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MSA - Q4 2013 Mine Safety Appliances Earnings Conference Call

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PRESENTATION

Operator

Welcome to the MSA fourth-quarter earnings conference call. My name is Shannon, and I will be your operator for today's call.

(Operator Instructions)

Please note that this conference is being recorded. I will now turn the call over to Mr. Ken Krause. You may begin, sir.

Ken Krause - *Mine Safety Appliances Company - Executive Director of Global Finance*

Thank you, Shannon. Good morning, everyone, and welcome to our fourth-quarter and full-year earnings conference call for 2013. I'm Ken Krause, Executive Director of Global Finance, and joining me on the call this morning are Bill Lambert, President and Chief Executive Officer; Stacy McMahan, Senior Vice President and Chief Financial Officer; Ron Herring, President of MSA Europe; Kerry Bove, President of MSA International; and Nish Vartanian, President of MSA North America.

Our fourth-quarter press release was issued this morning, at 8:30, and is available on our website at www.msasafety.com. This morning, Bill Lambert will provide his commentary on our quarter, Stacy will then review our financials, and then Bill will conclude with his closing comments. After that, we will open up the call for your questions.

Before we begin, I need to remind everyone that the matters discussed on this call, excluding historical information, are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements including, without limitation, all projections and anticipated levels of future performance involve risks, uncertainties, and other factors that may cause our actual results to differ materially from those discussed here.

These risks, uncertainties, and other factors are detailed from time to time in our filings with the Securities and Exchange Commission, including our most recent Form 10-Q, which was filed on October 23, 2013. You are strongly urged on review all such filings for a more detailed discussion of such risks. Our SEC filings can be obtained at no charge at www.sec.gov, our own website, and many other commercial sites.

In addition, we have included certain non-GAAP financial measures as part of our discussion today. These non-GAAP financial measures should not be considered replacements for GAAP results. Reconciliations to the most directly comparable GAAP measures are included in our press release and on the Investor Relations section of our website. With that, let me introduce MSA's President and Chief Executive Officer, Bill Lambert.

Bill Lambert - *Mine Safety Appliances Company - President & CEO*

Thank you, Ken, and good morning, everyone. As always, I want to begin by saying thank you for joining us today on this conference call and for your continued interest in MSA. Presumably, all of you have seen our fourth-quarter press release and have our financial figures with all comparisons corresponding to the equivalent period in 2012, as well as a new statement reconciling GAAP to non-GAAP earnings.

I will begin this morning by reviewing the highlights of our fourth-quarter results, and I will provide a regulatory update regarding the US fire service market. I also will share with you my views on the current business environment and how it is likely to affect us as we move further into 2014. After that, I will turn the call over to Stacy for a review of our actual results, and then we'll open it up for your questions.

Let me first say that I am pleased to report today's record fourth-quarter results. I am also pleased by our full-year adjusted results, which demonstrate solid performance by the MSA team in executing our strategy. Despite headwinds caused by regulatory and product approval delays and uneven business conditions throughout much of the year, I am encouraged by our strong finish to 2013. We continue to execute our corporate strategy that is helping drive higher levels of shareholder value, as indicated by many of our key metrics for success.

For example, we continued to see solid performance in our five core product groups throughout emerging and developed markets of the world. We also continued to see strong results from our new product development efforts. And lastly, we continued to closely manage our manufacturing and SG&A costs. Stacy and I will provide you with specifics on each of these in our comments.

Furthermore, our ongoing efforts to divest of, and monetize current value from, non-core assets, like our South African distribution business and our Zambian operations, which I will talk more about in a few moments, ensures we remain focused on those areas of our business that drive the most significant value creation for our shareholders. The focus and performance of our team across the core areas of our strategy drove solid improvements in profitability in the quarter and for the full year, while building a solid foundation for 2014.

As we announced in our press release earlier today, we are taking active steps to divest of our South African distribution business and our Zambian operations and have reclassified this to discontinued operations in the fourth quarter. The results of these businesses have historically been reported in the international segment of our business. 94% of revenues from these discontinued operations are in peripheral and non-core products. Things like safety clothing, work gloves, safety shoes and boots, which typically have much lower gross margins than our core product lines.

Removing these businesses from our portfolio increases our emphasis and focus on core products in key verticals that provide the most value for our shareholders and most clearly align with our strategy. To put it in a financial context for you, these discontinued operations only represented $0.01 to EPS in the fourth quarter, and $0.06 in EPS for all of 2013. Stacy will elaborate on this a little more in her comments.

Before I review our financial highlights for the quarter, I want to note that my comments will focus on continuing operations, and they will exclude the impact of discontinued operations in all figures and in all comparisons. Sales from continuing operations were $291 million in the fourth quarter, a $9 million, or 3%, increase from 2012. Sales increased 4% in local-currency terms, excluding unfavorable effects caused by weakening currencies across our international segment.

For the full year, sales increased 2% in local-currency terms and when we exclude our North American ballistic helmet business, which as you know, we divested of in the first half of 2012. The increase in local-currency revenue in the fourth quarter was driven by both our ongoing focus on driving demand of our core MSA product lines and strong shipments in our international segment. For the benefit of those who are new to MSA, or are joining us on this call for the first time, these core product lines include: fixed gas and flame detection systems; portable gas detection instruments; industrial head-protection products; supplied-air respirators, where self-contained breathing apparatus, or SCBA, is our principal product; and lastly, fall-protection products.

