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MSA.N - Q3 2021 MSA Safety Inc Earnings Call

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OVERVIEW:

MSA reported 3Q21 revenue of $340m.

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PRESENTATION

Operator

Good day, and welcome to the MSA Q3 2021 Earnings Conference Call. (Operator Instructions)

Please note, this event is being recorded.

I would now like to turn the conference over to Chris Hepler. Please go ahead.

Chris Hepler - *MSA Safety Incorporated - Executive Director, Corporate Development and Investor Relations*

Thank you, Sarah. Good morning, and welcome to MSA's Third Quarter Earnings Conference Call. Joining me today are Nish Vartanian, Chairman, President and Chief Executive Officer; and Ken Krause, Senior Vice President, Chief Financial Officer 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 Securities and Exchange Commission. MSA undertakes no duty to publicly update any forward-looking statements made on this call, except as required by law.

We have included certain non-GAAP financial measures as part of our discussion this morning, and the non-GAAP reconciliations as well as our third quarter press release are available on our Investor Relations website at investors.msasafety.com.

With that, I'll hand the call over to Nish.

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

Thank you, Chris, and good morning, everyone. This morning, I'll provide an overview of how we're continuing to execute our strategy in this dynamic environment, and some insight into the steps we're taking to strengthen our market position. Ken will then provide a quarterly financial review and give more texture on the strength we're seeing in the demand trends across our portfolio. After that, we'll start the Q&A session.

So let's start with quarterly results. Our revenue was $340 million, up 12% overall and 3% on an organic constant currency basis. Our core organic product revenue increased 9% and driven by growth across our fire service and industrial PPE segments, partially offset by lower fixed gas and flame detection business, which was impacted by supply constraints. Looking more closely at the quarterly comparison, I want to note that our 2020 third quarter benefited from higher pandemic-driven demand for air-purifying respirators. In the current quarter, we saw our APR business return to more normal levels, which was a headwind to overall growth.

I noted on our second quarter call that our order book was strengthening, and that continued to be the case in the third quarter. As an example, our backlog has increased $50 million, year-over-year. Notably, the backlog across our gas detection as well as our firefighter apparel is trending at record levels. Overall, our business remained healthy in the quarter, but supply chain disruptions in electronics and, to a lesser degree, labor shortages, did have impact on our delivery capabilities for some products. In addition, our quarterly profitability was impacted by variable compensation resets and higher selling commissions along with discretionary costs as business conditions improved relative to last year.

Lastly, in this inflationary environment, pricing continues to be a key area of focus for us. We implemented off-cycle increases to help mitigate higher input costs, and we continue to evaluate pricing as market conditions evolve. With that as a backdrop, there are 3 key takeaways from the quarter that support my confidence in the outlook for MSA and our ability to navigate this environment.

First, our strong balance sheet provides plenty of capacity to invest in organic and inorganic growth opportunities. Two, the MSA brand continues to be a pillar of strength. I'm grateful that our customers see value in our products and have been patient in waiting on delivery. We're not experiencing any significant cancellations of orders. And three, the engagement level of our associates and their passion for the mission of MSA has never been greater, adding fuel to our dedication of protecting the lives of workers throughout the world.

So first, let me talk about inorganic growth. We completed the acquisition of Bacharach in a quarter and are making good progress in our efforts to integrate Bacharach into the MSA organization. Recent milestones include the completion of a number of key initiatives that will help us meet financial targets that we've discussed with you on past calls. Ken will provide more detail on the excellent progress we're making with Bacharach. And with our net debt to trailing EBITDA below 2x, we continue to evaluate additional inorganic growth opportunities, staying focused on how we can continue to create value for our customers and our shareholders.

Second, we remain very well positioned as the technology leader in safety. We continue to invest in new product development to drive organic growth while providing our customers with innovative market-leading solutions to address their challenges of protecting their employees and increasing productivity.

The most recent example of this is the new Connected Work Platform, our team unveiled at the National Safety Congress earlier this month. With the many complexities associated with implementing a world-class safety program, the value of technology that drives both compliance and efficiency by simplifying safety procedures, and remotely connecting safety managers to our employees has never been more important. This connected services platform will help customers create safer and more efficient work environments through reliable and actionable data in real time.

The new offering is a powerful hardware, software combination. It features a new wearable cloud-ready gas detection device, the ALTAIR io4, that enables a broad range of capabilities not previously available with unconnected devices. With direct cellular connectivity, real-time location, live gas readings and automated compliance reporting. This platform provides work site managers with new safety insights and added peace of mind.

