

05-Sep-2024

MSA Safety, Inc. (MSA)

Stifel London Industrials Summit

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MANAGEMENT DISCUSSION SECTION

Brian Brophy

Analyst, Stifel, Nicolaus & Co., Inc.

All right. I think we're going to get restarted here. Good afternoon, everybody. My name is Brian Brophy. I'm a research analyst here at Stifel. Very pleased to have MSA Safety join us today. We have Lee McChesney, the CFO. Lee, welcome.

Lee Breet McChesney

Senior Vice President & Chief Financial Officer, MSA Safety, Inc.

Thank you. Thanks for having us.

Brian Brophy

Analyst, Stifel, Nicolaus & Co., Inc.

Absolutely. So for those less familiar with MSA, can you give us an overview of what you do, some of your key products and markets you serve?

Lee Breet McChesney

Senior Vice President & Chief Financial Officer, MSA Safety, Inc.

Yeah. So thank you, Brian. So sure, I'll hit some quick points here for the sake of time. But the company is 110 years old, based in Western Pennsylvania, and we're all about safety, as the name may imply, MSA Safety. So I always like to tell, our first product was basically to keep people safe in mines. It was basically electric cap light for mines, to mine engineers, and Thomas Edison created the product, and that really began our journey about keeping people safe so they can go home each and every day to their family and to their communities. And that mission is what we've been following here 110 years later. Certainly over the last 10 years, we've had a focused strategy, really around three businesses. So we're proud to certainly really protect firefighters all over the globe, what they wear, what they use to breathe. So it's a large business. It's a business almost doubled in size over the last decade.

Next up is the Detection business. Detection business, think about as a fixed component to it, and there's also a portable piece. So basically imagine protecting people, to make sure they don't breathe things they shouldn't breathe, or some type of thing that could lead to a combustible event. So we make all types of sensors in different applications across many diverse industries. Big segment in our business as well. And then finally, industrial head protection and fall protection as part of our Industrial PPE are our two biggest categories there. We're certainly known for our hard hats, depending where you are in the world, and very likely that if you look at a job site of some sort or any type of environment where work's done, they're probably wearing an MSA hard hat. But the business we've really been focused on growing even more over the last several years has been the fall protection business, and we do that because still today falls are the number one thing that really every company certainly comes to grips with how do we improve that scenario.

So we do all that in those three businesses. I think, I started with a mission. I mentioned the business that where we focus, how we do this is really by focusing on innovation. Again, it's a company only focused on safety in many cases. If you go to those segments we're in, we're known as having really probably the best solution out there. And it's why we really have strong market position in all those areas. And that's really ultimately how we serve that mission, keeping people safe. Just keep coming up with better ways to protect people.

QUESTION AND ANSWER SECTION

Brian Brophy

Analyst, Stifel, Nicolaus & Co., Inc.

Q

That's great. Yeah. We're going to dive into each of those segments you mentioned. First, wanted to start it off with safety standards. Obviously, safety is a really big part of the story. Can you talk about the regulatory environment around safety standards, compliance standards, how are they changing over time and what does that mean in terms of growth driver for your business?

Lee Breet McChesney

Senior Vice President & Chief Financial Officer, MSA Safety, Inc.

A

Yeah. Sure. So I mean, safety regulations are certainly helpful to our business. You certainly have seen a combination of some increasing standards based on some events that may have happened in the world on an unfortunate level. But you also just see broadly more focus on safety. So protecting the employee. So I think that was even happening kind of pre-COVID. I think COVID even accelerated that more today.

So again, whether it's being mandated by, a local or federal law, or it's frankly companies saying, hey, our safety standards around the globe are going to be the same. So that site, no matter where that plant is, has to have the same safety standard. We're going to really rally the organization around that so we can improve our safety rates and things like that. That again, that is a positive. I think we don't really care. We're the sources. We just love the fact that there's more focus on safety today.

And I'd say, there's just a broader evolution as well where it used to be a little bit just, hey, let's make sure if something happens, people are protected to make sure they're wearing the right gear. There's a lot of also focus on how do we prevent these incidents from ever occurring. So yes, we'll protect them in the case you do, but that's really cut down on these incidents from ever occurring. And things like our detection line are really helpful. So just some really good trends overall as we look forward.

Brian Brophy

Analyst, Stifel, Nicolaus & Co., Inc.