Local currency quarterly growth in these five product groups was 5%. These core product lines account for 73% of MSA's total sales, reflecting a 100-basis-point increase from last year, as we continue to provide greater focus and emphasis on our profitable core. Putting a finer point on core sales performance, if we exclude US fire service SCBA sales, our core product sales increased 8% in the fourth quarter and 7% for the full year. US fire service SCBA sales continued to be hampered by ongoing government regulatory and product approval delays, as we have discussed with you in previous calls and in our November press release.

As you may remember, during our last investors' call, I mentioned that our US fire service results were adversely impacted by the US federal government sequestration and the October government shutdown. These factors have caused delays in the testing and the certification of our two new SCBA products that meet the new NFPA performance standards for breathing apparatus.

Hopefully, most of you saw the press release that we issued in November regarding the notification we received from NIOSH, the government agency in the US that certifies respirators and SCBA. In summary, NIOSH notified us that errors had occurred in the chemical warfare agent testing portion of certain SCBA certifications. Unlike other manufacturers, MSA was fortunate in that we had no respirator certifications that were impacted by these testing errors, and therefore, no field action on MSA's part was required.

However, the re-testing that must be done for other manufacturers does have a delaying impact on NIOSH's ability to test and issue new SCBA certifications, like those of MSA's, which are in the approval-process pipeline. This impacts the certification and introduction of several new SCBA models that we have developed.

As I mentioned last quarter, manufacturers have been issued a tentative interim amendment, or TIA, that allows an extended window to continue shipping SCBA that are compliant on the old edition of the NFPA standard until the end of this month. An extension of that TIA is being processed to allow older version of SCBA to be sold until June 30. But even with this TIA window, the delays have impacted our business in the US fire service segment, driving a decrease of 22% in US fire service breathing-apparatus sales in the fourth quarter.

As we have discussed with you before, customers are choosing to wait for new products, compliant with the new standard, and those products won't be available until the second quarter. As I have stated to you before, I still firmly believe that these setbacks are only temporary. We see many opportunities for growth in the US fire service market, and we believe that we will be well positioned to capitalize on these opportunities when our new NFPA-compliant products are approved and introduced later this year. Our strong performance in the fourth quarter is a testament to our team's ability to perform, in spite of these headwinds in the US fire service SCBA segment.

Now, I would like to take a moment to discuss sales in emerging markets, which is a key area of our corporate strategy. Emerging markets were a major contributor to our fine performance in the fourth quarter and our full-year results in 2013. Quarterly emerging market sales comprised 31% of our total business, and increased 16%, compared to the same period in 2012. Growth was largely driven by our success in the fire service markets of Brazil and Chile, as well as strong fixed gas and flame detection shipments to industrial customers in Mexico and China.

For the full year, emerging market sales grew 6%, with core products growing 9%, and now representing 71% of emerging market sales, up 200 basis points from a year ago. In the quarter, R&D expense was $12 million, up slightly from a year ago, as we continued to fuel our product-development pipeline by introducing exciting new products into our markets.

In the fourth quarter, we introduced a brand new fire helmet platform in Europe, called the F1XF. As you probably know, MSA is the fire helmet market leader in Europe. The F1XF offers new levels of modularity, comfort, and adjustability. It is truly a unique design, in that it also offers options for integrated lighting, communications, hearing protection, and SCBA mask integration, all of which can be configured in keeping with the needs of our customer.

The design of the helmet takes visual cues from the iconic MSA Gallet jet-pilot style helmet, but at the same time, it modernizes the design into a look that is very attractive to the changing demographics of the European fire service. In addition to Europe, the F1XF is an attractive product in other regions of the world, where EN certified products are used, including China, Australia, Southeast Asia, Brazil, and many other countries. We are seeing some very good signs of success with this new helmet.

In China, we launched an exciting new SCBA platform, called the AG 2100, which has been certified to meet China's current regulatory requirements for firefighting SCBA. The government in China has been diligently working on a new SCBA standard, and MSA's AG2100 incorporates features that are designed to meet the anticipated requirements of this new standard. We believe that the government will begin accepting submittals for this new certification later this year, and we are excited about participating with the AG2100 to raise the bar of performance and protection for firefighters in China.

I mentioned in our last call that we unveiled a new V-Gard helmet suspension, called the Fas-Trac 3, at the National Safety Congress held last fall in Chicago. Based on our initial shipments of Fas-Trac 3s, I am pleased to tell you that the product is generating exceptional customer reviews in the categories of comfort and helmet stability. We are in the process of ramping up production of this product during the first quarter of 2014, and we expect to make the Fas-Trac 3 MSA's standard, ratcheting suspension by April of this year.

Lastly, we continued to launch innovative new fixed gas and flame detection systems to fuel growth in this highly profitable product line. In the quarter, we introduced three exciting new products, including the GasGard 100, a scalable, high-performance data acquisition, data-logging controller for the North American market.

The Prima X IR Pro, a mid-range combustible-gas point infrared detector, with display and relays ideal for the Chinese market, as well as the DF-8500, an entry-level toxic-gas detector, also for the Chinese market. Both of these detectors were designed in China, for China, as part of our growth strategy for the oil-and-gas markets of Asia.

So, that's a few of the exciting projects that were launched in Q4. As you can see, we place significant emphasis in bringing innovative new technology to the marketplace for our valued customers. As a measure of this, for the full year of 2013, sales of new products introduced in the last five years accounted for 21% of our total revenue, a meaningful representation of the strength of our new product development process. As we look ahead to 2014, our pipeline of new products is full and provides me with a sense of optimism as we start this year.