Another element of MSA's connected work platform is a safety subscription that extends warranty coverage and provides automatic and ongoing software upgrades. With this subscription, safety managers have a convenient way to stay on the forefront of safety innovation and on budget. This new connected technology platform is a great example of the market-leading work being done by our engineering, marketing and sales teams to drive productivity for our customers.

And third, I want to acknowledge our associates for their incredible level of passion for the MSA mission and their spirit of innovation. MSA was recently recognized as a 2021 top workplace by the Pittsburgh Post-Gazette. What makes this award particularly gratifying is the fact that it's based exclusively on employee feedback. For 2021, we also earned the New Ideas Award. The award is based on having the highest positive response rate to the prompt question: "New ideas are encouraged at this company." These recognitions are reflective of the truly special culture we have at MSA.

Associate engagement is always important to us. And it's especially inspiring to know that this kind of sentiment exists at a time when we faced a myriad of challenges associated with the pandemic. We're executing a number of strategic programs to position MSA for continued success, and none of that happens without attracting, developing and retaining the brightest talent, and these recognitions will certainly help us on that front.

With that, I'll now turn the call over to Ken to take you through our financial results. Ken?

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

Thanks, Nish, and good morning, everyone. I'll start the discussion with financial highlights centered around revenue, profitability and cash flow.

Revenue growth was healthy in the third quarter with core revenue growth of 19%. This included 9% growth in organic core revenue on a constant currency basis. We're seeing robust customer demand, especially in the Americas segment. However, the persistent electronic component shortage, and labor challenges to a lesser extent, have impacted our ability to fulfill orders and is driving backlog to record levels.

Adjusted operating margin was 15% in the quarter, which was down year-over-year driven primarily by variable compensation resets and higher selling commissions and discretionary costs. These costs are resetting from an abnormally low base in 2020.

Cash flow performance was very healthy in the quarter and continues to support ongoing investment in growth opportunities and return of capital to our shareholders. We're managing working capital well, and that resulted in strong improvements in quarterly cash flow.

Now let's take a closer look at the financial results in the third quarter. I'll start with a focus on revenue. Quarterly revenue of $340 million was up 12% overall and 3% on an organic constant currency basis. While our noncore business was off considerably on the lower level of APR revenues, it was encouraging to see core product revenues up 19% with 9% organic growth in the quarter.

We are seeing robust demand in the Americas segment, while revenue in the International segment is being impacted by the prevalence of COVID-19, resulting in a very uneven economic recovery across those regions, with particular weakness in the emerging markets in the International segment.

The quarterly book-to-bill was above 1x in the quarter. While order pace strengthened throughout the quarter, supply chain constraints around electronic components, and labor availability to a lesser extent, are impacting our ability to deliver in certain areas. This has resulted in backlog increasing approximately $50 million year-over-year at the end of the quarter. It's difficult to predict how long the supply chain challenges will last, but at this point, we expect that the constraints around electronic components will persist well into 2022.

Turning to profitability. Gross profit was 42.9% of sales in the quarter compared to 43.4% of sales in the prior year. Gross profit margin was negatively impacted by 120 basis points for deal-related costs and amortization. Excluding this, gross profit margin was up a healthy 70 basis points compared to a year ago.

We have implemented off-cycle price increases to offset inflation we're seeing in electronic components, resins and other materials. That said, the timing difference between pricing going effective and persistent cost inflation resulted in a tough price cost environment in the quarter. We continue to evaluate pricing opportunities and have another price adjustment in Q4 in North America and early next year in international.

SG&A expense of $87 million was up $23 million from a year ago on a reported basis. I want to spend a moment to dissect that amount as there are a lot of moving pieces in the quarter. To level set, Q3 2020 SG&A of $65 million was abnormally low due to favorable compensation-related adjustments and the lack of discretionary spending. The key drivers of the year-over-year increases are: irst, we had an increase of approximately $10 million of expense from the acquisitions of Bacharach in Bristol, of which about $6 million will be recurring going forward. Second, variable compensation resets and higher selling commissions added $6 million compared to last year. Lastly, discretionary costs are up $3 million associated with the increase in customer-facing activities.

Our quarterly adjusted operating margin was 15%, down 260 basis points from a year ago. Looking at our segment performance, the Americas margin was 19.4%, down 160 basis points year-over-year. The higher SG&A costs, I discussed previously had a significant impact on the segment. International margin was 11.3%, down 290 basis points year-over-year. International margins were impacted by lower organic revenue and higher SG&A on the drivers, discussed previously.