That's great. We're going to dive into the segments here. So starting off with fire safety, I wanted to talk about the SCBA replacement cycle. Can you talk about where that is today? Obviously, we saw a big surge in the cycle post 9/11, another surge post the G1 announcement and introduction about 10 years ago. Typically, firehouses talk about replacing SCBAs every 12 to 15 years. How do you think about the replacement cycle today, and how should investors be think about it?

Lee Breet McChesney

Senior Vice President & Chief Financial Officer, MSA Safety, Inc.



Yeah. So it's certainly important to know. It can certainly in the end, as new, each new standard comes out, it goes actually the lots of the things we just talked about, there's likely an era that's been identified for that has benefits from a safety perspective, maybe from an ease of use. You name that. In the end, these standards come together by getting input from the manufacturers. And then ultimately the users, the firefighters, their represents coming together and defining what the standard is.

So as you said, this happens about every five or six years. You mentioned, in 2014 there was a pretty significant change in what was required to sell an SCBA that met that standard. That was, in the end, a really good thing for us. It required quite a transformation of what the SCBA did. Ourselves and Scott were initially really the only groups that could meet that standard. And that was certainly, I think, good for both groups. So what will happen, as you noted, every five or six years there will be a change, so that we are coming to a point just about this year where there will be an alignment on a new standard for the SCBA, that will get announced. There is a period of time for transition.

What we see right now is, it's one that's more incremental than a significant one. So if you're in the marketplace today, you would still likely buy what's available today. But at some point you could have a pause where you might say, I want to wait until everyone's providing something at that next standard, because generally the larger departments don't want to be really more than two specifications out with what a firefighter is using and things like that. So it will come to market. It will not have the same effect as it did in 2014. Maybe the next one after that will be. But there's things in there about cleaning, your ease of use and things like that. We're ready to meet that standard as soon as it gets finalized here.

Brian Brophy

Analyst, Stifel, Nicolaus & Co., Inc.



That's great. Yeah. That's really helpful. Just wanted to talk about the funding environment as it relates to fire safety. What is the general environment at the moment? And you guys have also talked about AFG funding, a little bit of timing movement there, essentially impacting the back half of this year. Can you give us an update there?

Lee Breet McChesney

Senior Vice President & Chief Financial Officer, MSA Safety, Inc.



Sure. Yes. So around the world, funding for firefighters is typically coming from a mix of different governmental sources. So it could be at the federal level. Again it varies by country. In some cases the fire department is part of the military. In some cases it's obviously the local. But you have funding at the federal level. You have funding at the state level, sometimes it's city level. Big sources in the largest market today certainly have federal component and then there's obviously dollars at the local level. We just talked about this recently in July. The dollars for these systems are firefighter grant which is a big dollar flow that we have in the US, whereas the dollars are just

released for use this year. This year, it's a little bit later than it was last year, but I wouldn't say it's unusually late compared to an average year or things like that. That can be a little bit challenging this year versus last year because it just closes down the timeframe of how quickly can the dollars be released. People placed orders, can we manufacture in time and get the certain amount into third quarter and into the fourth quarter.

In the end the projects will come because the dollars are there. The other thing that was good with that funding approval, there was also subsequently an agreement to really keep that same dollar flows occurring for the next three years. So just broadly across the globe, firefighters are usually supported no matter what's going on with the economy. So it's a good thing for us because it means that part of the business for MSA is fairly resilient. So barring maybe some of this timing that can happen from quarter-to-quarter, if you step back for us, that environment really gives us this mindset where you can have more mid single-digit growth consistently in the firefighter business. So as [indiscernible] (00:16:52) funding is secure and just got to navigate the market in terms of timing and things like that.

Brian Brophy

Analyst, Stifel, Nicolaus & Co., Inc.

Q

Yeah. Another topic I wanted to talk on timing. You announced a large win with the Air Force on the SCBA side. Can you give us a sense of size of that order cadence, how much have you realized to date, how much is left, how does it impact comps and growth rates, how should we think about that?

Lee Breet McChesney

Senior Vice President & Chief Financial Officer, MSA Safety, Inc.

A

Yeah. Sure. So like a lot of groups, there's an interest to have the standard, a lot of things done on the safety standard by organizations whether they are government organizations, whether they are corporations, as safety is really about establishing standard, making sure people follow that standard. So one of the things certainly the Air Force is trying to do is to find the next standard, and then universally across any Air Force base you went to, make sure you have the same breathing apparatus for all the firefighters to use, because certainly you can imagine people ebb and flow from different sites depending what's going on.

