4.5%. I'm curious, as we kind of look forward, do you think you'll continue as the sophistication of the products that you're targeting and the new rollouts? Do you think this will stay at kind of the higher end of the range for a while? Or do you think that will normalize back down to the mid or low end of the range for R&D?

Nishan J. Vartanian - *MSA Safety Incorporated - President, CEO & Director*

I think it'll normalize back down a bit to the normal level. I really don't see us in 2020 going much over 4.2%, but it could. I mean there could be some opportunities, and we could accelerate some projects if we see some opportunity to bring some things to market sooner or some new opportunities. But I really don't see us getting too far outside that range that you've seen in the past.

Edward James Marshall - *Sidoti & Company, LLC - Senior Equity Research Analyst*

And I guess, if you just -- if you just look at the average of the past 2 quarters, it's kind of at that 4.2% range anyway. Was there less spend maybe in 3Q more in 4Q? Is it just kind of more timing than maybe anything?

Nishan J. Vartanian - *MSA Safety Incorporated - President, CEO & Director*

Yes. It's all a matter of timing and where we are in the project and some different aspects sort of.

Edward James Marshall - *Sidoti & Company, LLC - Senior Equity Research Analyst*

Got it, got it. When I look at the book-to-bill, which has consistently been pretty good, I'm wondering if there is anything -- it was pretty even across the board. Or was there some chunkiness maybe in certain business lines? For instance, SCBA, because this is a pretty decent backlog number, given the service, I understand the events, but the outlook, I think, overall, it's been a little bit more cautious or uncertain around certain periods in 2020 than normal. So I just want to try to get an understanding as to what maybe you're seeing maybe from the short-cycle versus long-cycle businesses? And how that might be reflected in the book-to-bill?

Nishan J. Vartanian - *MSA Safety Incorporated - President, CEO & Director*

Sure. So the backlog is really built around, as I think we mentioned, breathing apparatus. We've talked about earlier on self-contained breathing apparatus. We're coming into 2020 with a nice sized backlog for both the Americas and International, predominantly in the Americas. And then fixed gas and flame detection. Fixed gas and flame detection, we saw a nice build of business going into the fourth quarter, and that business continues to be nice and strong. The 5000 series gas monitor really is gaining great traction in the marketplace, and we believe we're taking some share there. And there is still really good spend on these major projects that we're seeing, both in the U.S. and some pipeline activity in refineries, and then also internationally.

So there is some nice opportunity there. The backlog ticked up a bit with -- within Globe. So the Globe product line had some nice backlog built up. We had some nice strength in business in the fourth quarter, and we had a bit of a supplier issue in the fourth quarter that slowed things down. And then also things compounded a bit and that we gave the employees there, the week of Christmas off, which was something different this year. So we've got a real nice backlog in our Globe business coming into 2020. But the other businesses, most of it is fairly short term and the backlogs are normal.

Edward James Marshall - *Sidoti & Company, LLC - Senior Equity Research Analyst*

Got it, got it. And then if you look at the International margin, I'm trying to get a sense as to how much -- we've always seen kind of a pickup in the fourth quarter and it's been excessively larger this year. And I'm curious, there's a couple of initiatives that you've been working on, and particular, the emerging markets versus developed nations growth. And then obviously, channel optimization. I'm curious if there's been any inroads in those particular businesses that might have helped? There is this purely operational and structural operational changes that you already implemented and rolled through? Or is it something seasonal that happens in the fourth quarter?

Nishan J. Vartanian - *MSA Safety Incorporated - President, CEO & Director*

Yes. It's more of the operational changes and improvements that we've made in the business that you're starting to see roll forward, and we have more of those coming in 2020. We -- as we've talked about, we believe, over a 5-year period, we talked about a 500 basis point improvement, and it's a grind. We just keep path to grind through as we restructure. We focus on our channels of distribution and focus on some improvement in our pricing. And then obviously, some of the restructuring and how we go to market in our back-office operations. And Bob and his team continue to do a really nice job of that. And you're starting to see some of those savings come through in the fourth quarter and certainly have some more on a go-forward basis. So we're really pleased with where we are on our program there.

Operator

(Operator Instructions) The next question comes from Larry De Maria of William Blair.