Our quarterly effective tax rate was 31.5% on a GAAP basis. Adjusting for nonrecurring transaction costs and other restructuring matters, the effective tax rate was 24.7% in the quarter.

Turning to cash flow and the balance sheet. Quarterly free cash flow was $36 million, well above 100% conversion. While overall working capital performance was strong on improvements in receivables, we built some inventory in the quarter, which aligns with our backlog.

We continue to execute on a balanced capital allocation strategy. In the third quarter, we completed the acquisition of Bacharach and the buyout of our joint venture interest in China. In the quarter, we borrowed a net $282 million of debt to fund our corporate development activity, funded $17 million of dividends to shareholders and invested $11 million in CapEx. We finished the quarter with cash of $117 million and net debt of $495 million or 1.8x adjusted EBITDA. While we continue to take a measured approach on M&A, our strong balance sheet provides ample capacity to continue to invest in organic and inorganic growth opportunities.

Before moving on, I want to provide an update on Bacharach now that we have had a full quarter of contribution. The integration effort is progressing as planned, and the teams are working well together. Bacharach contributed about $15 million of sales in the quarter, in line with what we communicated when we closed the acquisition earlier this quarter.

The Bacharach business is contending with many of the same electronic component challenges we are experiencing at MSA. Looking forward, we're pleased with the order book and backlog, and are focused on driving conversion to sales. We continue to expect earnings accretion from the acquisition in line with the range we previously discussed.

In the quarter, we had a noncash adjustment to the product liability reserve, which resulted in just about $9 million of additional expense compared to a year ago. This increase is a result of an increase in the number of asserted cumulative trauma claims pending against our subsidiary, MSA LLC. We continue to monitor developments and filing rates. We will be conducting our annual review process in the fourth quarter, which we expect to be finalized with our 10-K filing early next year.

As we look ahead, we continue to operate in a very dynamic environment. Supply chain is the largest variable for us. Raw material availability, as well as the cost of those inputs, can be difficult to predict. To put it in perspective, we had $11 million lower revenue versus 2019 this quarter. The backlog is up well over $70 million versus the same period in 2019. We're laser-focused on executing initiatives to mitigate the impact of the supply chain challenges on our business, both on the top line and the margin profile.

It is clear that the economic recovery is progressing, and we see good strength in our Americas segment. COVID-19 continues to have an impact on the world to varying degrees. We are seeing the impact in our International segment, where the demand recovery has taken a little longer.

Over the course of the year, we have continued to invest in organic and inorganic growth programs that enhance our position as the safety technology leader. I'm proud of our teams' unwavering commitment to our mission, our business and our customers. We've recently launched innovative new products and services with the ALTAIR io4 and MSA+ service and enhanced our gas detection product suite with the acquisition of Bacharach. And to finish it out, we remain committed to investing in growth and profit improvement programs that will drive value and best position MSA for long-term value creation.

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

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

Thanks, Ken. For all of us at MSA, safety is our mission, our passion and it's our purpose. And that's one reason I wanted to conclude my comments this morning with one more recognition of our team. It goes to our associates who work at our Cranberry Township production facility and Corporate Center.

This team recently surpassed a remarkable 10 million hours without a Lost Time Incident. This means it's been more than 5 years since we've had an LTI at our Cranberry Township campus. So I want to congratulate and thank every associate who works at our Cranberry facility for such a great commitment to the mission of MSA, right here at home.

While the balance of 2021 will continue to present us with various challenges, I have tremendous confidence in our strategy and the team we have executing it. Our business has demonstrated, its resiliency through a number of economic cycles. Today, our products, people and passion position us to manage through this current cycle. As I've communicated to our global workforce, I believe we are positioned extremely well as the leader in safety technology, ready to emerge as an even stronger organization in 2022 and beyond.

Thank you for your interest this morning. At this time, Ken and I will 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)

Our first question comes from Stanley Elliott with Stifel.

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

I guess starting off, could you all talk a little bit more about the subscription services? How you envision this kind of developing whether it's going to be on like a monthly charge? Is it going to be based into the price of the product upfront? Curious to see how you think about this evolving.

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

Stanley, thanks for the question and your interest. Yes. The io4 is really an exciting device for us, right? You have cellular connectivity, which will be fully connected on demand of the product, fleet management software, live monitoring software, location, bumper-to-bumper warranty. And that will be available through a number of different subscription services. Those subscriptions will be done on a monthly basis. They'll be paid for on a monthly basis by our customers. And it really presents us with a new tool for our customers to simplify the documentation for the safety programs that they have. And it will really improve their efficiency.