So what's happened to date is, we did win the first tranche of \$35 million last year. That came through our results in the third and fourth quarter of last year and the first quarter of this year. And then we had built into our outlook there would be a second tranche because we won the first tranche. We're going to standardize around that, it seem like a safe assumption. But like always, the timing could be a little bit flexible. So right before we had our second quarter earnings release, we got notification. We won another \$28 million of business from the Air Force. And right now we're just working through when that will ship. So we had obviously a generic assumption in our math. We don't give out quarterly guidance. We kind of give out more bit longer term.

So we know the \$28 million is coming. Some will be in 3Q, some will be in 4Q, maybe even some will be in the first quarter of 2025. But we're delighted that we were selected to do this. And we're focused on making sure we deliver it to the government schedule. And then there's always a part of this where it's making sure they come up to speed, training wise and things like that so that as soon as they want to we help them really get ready to bring it to market.

Brian Brophy

Analyst, Stifel, Nicolaus & Co., Inc.

Q

Yeah. That's great. That's really helpful color. I want to pivot, stay within fire safety, talk about turnout gear for a second. What are you seeing from a growth standpoint there? It also seems like there's been a discussion for a

while about firefighters potentially getting two sets of gear. Some of the PFAS impact is playing into that as well. Maybe that's something you can touch on. But what is driving some of the factors and turnout gear that we're seeing today?

Lee Breet McChesney

Senior Vice President & Chief Financial Officer, MSA Safety, Inc.

A

Sure. So I'll give you a bit of history. So if you go back 10 years ago, we are primarily, from the firefighter's perspective, really focused on the breathing apparatus, and what we've done over the last decade is add a couple of acquisitions. So we added here in Europe we added Bristol for their gear, and then we added Globe in the United States, and loved the characteristics of the business. So imagine, in the past we would go and help them on the SCBA front. The gear is a regular interaction. You may interact with a different department quarterly through our distribution network on what they need to keep that going. So we like that, number one, just the kind of recurring nature of that business. It's a deeper relationship with the end user. That business has been really a good growth driver for us. So there have been a couple of challenges from the supply chain over the last few years. It's amazing, you might not think that reflective material or certain threads would be challenged by the COVID era, but they certainly were.

So other than that we've had a really nice growth out of that business. It's actually been probably one of our faster growing categories over the last several years. Now, I think, there's a mix of reasons, that's competing in the marketplace and trying to win market share. But as you said as well, there has been more focus on the idea of cleaning the gear more often. So certain parts of the world, certain cities in the world have a protocol where they have a second set of gear. Again, in order to wash some material, you need to have a second set of gear because you got to be ready any day of the year. And I think, we have seen that come through. I think, there will potentially be more of that over time here.

Now you mentioned the topic of PFAS as well. So today, to meet the standard for safety, so that gear perseveres through a fire, protects the firefighter and things like that, is a very high spec. So in the US today to meet that spec we have to buy from third-party suppliers to make materials a vapor barrier layer that has PFAS added to it, to hit that standard. We are trying to, during [indiscernible] (00:21:59) to work through a PFAS free solution. At this point today there's a couple of companies saying there's tons of material coming out that will do that. I think that will be a transition that happens over the next few years. Certainly when that happens, I think there'll be a transition over time to using that type of material. And then according, I think, there'll be a continuation of this idea that maybe every firefighter should have a couple of sets of gear as well. So that could be certainly a good commercial opportunity in the long run as well.

Brian Brophy

Analyst, Stifel, Nicolaus & Co., Inc.

Q

Yeah. It could be a nice replacement cycle for you guys there, as well as growth in the TAM. So I wanted to pivot a little bit, talk about Detection. What are some of the markets that product addresses? What are some of the major opportunities you see in that business?

Lee Breet McChesney

Senior Vice President & Chief Financial Officer, MSA Safety, Inc.

A

Yeah. So perfect. So Detection business, a big part of our journey the last decade as well. It's a group that's almost doubled in size, certainly some really strong organic growth. It has been our fastest growing segment organically. And then we've done some nice acquisitions, some really meaty acquisitions in that group as well

today. So to keep it simple, really anything other than probably kind of residential consumer, there's potentially an opportunity for Detection solutions.

