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# EDITED TRANSCRIPT

MSA.N - MSA Safety Inc at Stifel Cross Sector Insight Conference

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## OVERVIEW:

Company Summary

## CORPORATE PARTICIPANTS

**Steven Blanco** *MSA Safety Inc - President, Chief Executive Officer, Director*

**Lee McChesney** *MSA Safety Inc - Chief Financial Officer, Senior Vice President*

## CONFERENCE CALL PARTICIPANTS

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

## PRESENTATION

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

Stanley Elliot. I'm an analyst here at Stifel covering the mix of construction materials, some machinery, and broader industrial names. I'm very happy to have MSA Safety with us today to talk about their business. I hope you guys can learn a little bit more about what we think is a pretty interesting story.

From the company, we have Steve Blanco, President and CEO; as well as Lee McChesney, Senior Vice President and CFO. Gentlemen, thank you very much for joining us today.

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**Steven Blanco** - *MSA Safety Inc - President, Chief Executive Officer, Director*

Thanks, Tim.

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**Lee McChesney** - *MSA Safety Inc - Chief Financial Officer, Senior Vice President*

Thank you.

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

I guess to start off, maybe high level, for those who are unfamiliar with the business, maybe a brief overview of some of your products and maybe some in-markets.

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**Steven Blanco** - *MSA Safety Inc - President, Chief Executive Officer, Director*

Yeah, maybe, Stanley, thanks for having us and thanks for Stifel for the conference. We're glad to be here again this year. Maybe I can go through a couple of quick slides and just give a high-level overview of who we are. And I would share also that we did an Investor Day in late May, so if there's other content or continued interest, go on to our Investor Relations website for that content.

As we always do, let's start just with the Safe Harbor piece and remember about the forward-looking statements and our non-GAAP financials.

So just on MSA, we are a pure play safety player. We've had the same mission for 110 years and that mission that men and women may work in safety and may their families and communities live in health throughout the world drives our 5,000-plus associates with a single purpose to support the customer. And it's to deliver on solutions to their challenges.

And that's enabled us to protect over 40 million workers annually, which we feel like is a really nice impact and representation of how we have some positive social value. We're about \$1.8 billion in sales with about \$80 million a year in R&D investment, which gives us a product vitality in the upper [30s]. That innovation, as well as our business system execution, enables some nice growth in operating (technical difficulty) margins,

and you can see that with our leverage, we've got a nice balance sheet, which gives us nice optionality for our ability to continue to grow the business and focus on investing where we need to.

And we just announced an 8.5% increase to our dividend, which makes our 54th consecutive year of dividend increases as well. We have two P&Ls that we look at. We have an America's segment and an international segment. America's is just over two-thirds of the business. And again, it's just what you'd think. It's Canada, US, Latin South America. And then the remainder of the business, just under a third, is our international. It represents sales to all other entities and countries.

Diverse portfolio, and it's a resilient business throughout the economic cycle. We've got three product categories we play in. One, fire services. So when you think fire services, this is self-contained breathing apparatus and head-to-toe solutions, helmets. What we call turn-out gear or protective apparel and boots. We go to market typically across the globe through exclusive channels that are focused on the fire service.

In the middle, we have detection, about 35% of the business. When you think detection, think really there's two categories. One we call fixed monitoring. So fixed monitoring includes like asset or infrastructure protection. And then the portable, wearable devices, what we call portable gas detection. It's a wearable device. Again, similar to fire service, innovation's critical.

Go-to-market on the fixed monitoring is typically through project or facility engineering. Our sales representation goes direct through them. And then portable is more of the industrial distribution that you typically would see at Fastenal or Grainger, et cetera.

And industrial PPE is the third leg. And that's 26%, which really represents mainly the categories I would reference there. Head protection, fall protection. Again, the wearables on fall protection like harnesses and mechanicals. But also system-related fall protection, roof systems and those things related to infrastructure. So that's, again, the industrial space goes through industrial distribution typically on the go-to-market front.

We did, as part of our Investor Day, announce 2028 targets. And what we did was reconfirm our mid-single-digit guidance we've had, and we expect going forward. As well as continuing to gain 30 to 50 bps a year on margin enhancement. If we get those together, we expect earnings per share on the organic growth to be north of \$10 per share. And you add to that our access to our cash flow and debt facilities, we've got plenty of opportunity to continue to (technical difficulty) move forward.

So I wanted to maybe give a quick overview to your question there on what the story is at MSA.