What's great about the product, Stanley, is today, when an employee goes to sign out a multi-gas device at a site. There's a lot of paperwork involved. With the io4, we have it set up from a software system where it's connected to that employee. It knows the employees that's using the device and maintains all of its readings. Then when the employee puts the device back into its station, it automatically calibrates and updates the device for the workers and downloads all the information. So everything is real-time monitoring, and we're really excited about the efficiency that we're going to drive with our customers as we introduce this product.

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

That was very exciting. And switching gears to the supply chain piece. I mean when would you anticipate being kind of price/cost neutral? It sounds like fourth quarter might have a little bit of headwind, maybe first part of next year before you're kind of getting level set. And then I guess as a second piece to that, the supply chain disruptions that you're seeing right now, seasonally, your business picks up 10% to 20% sequentially, third quarter to fourth quarter. Should we not expect that sort of a historical or seasonal ramp kind of given what you're seeing from the supply chain?

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

Yes. You have a couple of things in there, so I'll hit a few of them, and then Ken will add some more color. From a supply chain standpoint, obviously, there are a number of challenges, right? So it hits across a number of areas, the electronics, metals, textiles, cylinders, packaging. We have an intense focus around that. We've got great teams that are monitoring critical components, managing and prioritizing mitigation plans that we have around that. We're working with suppliers on 12-month rolling demand plans and working with second-tier suppliers to give them better line of sight to what we're seeing from a demand standpoint. We're qualifying alternative parts where we can from an engineering standpoint to give us some better flexibility and expanding our second source suppliers.

As mentioned, we've been taking a lot of pricing action throughout the year. We've tightened up on special pricing requests. We've implemented off-cycle price increases, and typically, those will lag a bit when it comes to catching up to the price increases we're seeing on the inputs. But when you look at the margins here for Q3, they've held up really well. When you pare back, and Ken talked a bit about the gross profit side of the business, we did a nice job in offsetting things.

I certainly expect you'll see sequential improvement in our business from the third quarter to the fourth quarter. From a revenue standpoint, we'll see some nice improvement there. We've got a nice backlog in place, and the demand for our products continue to be really strong. So we'll work our way through this. One area where we've excelled from the standpoint of supply chain is resins for the industrial hard hats. We're going through that entire situation with the resin shortage throughout 2021. We didn't have a single stock out on our industrial hard hats. And we believe we're able to pick up some market share with that. We're running 3- to 5-day delivery on logoed hard hats today, so that's been a real bright spot for us where we've managed that supply chain really effectively. And we hope to do that as we go forward, as the resin situation is getting a little bit better. In electronics we'll probably be battling through 2022. Ken, do you want to add to that?

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

Sure. Let me put a finer point on the price/cost equation, Stanley. So you had asked about price/cost. First and foremost, I just want to emphasize how well the team is doing on the price/cost equation on the gross margin. In our organic business, we saw improvements in gross margin in both the Americas, as well as the International segment. And so despite seeing a challenging operating margin, the gross margins are holding up in our business. And really what's weighing down the operating margin are all of the SG&A resets that we saw coming back into the business in the quarter.

So the team is doing a really good job on the price/cost. As Nish pointed out, there is risk in the backlog, with a backlog that is growing considerably both versus last year but also versus the more normalized environment of 2019. There is a risk that we will deliver orders that are priced at yesterday's terms with today's cost. So that's something we're paying attention to. Secondly, you had asked a little bit about expectations going forward, sequential uplift. You're spot on with respect to 10% to 20% normal seasonality lift. What I'll say is we don't expect to be at that 20% range. We're probably closer to that 10% range of seasonal uplift, but there is a significant amount of risk with respect to the supply chain. So I'll turn it back to Stanley for any additional questions you might have at this point.

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

No. That's great color.

Operator

Our next question comes from Brendan Popson with CJS Securities.

Brendan J. Popson - *CJS Securities, Inc. - Analyst*

I just wanted to ask about the -- just the cost pressures and the supply chain impact, specifically the product groups. Can you go through which -- is it kind of equal across the board? Are there specific product groups that are getting hit more than others?

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

Brendan, yes, so it's been uneven to be frank. We saw some spiking in the resins for hard hats, as we saw some shortages due to the winter storm down through Texas. But that's beginning to plateau and normalize a bit.