So again, imagine, energy creation, utilities, food processing, really any type of processing area where you could have an exposure to something you shouldn't breathe or something that could become flammable. That's what we're focused on. Now, we certainly have an origin that started out in the energy market, certainly we look forward to kind of the growth in green energy. The good thing for us is, our solutions work no matter what form of energy we're going for. In the end, yes, it still detect the same type of components.

We've certainly done a lot in some of these process industries, in terms of diversifying what we do in the Detection business. More recently, we got deeper into the HVAC space. So just imagine, the premise of monitoring refrigerants, making sure there's no leak, trying to do that as fast as possible with our different tools, different sensors, so that you can minimize, frankly, any type of environmental issue. But also, there's a significant cost issue to a user as well.

So I mean, basically for us, Detection business has been a good growth engine. There's still other categories, other adjacencies to what we do today that can actually drive that organically or through acquisition as well. In our most recent Investor Day, we talked about that business being, continue to being our largest growth segment over the next five years as well.

Brian Brophy

Analyst, Stifel, Nicolaus & Co., Inc.

Q

Yeah. That's great. I wanted to talk on one piece of the Detection business, your sensor IP. You guys have talked about how you manufacture your own sensors. Can you talk about why that's so important and why that's a differentiator for you guys?

Lee Breet McChesney

Senior Vice President & Chief Financial Officer, MSA Safety, Inc.

A

Yeah. No. Love that. So I mean, it's interesting you bring that up. So for really the whole time we've been in this business the last, more than 10 years, we have prioritized making sure we make our own sensors. And not only do we design them, but we also manufacture them ourselves. And again, it goes back to this really, the mission of MSA Safety is really to lead with innovation. And what's really important, critical to the user is that you have a sensor that not only detects limits, false alarms, but the speed. You can think about examples I said about making sure people don't breathe things, people aren't exposed to combustible events. We're known for having sensors that really, we lead the market in that space. And it's because we're fortunate to have people who've been working on this for decades to develop these sensors. It's something we keep very safely locked down within our facilities. So it's actually not even openly available to all employees. And because it's IP, and it's also, I just say, a lot of trade secrets in terms of how you can consistently manufacture as well.

And what that gives us is obviously a marketplace position to have great sensors. But then as this market evolves into things like, all the way to today where you, for example, you have a fully connected portable solution, again, you have a leading sensor, you have that advantage in the marketplace. But now you've also coupled it with a leading connected solution as well. So you're really kind of depending on what the user is looking for, we potentially have an offering that really can address anything from just the safety standard to whether it's, documentation or frankly, we can drive productivity for the end user, because in the end safety has a burden to it. So if you can make it a little bit less burdensome to the end user, that's appealing to some customers, depending, again, what they're trying to solve.

Brian Brophy

Analyst, Stifel, Nicolaus & Co., Inc.



Yeah. That's great. Wanted to definitely touch on some of the connectivity opportunities here in a minute. First wanted to pivot Industrial PPE. PMIs have obviously been sub-50 for a while now. I think folks would have expected that probably impacting that business on the hard hat fall protection side. Can you talk about what you're seeing in terms of trends in that end market at the moment?

Lee Breet McChesney

Senior Vice President & Chief Financial Officer, MSA Safety, Inc.



Yes. So Industrial PPE, I think, is the category that everyone's expected to go negative for the last two years, and it really hasn't. So a bit of a reminder, last year was actually a quite positive in the first half of the year. It did slow down a bit in the back half of the year. And so we thought this year Industrial PPE would be somewhere between kind of flat to negative, and that was certainly part of our outlook. We've seen it be a bit better than that. And so for us that's primarily again head protection and fall protection.

And I think, it's a combination of two things. Yes, PMI has been negative. So I think, if you're in a part of the world where maybe, or a city that's heavy manufacturing and not getting maybe the benefit from still the continued investment in energy creation or in the US, you have some additional dollars being spent on infrastructure, those key investments are, in some cases, offsetting what would be naturally a headwind. So I think that's part of it. And I also think for us, as we talked about a little earlier, we're focused on innovation. It doesn't really matter what the market's doing. If you have a compelling solution and you have a good supply chain, you can take some shares. So I think, a little bit of all that goes into for us why the math is probably been a bit better, which in today's environment, I think that's a win, because if you looked at past economic cycles, this would be part of the business that might be a bit more cyclical for us, and it just hasn't been the pressure point that we've seen in the past. So I think, good mix of factors there.