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## QUESTIONS AND ANSWERS

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

Yes. Steve, that's perfect way to start. And I guess one more for you. And then we can talk more broadly about the business, but you all have had a CEO transition. You've been in the helm, a little over a month or right at. You have a long tenure though with MSA. Maybe take a few minutes to share your vision on where you want MSA to go kind of in this next phase of growth?

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**Steven Blanco** - *MSA Safety Inc - President, Chief Executive Officer, Director*

Yeah, sure. So if you think about -- I was fortunate -- I'm really fortunate that I have a great relationship with our previous CEO and the previous one to that. And Nish was a great mentor. I actually was on his leadership team as President of the Americas for his entire tenure as the CEO.

So one of the things we wanted to do as I was rolling into this was really take a strong, hard look at our strategy and evaluate what are we good at, what have we done really well, and what do we think we need to pivot? Where are the challenges we've had? And how do we continue to grow?

And so that informed us on the future growth strategies we have. And you think about the vision of where I think the company can go, it really starts with that mission and culture. But then you layer on top of that. We think we're in the right spaces. We believe that the sophisticated safety products and solutions categories that we serve are the right spaces to be in. We like the product categories and the markets we serve.

We believe there's opportunities to grow within those, which is why we came out with the '28 targets. But we do believe there's additional opportunity to leverage our strong cash flow and our balance sheet to grow the business with some organic opportunities.

We've done some organic growth in the past successfully. We'd like to be more intentional about that while remaining very disciplined in approach. Again, it's going to be in categories that we think we understand the markets, and or the technologies. So those near adjacencies, perhaps, that can grow the TAM. But that's what we look at, and that's part of the vision.

And I would only add that the business system, which we've been really applying across the enterprise, will continue to have an even greater role in the future.

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

Well, maybe let's talk about the business system, right? It's something you guys have talked more and more about here lately. And I think the investment community really saw this kind of start to manifest itself, kind of coming out of COVID. A lot of supply chain challenges. There's a lot of -- you were able to push price. You were able to start to get a better grasp, I thought, of the cost. Maybe structurally, what are some of the things that have led to these improvements and then just kind of how that fits into continuous improvement mindset for you all?

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**Steven Blanco** - *MSA Safety Inc - President, Chief Executive Officer, Director*

Yeah, so we've really been on this journey for a while. So we started off -- I joined the organization in 2012, and we started off with an operating system, which was really lean principled on the operations side of the business when I joined. And we've expanded that recently to the business system for the last few years.

Actually, when Lee joined a couple years ago, when we were going through how we approach continuous improvement, he was saying, Steve, we ought to be talking about this. We should be communicating what we're doing here. I mean, we're doing this internally. We've got this seeded process, and we really are building this strong culture on continuous improvement. Why aren't we talking about this externally?

And he's got tons of experience from his past life in lean principled improvement. So that was really a nice kind of check and balance, so to speak. So we have done, I think, a better job communicating. And I think you're right. What we've done -- we can -- it's permeated throughout the organization. But what's really nice is you start seeing some of the specific examples, like you referenced the pricing muscle that we've built.

What we've done around on how we've managed our inventory, and our working capital is an excellent example, especially when we divested into legal liabilities. Those things we think were really important for us and have demonstrated just how effective that can help us run the business.

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**Lee McChesney** - *MSA Safety Inc - Chief Financial Officer, Senior Vice President*

I would just add to that. So the manifestation is the targets, right? So we've talked about the 30 to 50 basis points of operating margin improvement, but also driving working capital efficiency at the same level. And that combination then, again, continues to fuel this strong cash flow. And again, whether that's investing organically or being able to leverage that into more intentional focus on M&A.

We're honestly in the best place we've been. And that was an important part of our messaging a couple weeks ago is just the confidence level. We've had a lot of success. You look at the 10-year metrics, but that's momentum that's continuing to grow.

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

And I may know the answer to the question since you just said confidence. But what I thought was interesting at the '28 analysts or the Analyst Day '28 targets, this is the first-time you guys have actually talked about, like, hard numbers. For years covering you, we'd like to say we do not provide formal guidance and that you would open up for Q&A. So that's a big meaningful shift, though, I think, in terms of the confidence around the business.

There are a couple things that you would point to say, hey, this is why we think that we can earn, you know, \$11 or so, here in a couple years.