The electronic components are probably the area that give us the greatest frustration today. That's where we're seeing some real spikes in certain components. There's certainly a supply/demand imbalance. And we're seeing a lot of pricing pressure in that area. So that's where we've had some off-cycle price increases to really tighten up our special price request. And we've also had some off-cycle increases here in the month of July; we had an increase in North America. So we continue to deal with that.

We'll continue to make adjustments as we go forward. We're watching and monitoring the aluminum, the textiles, cylinders and some other components very closely, and we'll make adjustments as we go forward. But it's uneven. It's not across the board. We're not seeing similar price increases with resins as we are with the electronic components. We'll continue to work through that as we progress.

Brendan J. Popson - *CJS Securities, Inc. - Analyst*

Great. And then on this time frame, you talked about these pressures going well in 2022. Do you have a -- what's a realistic time frame to really reach normal backlog levels? And will that take even a little bit longer potentially, just for the orders to flow through? Or what's your view on the backlog?

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

That's a really good question. We have plenty of capacity in our plants. And so from a labor standpoint, if we get ourselves ramped up from a labor standpoint in certain areas where we have some shortages of labor. And then we get the supply chain ramped up. We can work through our backlog over a matter of 2 to 3 months' time. But I think we're going to be dealing with some of these supply chain issues into 2022. So I think we're going to be dealing with elevated backlog to a certain degree throughout '22. How severe that is or the challenges with the different product groups, we just don't have real good line of sight to that right now.

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

Brendan, there's two or three scenarios we're running through in the business with respect to that. Nish pointed out one where you could work through in 2 to 3 months. That certainly is very optimistic. Another scenario could be middle part of the year, things start to free up. You hear others talk about supply chain challenges, maybe abating into the second half of next year. So that could be another scenario. And the worst-case scenario could be this persists into '23. And so we're certainly trying to do everything we can to manage around this, but it is a very fluid environment and a very challenging environment.

Brendan J. Popson - *CJS Securities, Inc. - Analyst*

And just a quick follow-up to that, just thought of with the capacity you're talking about, obviously, get those orders done at some point. Is there any -- I guess is there any risk to labor availability? Obviously, we have the mandate coming in place. And do you guys -- how is that going? And do you have a plan for that? Do you expect to see an impact on labor there?

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

Well, at this point, our vaccination rates are reflective of society in general. So our vaccination rates are decent across the board and improving. We continue to have employees vaccinated. There's always a little bit of risk with the workforce. And if there's a mandate from OSHA that all employees vaccinate, there could be some risk with some fallout in the workforce, but we think we'll continue to deal with that and offset that with new hires and finding new people. We do a nice job of attracting employees.

We've got a fantastic mission that the organization rallies all around. People feel there's a purpose to working with MSA, a higher purpose, so to speak, in working with MSA, and we do a nice job of attracting and developing our people and retaining those individuals for long periods of time. So we think we'll work through it as the employment and the labor situation begins to improve.

Operator

Our next question comes from Rob Mason with Baird.

Robert W. Mason - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

I wanted to start -- just wanted to see if you could comment around the fixed gas flame business or maybe just the broader energy-related businesses, just given some continued improvements, and certainly in commodity prices and whatnot. How you're seeing the order book shape up there? I know you had a very large order earlier this year, but just speak to how that sector is trending for you?

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

Well, in general, the oil and gas space for us has really improved nicely. So we've seen demand for hard hats, portable gas detection, fall protection, and of course, fixed gas and flame detection really ramp up throughout the third quarter and in here through the fourth quarter. We're seeing some nice demand there, not only here in the U.S., but also in the Middle East. The demand is beginning to pick up. We think that will continue.

The fixed gas and flame detection space is the area that we struggled most with getting product into the hands of our customers. And we continue to work through that. But demand around that area has improved nicely. We've seen demand across the entire portfolio for oil and gas improved nicely. So we've always had to believe that the oil and gas prices would come back with the economy, and demand would come back, and we've seen that. What's really interesting is that we're beginning to see some breathing apparatus orders, significant breathing apparatus orders, go into oil and gas, which really tells us that their capital equipment budgets are in really good shape. So we think that, that space is healthy, and we'll see some good spend as we go forward. We'll begin to see some benefit there.

Robert W. Mason - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

Just given where the supply constraints, maybe are most concentrated on this, is it fair to assume fixed gas wouldn't be at the lower end or below any other seasonal increase in the fourth quarter?