Brian Brophy

Analyst, Stifel, Nicolaus & Co., Inc.



Yeah. No. That's obviously great to hear. I wanted to touch a little bit on fall protection, go deeper there. You guys have had a leading position in hard hats for a very long time. Your position isn't quite as strong in fall protection. Can you talk about the opportunities, where are you positioned currently, and talk about the opportunity to take share?

Lee Breet McChesney

Senior Vice President & Chief Financial Officer, MSA Safety, Inc.



Yeah. So and we highlighted, I think, pretty well, a couple of times this year so far. We over five years ago said we want to really double down in fall protection. And again, the reason why still the number one issue trying to be solved on job sites, again, whether it's a construction site, whether it's a distribution center, it's still the topic at hand. So we have this expertise, we have this certainly relationships with the market on head protection. So it's a natural correlation into fall protection.

So what we've done is really bring innovation to fall protection. And in many cases, with a lot of the things that people have to wear on a safety perspective, they want it to be more comfortable. Can you make the ultimate solution be easier to use, we've examples where leading edge safety protocol, there's a lot of applications out there requires two people with quite a bit of strength to put things in place. We've come out with innovation solutions where one person can stand up for themselves, like something like that. It's more likely going to happen from a safety perspective, and it's also driving productivity for an end user and things like that.

So we've had success. Now, I'll say, we've more than doubled our share, but there's still a lot of TAM in front of us because there's a couple of bigger guys in front of us that we can go after. So we're really excited about that. Just from an organic perspective we can drive a lot of growth over the next five years. It's certainly from a just available TAM perspective, one of the bigger dollar opportunities, and we're certainly encouraged by the progress we've made over the last five years.

Brian Brophy

Analyst, Stifel, Nicolaus & Co., Inc.

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Yeah. That's great. Share has certainly been a really important part of the story. I want to pivot a little bit, talk about some of your connectivity subscription business. So first, just starting off with the subscription side or MSA+, as you oftentimes refer to it, how does that relate to some of your connected product offerings? What kind of traction are you guys getting there? Where are you having the most success and what kind of runway is left?

Lee Breet McChesney

Senior Vice President & Chief Financial Officer, MSA Safety, Inc.

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Yeah. So a good question. So again, look there's a theme here. We're very focused on leading with innovation. So our team about five years ago, so we have these great products in the marketplace, we've this wonderful position. But there's going to be a natural transition here from just a product to really a total solution. And that really became the foundation for driving this connected solutions mindset. And really the idea of being, it could help the fire business, it could help the industrial business, including detection.

And so we went to work, couple of year journey to get to a good place. Now, why was that? We're very focused on getting end-user feedback and being very careful not to just develop things that were really interesting in core, really focused on what the end user says will be a solution to them. So we brought some of those to market over the last couple of years. So you probably heard us, if you follow us in the past, talk about a connected firefighter, a connected worker, certainly we've created unique solutions for each of those spaces.

We've even more recently found an application in fall protection so that someone doesn't go up on a lift, for example, without having a confirmation that they're tied in, because again, people were equipment. I tell you, if you look around too often, people aren't tied in, how do you make that really not a choice, but it has to happen, and things like that. So in the end here we're seeing different levels of receptivity, which is probably what you imagine. So I think, we've certainly seen the industrial space.

One of the more recent things we've done there is come up with a fully connected portable detector called io 4. And in the past where we have a significant business, it has portable detectors before, but they weren't connected. We've seen really, some really significant interest in that. It's certainly a commercial success. We've been for the last really two years bringing that to market and growing that. Now, we've done that primarily under the MSA+ banner. So really think about it from a subscription basis, something we can extend to different areas but certainly made a natural fit here.

So If you want that latest fully connected, essentially, you buy it as a subscription model, somewhere between two and four years, and you get from that, obviously, all the benefits of having the products, but now you get all the assurances of, if there's any type of issues, we're going to give you a replacement. But you're also getting into a standard set of suite of reporting and analytics that we can bring, we can talk about inventory control. You today before things like that came along, a lot of this was mainly done. So you can imagine the productivity for a supervisor of safety who's overseeing 50 workers a day on the job site, converting that from pretty much a manual process to really an automated process can be really valuable.