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**Lee McChesney** - *MSA Safety Inc - Chief Financial Officer, Senior Vice President*

Yeah. I mean, I'll start. I mean, I think we're going to reinforce some of Steve's messages. I mean, I think we love where these businesses are today. So if you follow our story, you've certainly seen the acceleration the last decade, the last five years. We said we want to really be focused on the sophisticated safety areas in these three businesses.

So today, you wake up and we already had a good position, but our market position being a leading player. Number one or number two in really all those businesses has only been strengthened the last five years. And then to Steve's point, you have these enhancements, whether it's more in the connected worker, whether it's more opportunities on the service side, and then certainly, the ability to have cash flow to enhance that from an inorganic perspective.

So I think that's a key element. We're really confident in the growth trajectory of these businesses. And then you just noted, we really built this muscle around the business system that we'd always tell you the business system is never done. But we're still in relatively early stages of that. So a lot of optionality there to drive further progress, and that's why we have those targets out there, Stanley.

But, yeah, I mean, it's important. But I think it's just the natural evolution of what's been going on with this business for the past decade. It's -- and then, again, the balance sheet has never been stronger, which gives us even more optionality than we've had in the past.

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

Well, you know, M&A is something you guys have been -- have done a nice job of over the years. It's been harder, I guess, to find kind of the right deals. But now, you maybe touch on kind of pushing off the legacy liability piece, right?

So you've got a very -- much more visibility on the certainty of the cash flows. And you've got the scale and the new product development, the R&D component from internal capabilities. How should this M&A market look like over the next several years? What are some of the key attributes that you're looking for in various assets?

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**Lee McChesney** - *MSA Safety Inc - Chief Financial Officer, Senior Vice President*

You want to start?

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**Steven Blanco** - *MSA Safety Inc - President, Chief Executive Officer, Director*

Yeah, I'll start. Sure. I said a good amount about this a couple weeks ago as well. So as you said, really nice position today. And if you look at what we've done in the past, I think I'd start there. We love what we've found. Those are targets that we really pursued as opposed to just responding to what was available in the marketplace. And we pursued them because they were a key part of our strategy of how do we strengthen these businesses we're in. So that's what we're still doing today, Stanley.

And you're right. My message is to get to those four, we went probably by [50-plus] to get to those four. So there is a discipline to it. But what do we want to do? We want to enhance these three businesses we have today. So we see opportunities within detection.

I used the example of Bacharach. That was a business. We were already in the HVAC space. But there's an opportunity to really expand the market we see, our TAM there, to go deeper into the HVAC space, to find a leading provider where innovation matters. And that's something that's really done well for us. So there could be other examples where you could really broaden what we do in the detection space.

We love the fire business. Again, you look at what's happened over the last decade there. Certainly organic was important, but we've also enhanced that with some really nice M&A, which is what we did in gear or what we did really to enhance the portfolio on kind of total offering in fire. So there could be additional growth there with what does a firefighter or first responder use to really fight a fire or keep people safe. Those would be natural additions to that business.

Again, either core additions or near neighbor adjacencies. And then, as we said earlier, in the industrial PPE space, we really have been focused on fall protection. That's a business that we've done a really nice job primarily, again, organically, but we've also enhanced that with acquisitions over the last.

So we would focus there. So really, we see opportunities really in all three businesses. But we will be disciplined. We're looking for it to be accretive to where we are today. So we're not looking for that to really accelerate our growth trajectory to improve the margin projections. We look forward to be above our cost of capital after the first three years.

Again, look at what we've done. Clearly market creation value with those acquisitions. So I think the nice thing is, again, with the cash flow we have available to us, it can be -- everything it has been, Stanley. But we have the cash to do even more than that over the next five years.

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**Lee McChesney** - MSA Safety Inc - Chief Financial Officer, Senior Vice President

Yeah. I would maybe just add, when you think of acquisitions for us, think of the markets we play in and the technologies we have. And those capabilities. So I used the term earlier, the sophisticated safety products and solutions. We look at that as a category where we believe we can differentiate in the market and have a competitive advantage and service and provide our customers solutions they need with their safety challenges.

So when we think of acquisitions in that pipeline that we're going through, it's all around can we innovate? Can we continue to differentiate with whatever portfolio ads we might bring into play?

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

And on the sophistication side, you guys have done a lot with a lot of new product development. I mean, you mentioned the product vitality. How has that evolved? I guess I know you're putting a lot more emphasis on the software side of the house in terms of the development and not just mechanical products development. But how is that contributing to the overall margin goals that you all are setting out as well as the market share gains that you've seen? Because really across the board, you've been outgrowing the market and the respective end markets.