Before I turn the call over to Stacy, I also want to provide you with an update on our Europe 2.0 initiative. In our last call, I explained that the goal of this important project is to integrate and align our SAP IT systems throughout Europe, which will provide a multitude of benefits, including removing unneeded complexity in our business and increasing transparency that lowers costs and drives efficiency, improving customer satisfaction through improved delivery and availability of products, as well as improving profitability, through better cost management and utilization of shared services.

Since our last update to you, MSA Spain and MSA Italy have joined Germany and France in going live on this new SAP platform, with very successful implementations. This milestone brings approximately 70% of our sales and transactions in Western Europe under the new operating system. Additionally, we have completed the consolidation of finished-goods inventory from Italy and Spain into our Central European warehouse in Germany.

I am pleased with our progress on this important initiative. Our work is not done, but our on-time delivery to customers is better now than it's ever been, at lower costs, and with improved margins. We are on schedule with this project, and I look forward to seeing the benefits of this project and reporting those to you in the months and years ahead.

Lastly, 2014 is gearing up to be a very special year for our Company, as we celebrate our 100th year in business of protecting the health and safety of workers and facility infrastructures across the globe. As you might expect, we have many internal and external activities planned for this milestone, including a series of special brand ads targeting our most important vertical markets, a global charitable-giving program that will support 100 different charities around the world, a bell-ringing event on the floor of the New York Stock Exchange.

And, I am pleased to announce a special Investors' Day that we are planning to host, here in Pittsburgh, on Friday, June 13, one day before our official 100th anniversary. At this event, we look forward to giving our shareholders and our analysts deeper insight into our operations and some of our exciting new products. So please, look for a save-the-date mailing that will be coming your way within the next few weeks.

Now, I would like to turn the call over to our CFO, Stacy McMahan, to provide an overview of our fourth-quarter financial performance. After Stacy finishes with her report, I will provide some closing comments, and then we'll open the call up for your questions. Stacy?

Stacy McMahan - *Mine Safety Appliances Company - SVP & CFO*

Thank you, Bill, and good morning. I am pleased to share further insight into our fourth-quarter financial performance. Additional information will be available to you when we file our Form 10-K with the Securities and Exchange Commission later this month.

As Bill mentioned, and as we disclosed in our press release earlier today, we are taking active steps to sell our South African distribution business and its Zambian operations and expect to divest this business in 2014. Accordingly, we have reclassified the related financial results to discontinued operations.

Revenues from these businesses were $12 million in the fourth quarter of 2013 and $53 million for the full year, of which, over 94% of the revenue was in non-core product groups. Related earnings per share were $0.01 for the fourth quarter and $0.06 for the full year, as Bill mentioned. And, as you might expect, dealing primarily in non-core products produces a significantly lower level of gross profit margin.

In 2013, reported gross margin from these discontinued operations was only 21.8%, which has been certainly dilutive as continuing operations' gross profit was 44.7%. Including the $12 million of sales associated with this non-core business unit, the quarterly sales, comparable to many of your models, were $304 million.

Sales from continuing operations were $291 million in the quarter, growing 3% on an as-reported basis, but up 4% when you exclude the impact of weakening foreign currencies across our emerging markets. Including the $53 million of business associated with our discontinued operations for the year, full-year sales were $1.2 billion. Full-year sales from continuing operations of $1.1 billion were flat, compared to prior year on an as-reported basis, but increased 2%, excluding the impact of weakening foreign currencies and the divestiture of our North American ballistic helmet business in the first half of 2012.

The following comparisons reflect our continuing operations, and thus exclude the results of the South African distribution business and Zambian amounts that have been classified as discontinued operations. I will comment on four ways we look at our sales performance: by end markets, by product group, by geographic reporting segment, and by emerging markets.

First, by end markets and for the fourth quarter, global industrial market local currency sales are up 5%, reflecting 70% of our total sales. Global fire service sales, representing 25% of our total business, increased 4%, with strengths in international markets offset by weaker results in North America.

And finally, sales to the military market represented 5% of quarterly sales, down 12% from last year on a lower level of gas mask business in the United States. Excluding our two most volatile segments, which are the US fire service and the US military, local currency sales were $266 million in the quarter, up 7% from last year.

Now, looking at end-market performance for the full year, global industrial market local currency sales have increased by 3% over 2012, reflecting 70% of our total sales, as strength in North American gas-detection product sales was partially offset by a decline in large orders of supplied-air respirators in Europe. Global fire service sales were up 4% from last year and represent 26% of our total business, as strength in international fire service market and a strong first half in the North American fire service market helped drive the results higher. Sales to military markets reflect 4% of our business and were down 33%, on the lower level of gas mask sales in the United States.

Now, when we consider ourselves by product for the quarter, our five core product groups delivered local currency growth of 5% and represented 73% of total sales. The core growth was led by fixed gas and flame detection instruments up 9%, portable instruments and head protection each up 8%, and fall protection up 2%. Breathing apparatus was down 1% from the prior year on a lower level of sales to the US fire service in the quarter. The remaining 27% of sales were up 1% in local currency terms.

Moving on to the full year, our five core product group sales increased by 6% in local currency terms, now comprising 73% of our total business, up from 70% last year. By product group, portable instruments grew by 11%, fixed gas and flame detection instruments and fall protection are each up 6%, breathing apparatus is up 4%, and head protection up 3% on a local currency basis.