So we're seeing good momentum there. Certainly has helped us in fire as well. Today, when we saw that SCBA, it has that fully connected capability. We've certainly won good share in the firefighter space. I often get asked a question, is it because of the SCBAs, is it because it's connected, is it because of the full suite. I say it's a little bit of all that, certainly it's helped there. And then I would say, for the larger departments who are bit more open to the connected journey sooner than later, we're seeing that not only buy it because it has that, but they're now honestly, it is a great amount of data coming in and we're continuing to refine what the data set is, well, how can you use that for good reporting, inventory control, hours of use, and make it easy for them to manage their fleet of SCBA for all their firefighters, and things like that. So with that said, it's still early. It's part of our goal to drive recurring revenue up over time here. So we're in the mid-teens today. We have a goal to get that to 20%. That's certainly one of the components that will do that.

Brian Brophy

Analyst, Stifel, Nicolaus & Co., Inc.

Q

Yeah. That's great. Want to talk about pricing on some of these connected products. As you mentioned, there's productivity savings associated with a lot of these. How are you thinking about the pricing equation given the value you're delivering on the productivity side?

Lee Breet McChesney

Senior Vice President & Chief Financial Officer, MSA Safety, Inc.

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Yeah. Well, the answer is in your question, that's pretty good. So I mean, from a pricing perspective, we've always had a mindset to really price based on the value we create for the customer. So yes, our focus on driving a premium solution that can really help to kind of continue to elevate the industry with the solution is, we're certainly going to factor that into the pricing. But it's not just that pricing on day one, what does it do to help you over time? So for example, in some of our detection devices today, we've brought out features like auto calibration. So again, if you use our product today, maybe instead of having to go out there monthly to do it, it's auto doing it, and maybe once a quarter you now have to do that. But imagine, you're going to hundreds, if not thousands, of touch points if you buy the competitor. I mean, that's a real value to the user.

And then certainly if you get into the connected solutions, now is there a value, and obviously potential the elevator safety side, but really there's a productivity element. All the things at safety typically has to be tracked. You can do that. So we're trying to bring that into the market, bring that to consideration as you go to market. So oftentimes you're right, we are sometimes a bit more higher priced than someone else on day one, but we can show that over time, that you certainly get all that value and more. And that's always been our mindset with really anything, certainly the connected piece of it's just another way to take that journey to the next level.

Brian Brophy

Analyst, Stifel, Nicolaus & Co., Inc.

Q

That's great. And you mentioned recurring revenue, about 15% of mix, goal to get to 20%, hopefully higher longer term. I would assume these are all margin accretive type things you're doing. But maybe you can shed some insight there.

Lee Breet McChesney

Senior Vice President & Chief Financial Officer, MSA Safety, Inc.

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Yeah. So couple of topics in there. So number one, so we're in the mid-teens today for recurring revenue. I call that the classic spare parts, services, training, and then certainly the software solutions we've talked about. The goal is to, we shared this in Investor Day is to get to, start with the number two. I think the one thing we are very

cautious on is we're going to follow the market. And just like I touched on some of those connected solutions, some are going to go faster than others. But that drive from mid-teens to 20 is certainly the software solutions. But also I'd say, it's a bigger focus on just service overall as well and driving that.

Yeah. And I think, generally what we've been doing in terms of what it does to margins are, everything we're trying to do is at or above where we are today. And certainly that's the case, why do you like recurring revenue business, well, because it has the opportunity to be margin accretive. But again, it adds to this kind of resiliency that our business already has today and brings it to the next level. And obviously things like that, there's less discussion. You're essentially locking in a price agreement for multiple years as long as you can run your business. Well, that becomes a margin opportunity for us.

So that's the mindset. I think, the one thing I would add just to what we talked about is, while the traditional definition of recurring revenue is the math I walked you through, keep in mind that the Fire business has a very stable funding model like we talked about. The Detection business, and particularly the fixed portion of it, about a third of that is new projects. But once those projects are installed, you ultimately have a customer for almost a decade because they're going to buy the spare parts we mentioned before, there's going to be calibration. And then as they do it in to modify that site, as they potentially change and roll out different products, things like that, they're going to continue to come back to you.