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**Steven Blanco** - MSA Safety Inc - President, Chief Executive Officer, Director

Yeah. So I mean, if you think about how we pivoted with technology, software engineering, for example, 10 years ago, we had a handful of software engineers. Now, it represents about 45% of our entire engineering workforce. And it's been really us -- one of the things I think we really try to focus on is making sure we have strong intimacy with the customer. We try to live with them, shadow them, and understand their pain points as much as possible.

And that's led to a lot of this work we've done around coming up with connected solutions and providing what we believe are safety products and solutions that also are easy for them to use and easy for the end user to want to continue to use. So that's led to some of the connected solutions like we talk about.

For example, on the portable gas detection side, we have the ALTAIR io 4, and this is part of what we call our MSA+ connected cloud platform solution. This gives full visibility to safety leaders at organizations globally. They can have workers at different sites across the globe and immediately know what's going on with that worker.

But also, it enables them not only the awareness of that safety of that individual. It provides them management of their fleet and enabling them to be able to easily understand where that fleet's at. We come in and we take care of any challenges they have. And that has been really a positive for our customers. They want to focus on what they do, whether it be manufacturing or anything around utilities or their core business, and then we help them on the safety side to ensure they protect their workforce.

And we expect that to continue to grow and be a larger piece of our business. The nice thing about connected solutions is we actually think that provides an opportunity for adding to our addressable market, and we're seeing that show up in the MSA+ category.

And I think to your point about what's it mean for the pricing and the growth, when you innovate and add value that the customer sees, obviously, that gives you an opportunity to put the price in, to match the value. So we like to work with our customers on total cost of ownership and a model which shows them that their cost of ownership of our solution is lower than perhaps what they've done in the past.

And that's been very effective. We actually have some programs that we help them walk through to model that out for their set of facilities they might have. And that enables us to have the pricing, which we've historically been able to do through the innovation and the product vitality, and that's part of what we expect to see in this next strategy timeline.

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

And kind of staying on the connected kind of thematic, maybe talk about what you're doing from a connected worker on the fire service side as well as kind of more on your broader industrial FG -- fixed gas flame detection side and portable detection as well.

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**Steven Blanco** - *MSA Safety Inc - President, Chief Executive Officer, Director*

So connected work is a category in providing the opportunity for a solution with this connected ethos, if you will, is a need, we believe, is out there across all of the safety categories we play in. We think the maturity might be a little bit different. And industrial, by and large, might accept it more quickly as they try to get some productivity gains with that cost of ownership. But it also has value within the fire service.

The nice thing for us is that software engineering capability we have is not discreetly focused on one category. We're able to leverage those skills and that capability across all of those markets we're serving. So that gives us a little bit of scale with the resource utilization of the connected work.

And if you go through those categories -- fire service, we launched the fire grid, which enables those fire departments full capability in management of their fleets of things such as self-contained breathing apparatus, which has a fairly long lifespan, but it also has some very specific requirements relative to how you keep that gear up to standard and do the maintenance and predictive and preventive maintenance to make sure it's always ready to be used.

And our fleet management enables that to happen seamlessly and easily and attracts all that, again, cloud based, where we help them with any of the challenges they have. And the portable -- I talked about with the MSA+, this is an area where we think we're going to see some really nice growth. We have already. The interesting thing about the MSA+ business is over 50% of our sales to date have been new customers.

So we have not necessarily had many existing customers taking most of that share. We've been able to grow with the existing customer base, but we're really pleased with new customers, which provides a nice platform for growth into the future.

And then the fixed detection. We launched. We launched with the [XNS 5000], a little change in the sensor technology. We manufacture all of our own sensors, which provide us the nice reliability and accuracy and -- actually the most accurate and reliable in the industry.

But what we did was instead of organizations needing to go out and calibrate, when you calibrate, you're validating that the sensor is able to detect toxic or flammable gas. We put that into the actual sensor technology, so it does it on its own. It automatically does that. And so that's validated with our customers. It's a nice cost saving. It's a nice use of AI.

But we're seeing more of that technology. When it allows the customer to see value and the cost of ownership, we're able to price for that.