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

I'm not sure. The fixed gas typically is a later cycle product for us, so it comes in as capital budgets improve. Typically, customers are willing to wait for delivery on fixed gas and flame detection because they're installing that and will keep it on site for upwards of 15 years and replace sensors. So we start to see that later in the cycle. And I think that's proven to be the case, as we watch the incoming business improve. The fixed gas and flame detection has a later cycle. Ken, do you want to add to that?

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

Yes. The only thing I would say, I think, Rob, your question is getting to the point around electronic component shortages and ability to deliver in Q4 relative to other product categories. I think that's a fair statement. I mean this is a business we certainly do have some large projects that we're looking at potentially delivering. But this business, for the most part, is being hampered more so than other businesses. So I think it's a fair assumption that the growth will be a little bit challenged relative to other areas, like, for example, hard hats that Nish called out.

Robert W. Mason - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

Okay. Fair. Just last question. The -- Ken, I think you noted there was some onetime or acquisition-related expenses in the gross profit behind the cost of goods sold line. Overall, you called out about $7.4 million or so of acquisition-related costs. Where exactly does that $7.4 million show up is -- just the 120 basis points in gross profit. And then relatedly, to the extent you're reporting $0.94 of adjusted earnings. How is that distributed relative to the $0.94 between SG&A, cost of goods sold? And how much of that should we think about as ongoing, relates to amortization versus just onetime?

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

Yes. Sure. Great question, and thank you for the question, Rob. The $7.4 million, approximately $4 million of that is in gross profit, and the remainder $3.5 million or so is in your SG&A line item. $3.5 million that's in SG&A will not repeat. That was related specifically to the deal and closing out the deal that was in SG&A. Roughly half of the cost of goods sold impact is amortization, which will go on for some time, noncash-related charges. The residual is a step up in backlog, which, for the most part, falls off here in the early fourth quarter.

Robert W. Mason - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

Okay. Okay. And how do you feel about Bacharach's gross profit margin? That was thought to be above MSA overall when you purchased the business, but is it still at that level, has it inflation or the supply chain constraint that they're dealing with eat into that? And how should we think about, I guess, modeling that out in the near term?

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

Yes. It certainly is still very attractive. And when you peel back the onion with some of these noncash charges, it's actually accretive on the gross line as well as the operating line to MSA's profile. Just stepping back a few comments on Bacharach in the quarter.

Very robust order growth. Book-to-bill was north of 130%. And we're seeing good demand in our organic business, but also new opportunities in the portfolio. So we're pretty excited about what we can continue to do with that business and the growth dynamics.

Operator

(Operator Instructions)

Our next question comes from Ryan Danisavage with Sidoti.

Ryan Danisavage - *Sidoti & Company, LLC*

Two questions today. The first one, given the changes in the regulatory environment around sustainability and packaging in the United States. And while early, has this sparked greater conversations with potential customers?

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

Ryan, yes, we continue to look at our packaging, for instance, and how we package our product. We think that there's some nice opportunity for us from that standpoint. ESG has really driven us to take a look at some of those opportunities. From an engineering standpoint, we're looking at repackaging. And the beauty is as we've looked at this and gone down the path, there's actually some cost savings associated with that. So it's one of the great examples of how ESG makes us a better organization, more efficient, helps to drive some profitability as a company. We continue to look at those opportunities as we go forward. And certainly, with new products that we're introducing in the market, we're looking at the packaging of those products as we go forward.

Ryan Danisavage - *Sidoti & Company, LLC*

Great. Great. And just one sort of follow-up. And have you seen any change in the competitive landscape around sustainability at all? That would be my second.

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

No. Ryan, I don't think we have seen anything from a customer standpoint and what they're bringing to market or any dynamics that are pushing things. What I will say, though, is that with ESG, safety certainly has continued to come to the forefront of importance for protecting workers. With what we've gone through with COVID and with ESG and the highlight around that, protecting workers has never been more important. And with tight labor force, companies are certainly doing everything they can to make sure that they protect workers and create a work environment for their workforce that provides them a high level of safety equipment, and we benefit by that. We benefit when customers are looking for high-value products to better protect our employees. That well-educated customer who's looking for high-value products is typically our best customer. So we think the environment overall will be beneficial for MSA.

Operator

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

Chris Hepler - *MSA Safety Incorporated - Executive Director, Corporate Development and Investor Relations*

Thank you. On behalf of our entire team here, I want to thank you 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. Thank you.

Operator

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