Lawrence Tighe De Maria - *William Blair & Company L.L.C., Research Division - Co-Group Head of Global Industrial Infrastructure*

First, a clarification. Obviously, you talked a little bit about the possibility of the second half slowdown, you mentioned the election, et cetera. Are you seeing anything or hearing anything, questions from your customers, project pipeline, et cetera, that would back up your kind of incremental caution, which may be prudent. But just anything tangible out there that would suggest a slowdown? And as you've mentioned to mid-single-digit growth by year-end. Or is the implication that we could be flattish overall by year-end and that will bring the entire year down to mid-single-digit growth? Is that how we're thinking about it?

Nishan J. Vartanian - *MSA Safety Incorporated - President, CEO & Director*

Well, first of all, Larry, on the first part of your question. We're not getting any indication from our customers or even our pipeline. When we look at our pipeline of business through our sales organization and a lot of other data points, we're not getting any real strong or clear indication that there will definitely be a slowdown in the back half or even the fourth quarter. But that being said, there is an awful lot of talk and you hear a lot of people in the business community talk about the uncertainty going into the election and possibly tightening down on budgets and pulling back on some spend. And so if there is some pullback on spend for a short period of time in the fourth quarter or in the second half of the year due to the election, that'll certainly impact our business in certain segments. I don't think it will impact things such as breathing apparatus. I fully expect the fire service grants to flow as they normally would, and we'll see a normal flow of fire service business flow. But you might see some project business slowdown or some people stop or tap on the brakes a bit on some projects that are releasing towards the back half of the year. And that's why we have some caution. And that's where that comes from. So we're just preparing ourselves for that. We do expect China side. We do expect our business through the first half of the year to follow its normal pattern. It's just that, that back half of the year, we're just a little cautious about as we go into 2020.

Lawrence Tighe De Maria - *William Blair & Company L.L.C., Research Division - Co-Group Head of Global Industrial Infrastructure*

Okay. Fair enough. Secondly, obviously, you mentioned LUNAR -- you talked about LUNAR for a while now, getting closer to the launch. Get a lot of questions about how you think about the actual market opportunity looking out a few years? Is this a $0.5 billion market from 0 today? Or how do you think about this looking out maybe 3 years, 5 years?

Nishan J. Vartanian - *MSA Safety Incorporated - President, CEO & Director*

Right. So it's a nice opportunity for us. We still haven't settled on pricing for the device. It's not a $500 a unit. It's not a $5,000 a unit. So the pricing will be somewhere in that -- in between there. The market opportunity, it could be significant. It could be as significant as the thermal imaging camera market where you could have several of these devices on fire trucks. And so we've sized the market and looked at it, but we just really don't want to state a number until we get more comfortable with the adoption and as we get into more of this in 2020 and 2021. But it could be a fairly significant market for us. You look at the thermal imaging camera market that grew to be a significant market, and this could follow that, so to speak and displace some of those devices.

Lawrence Tighe De Maria - *William Blair & Company L.L.C., Research Division - Co-Group Head of Global Industrial Infrastructure*

Well how -- do we size a thermal imaging market then?

Nishan J. Vartanian - *MSA Safety Incorporated - President, CEO & Director*

The thermal imaging market for MSA was in that $25 million range at the peak time for us.

Lawrence Tighe De Maria - *William Blair & Company L.L.C., Research Division - Co-Group Head of Global Industrial Infrastructure*

Okay. And then you mentioned China. Sorry if I missed this earlier, I jumped on late, but what's the impact that you're expecting? Because, obviously, China's been a source of growth recently. How are you kind of quantifying China this year?

Nishan J. Vartanian - *MSA Safety Incorporated - President, CEO & Director*

As we talked about, China's about -- represents about 5% of our business, and we expect to see some disruption here in the first quarter. And hopefully, that will be about it. We're ramping up production as we speak. But there has been some disruption, obviously, in our production here in the first quarter. And hopefully, that short lived, and we'll be able to offset that as we go through the year. I fully expect that once we get this situation behind us, I would expect the government to turn up spending and try to stimulate the economy. So that could help the back half of the year overall for our business because we've had some nice growth in the past in China. So we don't look at China as being a negative this year. It could be fairly positive in the back half of the year if things continue to improve, and the government turns up the heat on spending. So there could be some opportunity there as we go forward.

Operator

This concludes our question-and-answer session. I would like to turn the conference back over to Elyse Lorenzato for any closing remarks.

Elyse Lorenzato - *MSA Safety Incorporated - Director of IR*

Thank you. On behalf of our entire team here, we want to thank you again for joining us this morning. If you missed a portion of the conference call, an audio replay and transcript will be available on our Investor Relations website for the next 90 days. We look forward to talking with you again soon.

Operator

The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.

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