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

And the way you're talking about pricing, is this more like on a subscription sort of revenue? Is that something that would come down the pipe? Is it more kind of on the front end of it? And I guess the other part is this interesting is just how does it help them from a compliance, regulatory, tracking sort of a standpoint? Then I guess this is a lot, but you talk about how the stickiness that that creates within the relationship.

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**Steven Blanco** - *MSA Safety Inc - President, Chief Executive Officer, Director*

Okay, so we'll hit in four minutes.

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

Don't ask me to repeat them, okay?

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**Steven Blanco** - *MSA Safety Inc - President, Chief Executive Officer, Director*

No, it's an interesting model. I think -- which the first part was the pricing question?

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

Well, it was on the pricing of it. We're looking at subscription or kind of up front cost.

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**Steven Blanco** - *MSA Safety Inc - President, Chief Executive Officer, Director*

Most of the MSA+ is subscription related. So we're looking at really three or four-year time horizon. So a recurring revenue model. Our view is we're going to sell our products and solutions the way the customer wants to buy it. We believe that there's a pretty good trend. I mean, you pick up your phone. Obviously, we all have that. We do the subscription with our phone. We think our end user customers, industrial space, the businesses want to do the same because then they're able to do -- have a consistent level in their budget that they manage.

And so we've seen that shift. We also expect there's still going to be customers that want to buy that with CapEx. So we'll provide both. But that subscription model also enables us to have kind of a nicer, a little bit more growth on the margin profile over time.

And it's a very sticky business, as we've seen in just a short period of time. Because it becomes somewhat easier if I'm that industrial business. This is -- I'm satisfied with what I see. I'm getting the compliant product I need to protect my workforce. I don't really need to go back out and and search



or spend time or resources trying to predict or figure out a new solution. So I'm going to use that same solution and we expect that's going to play out more so into the future.

So we're pretty pumped about that. I think that's going to really help us in this time horizon, this strategy.

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

It is interesting, I think, just kind of being able to mesh all of the attributes from the safety with the compliance piece, as well as kind of help standards evolve and push that on a go forward basis.

We're coming close to your time. The fire service business is something you guys have been exceptionally well here lately. We've seen a massive uptake of major kind of city conversions that you guys have been the beneficiary of. How does that market look? Are we going to still see the same level of larger conversions out there? Is it -- are we going to eventually migrate into more of a replacement for some of these products? Just how should we think about that, given how strong it has been over the past several years?

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**Steven Blanco** - *MSA Safety Inc - President, Chief Executive Officer, Director*

I would look at that and basically, I break that out into two categories. One, what I would say is the NFPA or North American market, and then I'll talk about international. So there are still some large opportunities out there in both categories. But in the North America, we've been -- we've had a nice run with the G1 over the last decade. The pipeline still looks intact, so we expect to continue to compete effectively there.

We're ten years in on the since we initially launched the G1. It's a lot different now than it was. We've had a number of software changes and technology adds to that product platform, which has continued to upgrade. But I expect you'll see some of that -- departments typically keep their CBAs twelve to fifteen years. So as you see that kind of roll in and the later part of this -- in the '27, '28, you might see some of those come back up and an opportunity there play out.

But probably fairly consistent in North America. We think the value or the revenue growth there is around innovation and additional technologies for things like the fire grid. International, that's a little bit of a different story. We've been really trying to seed that market more so recently when we launched the M1 version for the EU standards, the European standards.

And we had a really nice win with within the UK, our first ever SCBA conversion with London last year. And since then, I think we've won 8 out of 11 bids that have come through. We just got another nice one in the last month for about \$2.5 million. So those things we expect to continue to play out throughout international with the M1. It competes very well against the competitive base that's in international.

And we expect that to be over the next 24 months, a nice growth driver for the international market. Because of some of the nice opportunities that are coming forward and the fact that we're in a really good competitive situation.

The fire grid isn't adding by itself additional revenue. It's really where we see these sophisticated large departments. It's an enabler for us to get that order because they want to use that technology and we expect over time they're going to migrate to where they put all of their systems in alignment with that technology. But early on, it's more of an enabler than an additional revenue generator.

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

Yeah, I think the 8 out of 11 kind of validates a lot of what you guys are doing. So with that, I think we are just about out of time, but we are out of time. So, Steve, Lee, thank you very much for joining us. Sure do appreciate it.

**Steven Blanco** - MSA Safety Inc - President, Chief Executive Officer, Director

Thank you, Stanley.

**Lee McChesney** - MSA Safety Inc - Chief Financial Officer, Senior Vice President

Thank you.

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