The remaining 27% of our sales were down 10%, on a lower level of mining-related business in the international segment, lower gas mask sales in the US, and the absence of ballistic helmet sales in North America, due to the divestiture of that business in 2012. Excluding the North American ballistic helmet business from prior year, sales of non-core products were down 7% in local currency for the full year.

Moving to our quarterly reported segment sales performance, in North America, sales in the fourth quarter were $136 million, up $1 million compared to the prior year. When looking at our North American end markets, local currency sales to industrial customers grew 7%, while fire service sales were down 11% on lower breathing apparatus sales to the US fire service. Sales to the US military were only $1 million in the fourth quarter, down $3 million on a lower level of gas mask sales.

By product group in North America, our five core product groups represented 80% of sales and were up 2%. Head protection sales were up 10%, followed by 9% growth in portable instruments and fixed gas and flame detection instruments. Fall protection declined by 5% in the quarter, and breathing apparatus declined by 16%, as the delayed product approvals continue to have a negative impact on our fire service business. All other non-core product groups were down 4% in total, driven predominantly by the lower level of gas mask sales previously mentioned.

Moving on to our international segment, quarterly reported sales were up 8% to $71 million, with local currency sales up 17%. When looking at our international end markets, local currency industrial segment sales were up 9% and represent 69% of total sales. Fire service local currency sales increased 42%, primarily on large order shipments in Chile and Brazil, and represented a total of 28% of total sales. Military sales, comprising the remaining 3% of international sales, increased 39% from the prior year, on a higher level of gas mask sales in Latin America.

By product group, local currency international sales of core products were up 27% for the quarter and were 67% of total sales, versus only 61% a year ago. fixed gas and flame detection instrument sales led the growth at 72%; followed by breathing apparatus, up 49%; fall protection, up 19%; portable gas detection, up 7%; and head protection up 7% as well.

Large order business in Latin America drove growth in breathing apparatus this quarter, while strong base shipments in Asia were the primarily driver of fixed gas and flame detection improvement. All other non-core product groups were up 1% in total, with growth of 11% across Asia and Latin America, offset by continued weakness in Australia.

Finally, our European segments reported sales were up 4% to $85 million in the quarter, attributable to the strengthening euro. In local currency terms, sales were flat over the prior year. By end market, Europe's local currency industrial sales reflect 57% of total sales and were down 2%.

You may recall we shipped a $6.5 million supplied-air respirator order to an oil-and-gas customer in the Caspian Sea region in the fourth quarter of 2012, compared to delivering a $3.4 million order to this customer in the fourth quarter of 2013. Excluding this order from current and prior year, industrial sales in Europe increased $2 million, or 5%, in the quarter on a local currency basis.

Europe sales related to fire service were up 1% and comprised 31% of total sales. Military sales increased 7% and represent 12% of the business, improving on shipments of ballistic helmets in southern Europe.

By product, Europe's core product local currency sales decreased 3% this quarter and comprised 67% of total sales, on a lower level of breathing apparatus sales, which were down 8%. fixed gas and flame detection instruments were down 1%, while portable gas-detection instrument sales increased 5%. Head-protection product sales increased 1%.

Again, excluding the large supplied-air respirator order from both years, core products increased by 3% in local currency terms. All other product groups were up 6%, driven by growth in our adjacent products in the oil, gas, and petrochemical markets in the Caspian Sea region, as well as the aforementioned ballistic helmet sales growth in southern Europe.

We end our look at sales performance with a focus on emerging markets. One of the key pillars of our corporate strategy is to focus on growth in emerging markets where we see opportunity for long-term success. Total emerging market local currency sales were up 16% in the quarter and represent 31% of our total business.

We had an exceptional quarter in emerging markets, with growth related to improved shipments of large orders to fire service customers in Latin America, strong results in fixed gas and flame detection in Mexico, and a strong finish in Southeast Asia and China, with both regions growing quarterly revenue nearly 30% over the prior year.

Our gross profit rate for this quarter was 44.6%, a decrease of 80 basis points from last year, primarily driven by lower margins on those large orders shipped in the quarter. Gross profit for the full year was 44.7% of sales, a 60 basis point improvement over prior year, on a 110 basis point improvement in product margins, reflecting the improved mix and our continuing commitment to strategic pricing and diligent management of manufacturing costs.

Reported selling, general, and administrative costs were down 7%, or $6 million this quarter, compared to last year on a lower stock compensation expense, a reduction in legal expenses associated with our insurance litigation, and continued control of operating costs. You may recall that we recognized higher stock compensation expense in the first quarter of 2013, and lesser amounts in the remainder of 2013, due to a required shift in timing of expense recognition. We expect the pattern to continue in 2014.

Cost controls remain in place across our business, with a particular focus in areas like Australia, where headwinds continue to impact our mining-related business there. Looking closer at the Australia example, local currency revenues were down almost 13% in the year. But, operating costs declined by almost 16%, reflecting the impact of our restructuring program and continued cost discipline.

Our investment in research and development this quarter was $12 million, relatively flat versus last year. For the year, research and development costs were up $5 million, as we continue to invest in a significant pipeline of new core products. There was a $1 million foreign currency loss this quarter, as well as $1 million in restructuring expense, as we continue to execute our Europe 2.0 initiative and other initiatives in Australia.