So it's a pretty good, I don't call it recurring, but it's certainly repeating business that comes as well. For us, you add up the fire and the fix piece, almost 60% of business has very sticky, stable nature, which is why, and I bring this up is, yes, we're an industrial, but we don't have all the same cyclical nature that a lot of industrials have, because really the resiliency we have in our business today, and certainly the recurring revenue objective potentially only increases as we go forward here.

Brian Brophy

Analyst, Stifel, Nicolaus & Co., Inc.

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Yeah. No, that's great. You guys have certainly transitioned the business away from less of the hard hats, more cyclical stuff over time, which I think, is really important. I want to touch on 2028 financial targets, you recently came out with these targets a few months ago. Organic sales up 3% to 5%, 30 basis points to 50 basis points of margin expansion per year. This is really the first time you've put out long term targets for investors. So I guess, why now, what is giving you guys the confidence?

Lee Breet McChesney

Senior Vice President & Chief Financial Officer, MSA Safety, Inc.

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Yeah. So I think, it starts in the history. So as you said, we had an Investor Day back in May, and we highlighted go look at us on a five-year basis, 10-year basis, some pretty good numbers despite a lot of things that happened in the world. Right. So we had a 5% growth CAGR over that timeframe. You know, operating margins moved from the low teens to the low 20s. And we've maintained a really strong return on capital employed. There's been a lot of evolution in the organization.

We spoke today about really focusing in these three areas. We haven't really spoken about the business system coming to life. And that's really this lean concept to everything we do and really bringing a standard set of work across the organization. So it's having a global pricing team that's having clear productivity standards. It's making sure the innovation we talk about comes at an accretive rate. And certainly, we've done, even that's come through in the financials.

So why now? Because, the business is really kind of building the momentum. And what we put out there, I would note, is the organic objectives for the next five years. What we just shared is certainly in line with what we've just done, excited with kind of where we are today in terms of that detection of Fire business. We talked obviously a lot about the growth we could see in fall protection as well.

And then the other compliment could be the amount of dollars we have available for M&A. So M&A was important part of our journey as well over the last 10 years. But those goals we put out there didn't include any of the dollars. But really, after you get through capital allocation strategy that has us investing in CapEx, has us paying strong dividend. We still have \$1.5 billion to deploy for M&A. So whether to reinforce those targets or frankly to take into a higher level, just a lot of confidence, so we got more options that are [indiscernible] (00:43:21) than we've ever had in our past.

Brian Brophy

Analyst, Stifel, Nicolaus & Co., Inc.

Q

That's great. You got a couple more minutes here. I'm going to try and squeeze one more in. So you've talked about reducing working capital. You've made meaningful improvements there. Can you talk about what the drivers have been? How much runway do you see, and how important is that subscription business growing into driving some of the working capital improvements?

Lee Breet McChesney

Senior Vice President & Chief Financial Officer, MSA Safety, Inc.

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Yes. So good question. So hey, I mean, ultimately, it's one of our messages as well, as we certainly had a good P&L story, but we've also had a really good cash flow story. And our view again, think about the business system is, there is always more to do on the working capital element. So the one things we try to bring to life under the business system banner with working capital in mind is, ultimately we're looking for driving efficiency returns to the business, and ultimately keep finding the right level of inventory, continue to look at the data point, continue to flex.

The win is, I pull down the amount of inventory I have as a percentage of sales and I improve my fill rate. And I think there's no better example of kind of living our mission here of keeping people safe. We're not going to make aggressive bets at the risk of fill rate because it goes against what we're trying to do here. So what that means is, we drive working capital efficiency, and we're very focused on long term sustainable projects.

So if you look even just the last year-and-a-half, you haven't seen us rapidly improve any quarter. It's kind of identify the projects to improve working capital that are sustainable, and thus bring them to life one quarter at a time and then keep coming up with new ideas behind that and keep working on that. So what I said in Investor Day is, we think it's reasonable, similar to the operating margin opportunity, that's probably 30 basis points to 50 basis points of working capital efficiency, that can come to life each year, and certainly be part of our cash flow story as well. Certainly, recurring revenue is helpful there. The more you have predictable future, is less volatility to solve for. So I think, it's just going to be a nice enhancement to the journey as we go forward here as well.

Brian Brophy

Analyst, Stifel, Nicolaus & Co., Inc.

That's great. We're out of time here. Thanks, everybody. I appreciate it.

Lee Breet McChesney

Senior Vice President & Chief Financial Officer, MSA Safety, Inc.

Thank you, Brian.

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