Operating income was $41 million, or 14.2% of sales in the quarter, a 210 basis point improvement over the prior year's quarter. Operating margin finished the full year at 12.8% of sales, a 60 basis point improvement over 2012 on an improved mix of core product sales, improved product margins, and carefully managed operating expenses.

Our consolidated tax rate this quarter was 30%. The year-to-date effective tax rate is 29.3% versus 31.7% in 2012, reflecting an improved earnings profile across taxing jurisdictions and the recognition of both the 2012 and 2013 research and development tax credits in 2013.

Net income was $25 million in the fourth quarter, or $0.68 per basic share. Excluding income from discontinued operations and $4 million of pre-tax restructuring, foreign exchange losses, and asset-related gains and losses, adjusted earnings were $28 million, or $0.75 per basic share, a 36% increase over the equivalently adjusted fourth quarter of the prior year.

For the full year 2013, net income was $88 million, or $2.37 per basic share. Excluding income from discontinued operations and $12 million of pre-tax restructuring, foreign exchange losses and asset-related gains and losses, adjusted earnings were $94 million, or $2.54 per basic share, an 11% increase over 2012.

Free cash flow was $36 million in the fourth quarter, approximately 140% of our net income. Cash at the end of the year, composed largely of cash outside the United States, was $96 million, consistent from the end of the third quarter, and up $14 million from the end of 2012. Our total debt at the end of the quarter was $268 million, down $21 million from the third quarter of 2013.

The fourth-quarter finish reflects our ongoing focus on driving core sales throughout developed and emerging markets, continued focus on operational excellence, and diligent management of operating costs. This focus continued to deliver earnings improvement during 2013, in spite of the regulatory delays in expected breathing apparatus product approvals. We are cautiously optimistic that we will move through these issues in 2014 and bring our product innovations to the marketplace.

Thank you for your attention. I will, now, return the microphone to Bill.

Bill Lambert - *Mine Safety Appliances Company - President & CEO*

Thank you, Stacy. As Stacy said, we continued to push hard to execute our key initiatives and long-term goals in 2013, yielding promising results. Our ongoing commitment to driving a higher level of core product sales, controlling manufacturing and operating costs, while continuing to invest in core-oriented R&D activities, helped us recognize solid improvements in earnings during the quarter.

While SCBA-related testing and certification delays and ongoing economic uncertainty cause me to have guarded optimism heading into 2014, our results in 2013 continued to reinforce the sound success of our long-term strategy. We will continue to focus on the core competencies that guide us, even in challenging times, fueling the Company's growth and enhancing long-term value for our shareholders.

Thank you very much for your attention this morning. At this time, our three geographic presidents, Nish Vartanian, Ron Herring, and Kerry Bove, have joined Stacy McMahan and me, and we are happy to take any questions you might have.

Please remember that MSA does not give what is referred to as guidance, and that precludes most discussion related to our expectation for future sales and earnings. Having said that, we will now open the call to your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Edward Marshall, Sidoti & Company.

Edward Marshall - *Sidoti & Company - Analyst*

Good morning, everyone.

Ken Krause - *Mine Safety Appliances Company - Executive Director of Global Finance*

Good morning, Ed.

Edward Marshall - *Sidoti & Company - Analyst*

My first question was on the margin, and I wanted to kind of discuss that a bit. I'm looking at it from an adjusted basis, so, less the restructuring, it looks like it was about 14.7% after that restructuring. I assume 90 basis points came from the divestiture, at least on the gross margin side; I'm assuming that it just flows through.

But aside from that, was it volume driven? Was there any price in there? Can we talk to that adjusted margin in the quarter and what drove that performance?

Stacy McMahan - *Mine Safety Appliances Company - SVP & CFO*

Hi, Ed. It's Stacy. Thank you for the question.

Yes, certainly some of that flowed through -- the discontinued operations, certainly, flowed through to the margin. You also see an enhanced mix of the core products in the fourth quarter, which is kind of the usual story as we improve our margins. Our best estimate, at this time, is somewhere between 1% and 2% is related to our pricing activities in the quarter. And then, we continue to have some product-cost improvements.

Edward Marshall - *Sidoti & Company - Analyst*

When you mention pricing of, say, 1% to 2%, is that on a year-over-year basis or sequential basis? Because, when you look Q3 to Q4, there is a big difference, and I assume some of that is volume difference in Q3 to Q4. I'm trying to get a good look at 2014 and what you might be able to do from a margin perspective? And there is an awful lot of discrepancies between Q3 and Q4.

Stacy McMahan - *Mine Safety Appliances Company - SVP & CFO*

The sequential movement between Q3 and Q4 is mostly driven by the large orders in the mix, which are typically at lower prices and lower margin.

Edward Marshall - *Sidoti & Company - Analyst*

Okay. And I'm curious, now that you look at this adjusted range, and I'm wondering if you would give an update on the 15% by 2015, because you are pretty much already there?

Stacy McMahan - *Mine Safety Appliances Company - SVP & CFO*

We are very committed to that target. I think there is much uncertainty regarding the approvals of the next breathing apparatus for the fire service market. But we, again, are cautiously optimistic, and we remain committed to that target, given the externalities that we are dealing with.

Edward Marshall - *Sidoti & Company - Analyst*

Okay. I would like to take a second to discuss, maybe from a strategic view, on the divestiture. I understand where you are coming from, from the margin perspective. Bill, I always thought it was -- the strategy was: We carry some of these large -- these distributors with peripheral kind of inventories that, ultimately, will be a vehicle for us to push our core product into these regions? I'm just curious if there has been a change in that strategy, or have you found different vehicles to market, et cetera?

Bill Lambert - *Mine Safety Appliances Company - President & CEO*

Yes, that is a good question, Ed. On a global basis, when we look across the globe, the strategy still holds. So, adjacent product lines support our sales of core product lines to most of our market verticals.

South Africa, in particular, is a different story. In South Africa, years ago we acquired a distribution partner there called Select PPE. We acquired that company because it provided us with these opportunities to sell into the mining segment within South Africa. But our ability to actually move toward greater percent of sales from core products in those segments just never fully developed the way we thought it would.

As we indicated in our press release and in our commentary, 94% of the sales in South Africa, through Select PPE and in Zambian operations -- 94% of those sales were in non-core areas; things like safety clothing and steel-toed shoes, and boots and gloves. These non-core areas are all fiercely competitive, price-driven type purchases that have inherently low gross margins.

So, we just felt that, that's not what we do. And we can't compete the way others, who really do have a distribution model in their business plan -- how they can compete more effectively than we. So, we just thought that it would be better, and that we realized the value from that business by divesting of it and investing our efforts more in the core areas.

We are not, in any way, moving away from the South African market. In fact, we are just taking our South African business, then, and focusing it more on the core areas. And maybe some of the adjacent product lines, like fire helmets, where we, in fact, think we can compete very successfully.

Edward Marshall - *Sidoti & Company - Analyst*

Okay. And then, finally, if I look at the SCBA -- and you have given a good update and timing-wise on that. I'm curious: Has there been a decision made yet by MSA as to whether or not you submit both the M7 XT and the G1 for testing? Or just one of those masks? Have you made a decision which way you would go?

Bill Lambert - *Mine Safety Appliances Company - President & CEO*

We've got them both in the approval process right now, Ed. Both are in the pipeline with NIOSH and with the certification agencies involved with the testing. They are both in the pipeline.

Edward Marshall - *Sidoti & Company - Analyst*

Just to be clear: My understanding is NIOSH won't release one mask? All approvals will be given at the same time? Do you have any clarity as to whether that G1 is included, or is it just the XT that will be included when those approvals are given?

Bill Lambert - *Mine Safety Appliances Company - President & CEO*

That is really tough for us to comment on, Ed, because we just don't know how NIOSH's thinking in that regard changed. Last year, I think that was the thinking, that new product coming through meeting the 2013 NFPA standard, that they would unlikely give just one manufacturer approval, and an edge in the marketplace, that they would hold those approvals until they had at least a couple and release them at the same time.

But to be honest, so much has changed over the last three months, with NIOSH's pronouncement in November, that the CBRN testing that had been conducted by their outside contractor. I think it just throws everything up in the air, and we don't have great clarity on what NIOSH's plans might be in that regard, whether they would release approvals as they are made, which I tend to believe that would be the case. But they may end up holding some of those together.

Our feeling here is that the M7 XT would gain approval prior to the G1 gaining approval, just based on the dates of our submittals for those approvals, and our sense of the backlog of product approvals going through the government right now.

Edward Marshall - *Sidoti & Company - Analyst*

In years past, you have been the first product approved -- I think it was 2007. Do you have any -- as the race for submittal, do you have any idea where you stand in line as opposed to where the other guys have submitted their products?

Bill Lambert - *Mine Safety Appliances Company - President & CEO*

I don't, Ed. I don't have a good sense of that right now.

Edward Marshall - *Sidoti & Company - Analyst*

Thanks.

Bill Lambert - *Mine Safety Appliances Company - President & CEO*

Okay.

Operator

Richard Eastman, Robert W. Baird.

Richard Eastman - *Robert W. Baird & Company, Incorporated - Analyst*

Good morning.

Bill Lambert - *Mine Safety Appliances Company - President & CEO*

Hi, good morning, Rick.

Richard Eastman - *Robert W. Baird & Company, Incorporated - Analyst*

Just a quick follow up, maybe, before we leave the US fire service marketplace. Could you give -- Stacy, could you just give the percentage of fourth-quarter revenue in North America that came from fire service -- just reported?

Stacy McMahan - *Mine Safety Appliances Company - SVP & CFO*

Percentage of North American revenue in the quarter that came from fire service from the US fire service -- North America fire service, sorry, was 20%.

Richard Eastman - *Robert W. Baird & Company, Incorporated - Analyst*

And then, industrial -- was that like 79%?

Bill Lambert - *Mine Safety Appliances Company - President & CEO*

That is exactly right.

Stacy McMahan - *Mine Safety Appliances Company - SVP & CFO*

You got it. Military was 1%, yes.

Richard Eastman - *Robert W. Baird & Company, Incorporated - Analyst*

When we talk about the fire service business, I think you said SCBA sales were down $5 million year over year -- my thought is that in a normalized market that business would have been up. So, the delay caused by this regulatory delay, there is more than $5-million impact, would that be fair, on sales in North America? If you follow my train of thought?

Bill Lambert - *Mine Safety Appliances Company - President & CEO*

Yes, if I understand you correctly, Rick, in that fourth quarter, we definitely saw the impact, as we indicated. 22% decline in breathing-apparatus sales to the US fire service, roughly about -- that equates to about $5 million down. If you look at the full year -- even with that low quarter -- if you look at the full year, sales were up almost $6 million, overall, from 2012, a 7% increase.

So, yes, we had a really tough fourth quarter because of the sequestration, the government shutdown, then the whole CBRN issue, getting those approvals -- yes, we had a lousy fourth quarter. But we still feel very optimistic about where this market is headed -- the opportunities there. When we look back at those really high growth years of 2003, 2004, 2005, and then you kind of overlap a product life cycle here of about 10 years, then you know that this market is really entering a phase of growth. That is what we firmly believe, and that is what we have positioned ourselves for.

Richard Eastman - *Robert W. Baird & Company, Incorporated - Analyst*

Yes. Now, the first quarter of 2014 is not going to look any better, I presume, given that we have a little stronger comparison year over year, and we have the same trailing issues. So, one would imagine the fire service in North America looks worse, not better -- is that a fair assessment --?

Bill Lambert - *Mine Safety Appliances Company - President & CEO*

I don't know if it looks worse, but it certainly does not look better.

Richard Eastman - *Robert W. Baird & Company, Incorporated - Analyst*

Okay, that's fair.

You know what, I just want to flip over for a minute -- I've got to give you guys some due on Europe. That net income number in Europe looks really good. Is that sustainable?

And then, can I also ask, if you look at Europe, at the EBIT line, can you give us a sense of what margin sales contribute at the EBIT line? And how that improved year over year -- so, it's kind of take the tax rate stuff out of it?

Stacy McMahan - *Mine Safety Appliances Company - SVP & CFO*

What I can tell you is that there were certainly restructuring charges that affected that European net income line. And so, you can back some of those out for the year -- that was close to $3 million gross.

Richard Eastman - *Robert W. Baird & Company, Incorporated - Analyst*

Okay. Net income -- so, that's net of tax or gross?

Stacy McMahan - *Mine Safety Appliances Company - SVP & CFO*

It's gross.

Richard Eastman - *Robert W. Baird & Company, Incorporated - Analyst*

Okay. I'm just trying to get at the EBIT -- has the EBIT contribution there improved meaningfully, like, 100 basis points, 200? How does it look relative to your corporate average?

Stacy McMahan - *Mine Safety Appliances Company - SVP & CFO*

We have seen modest improvement in Europe. With the large improvements coming after the full implementation of the strategy, we expect to see some partial year in 2015 and full-year impacts of those in 2016. So, the larger improvements are still to come, but we have had modest improvement.

Bill Lambert - *Mine Safety Appliances Company - President & CEO*

Okay, Rick, let me provide some texture there as well, and Stacy can provide the detail numbers, I'm sure, after she has a chance to look at it. We are seeing some very good improvement, I believe, in our pre-tax operating margins coming out of Europe. Where we've commented before, those were in the low-single digits last year. I'm looking at full-year results. And we are in the low-double digits now, which is great to see.

We had relatively flat sales, yet we saw about a 9% increase in EBIT margins -- excuse me, a 9% increase in operating income -- pre-tax operating income on those flat sales increases. So, the restructuring efforts that Ron Herring and his team have gone through over there, the implementations of our Europe 2.0 and 2.0x initiatives, they are all showing results -- a more efficient, better aligned organization over there. So, I'm pleased by the performance that we are seeing coming out of MSA Europe.

Richard Eastman - *Robert W. Baird & Company, Incorporated - Analyst*

Okay. And then, just, when we think about the gross profit margin, we tend to look at that on a revenue basis without that lease income stuff in there. So, I'm looking at the gross margin at about 44.7% for the full year on a restated basis, and that's up like 60 basis points.

So, when you look at that as a basis, and then you look into 2014, we have got some puts and takes in terms of sales mix, I get that. But is there -- can we target, or do you target maybe a 50- to 100-basis-point -- or 100-basis-point improvement in that gross margin from sales mix, growth in core products, new products? Is that fair to make that assumption that our gross margin could end at 45.7%, to make the math easy?

Bill Lambert - *Mine Safety Appliances Company - President & CEO*

Rick, I'll just -- I'll chime in here -- let me answer the question without answering the question. That is the kind of -- you are looking for some guidance that we don't typically give.

But I know you know our strategy quite well. You know that our core areas of the Business are now representing upwards of 71% of our total sales. I see that increasing, I see that improving, getting up into the 75% of our total sales range, as we diminish our peripheral product sales.

So, just from a mix perspective of what we are, where we are going, our commitment to the gas-detection market, both fixed gas and flame detection and portable instruments, those are some of our highest gross margin areas of the Business. And then, we know that SCBA is coming back, and that's also a very higher gross margin part of our Business.

So, I think there are good, solid indications and reasons why our margins would continue to improve. But to give you an exact number of what that is, and how far we can push that, especially this year, I'm going to back away from that.

Richard Eastman - *Robert W. Baird & Company, Incorporated - Analyst*

Okay. Well, I'll tell you what, I'll do it for you (laughter).

Two more quick questions. One is: We bumped into a press release on this detector tube business that you sold -- is that anything? Is that a rounding error size-wise?

Bill Lambert - *Mine Safety Appliances Company - President & CEO*

Yes, I would characterize that as more of a rounding error.

Richard Eastman - *Robert W. Baird & Company, Incorporated - Analyst*

Okay. And then, just the last question: Stacy, could you just give the free cash flow number for the full year?

Stacy McMahan - *Mine Safety Appliances Company - SVP & CFO*

Yes, just a moment.

Richard Eastman - *Robert W. Baird & Company, Incorporated - Analyst*

Sorry.

Stacy McMahan - *Mine Safety Appliances Company - SVP & CFO*

No, that's okay.

Richard Eastman - *Robert W. Baird & Company, Incorporated - Analyst*

I should have phoned these in early.

Stacy McMahan - *Mine Safety Appliances Company - SVP & CFO*

It is $74.3 million for the full year.

Richard Eastman - *Robert W. Baird & Company, Incorporated - Analyst*

And that's -- you obviously exclude the dividend, correct? That is before the dividend?

Stacy McMahan - *Mine Safety Appliances Company - SVP & CFO*

That is just cash from operations, net of capital expenditures.

Richard Eastman - *Robert W. Baird & Company, Incorporated - Analyst*

Okay, excellent. Thank you.

Stacy McMahan - *Mine Safety Appliances Company - SVP & CFO*

You're welcome.

Operator

Shivangi Tipnis, Global Hunter.

Shivangi Tipnis - *Global Hunter Securities - Analyst*

Hi, guys. Congratulations on the upcoming anniversary and (inaudible). I am pretty sure you don't have much time for my questions to be answered (inaudible). I just have a couple of questions on Europe. You had pretty strong margins for the [quarter four], so do we expect to see at least similar, going forward, something in that [70%] of the Europe (inaudible), or do you see some seasonal impacts and macro impacts (inaudible).

Stacy McMahan - *Mine Safety Appliances Company - SVP & CFO*

Okay, I'm going to repeat the question just to be sure I heard it correctly, Shivangi. I think you are asking if Europe's margins, that 70%, will continue?

Shivangi Tipnis - *Global Hunter Securities - Analyst*

Yes, maybe I wasn't too clear. The Europe [Q4] was quite strong with margins, so do we expect similar margins going forward, considering that 70% of your [entire Europe] is already under this 2.0 initiative?

Stacy McMahan - *Mine Safety Appliances Company - SVP & CFO*

Yes, okay, I understand the question now. I might invite Ron Herring to also comment.

70% of the revenues in Europe are operating now under the shared SAP environment. And we actually, the last two countries came in closer to the end of the year. So, you are going to see a nice, full-year impact of having consolidated distribution center, and those -- Italy and Spain being, now, a part of the mix in 2014.

Ron, would you add anything to that?

Ron Herring - *Mine Safety Appliances Company - President of MSA Europe*

No, Stacy, I think you nailed it. Our expectation is we would -- I don't think there is anything in the overall plan, here, that would change the trajectory that we have going right now. If anything, we have a pause as we implement some of the principal operating company, but other than that, I think we are pretty much steady state as far as where we are going on it.

Shivangi Tipnis - *Global Hunter Securities - Analyst*

Okay. Just one more question. I'm curious to know: How do your contracts run with the international fire markets, like in terms of size, duration, and pricing -- are they short-term, annual, or long-term contracts?

Bill Lambert - *Mine Safety Appliances Company - President & CEO*

Yes, I'll provide a comment here, and then I'll look to Kerry to add anything to that.

Each of these international cities, municipal fire departments or government fire departments that we win, those are competitively bid. In some parts of the world, we have distributors that help represent our interests to those fire departments. In other parts of the world, we take that business direct, ourselves. In just about all cases, you would have what are multi-year contracts, over the life of the product cycle for the SCBA, where we win those -- not too dissimilar to what goes on, here, in North America, or other developed markets of the world.

Kerry, anything you want to add there with regard to how we compete or how we go to market in those international fire service segments?

Kerry Bove - *Mine Safety Appliances Company - President of MSA International*

No, I think you got it all, Bill.

Bill Lambert - *Mine Safety Appliances Company - President & CEO*

Does that answer your question?

Shivangi Tipnis - *Global Hunter Securities - Analyst*

Yes, absolutely. Just a last question: I know that industrial sales for Europe were a little weak, so can you comment still on what were your strongest markets, and what were your weakest? I believe even Middle East and Russia is a part of Europe, right?

Bill Lambert - *Mine Safety Appliances Company - President & CEO*

Yes, I think, as Stacy indicated in some of her commentary, what we have to consider on a quarter comparison for MSA Europe, on the industrial side, is that in the fourth quarter of 2012, we had a very large shipment of supplied-air respirators to the Caspian Sea region in the oil-and-gas segment of the market. We had about a $3-million delta from one quarter to the next because we didn't have a repeat of that large shipment to the Caspian Sea region. If you take that out, if you take that comparison out of the mix, our industrial sales in Europe actually were up 2%, as Stacy had indicated.

So, I don't feel like there is any kind of a problem there. In fact, we sense some optimism on the industrial side in Europe. It is important to look at it in an apples-to-apples basis, and consider the fact that we had a very large order in the fourth quarter of 2012 that shipped, and we only had about half of that as we look at the 2013 equivalent quarter.

Shivangi Tipnis - *Global Hunter Securities - Analyst*

Okay. Fair enough. Thanks for answering my questions, and congratulations, again, for a good quarter.

Bill Lambert - *Mine Safety Appliances Company - President & CEO*

Okay, thank you.

Operator

Brian Rafn, Morgan Dempsey Capital.

Brian Rafn - *Morgan Dempsey Capital Management - Analyst*

Good morning, everybody.

Stacy McMahan - *Mine Safety Appliances Company - SVP & CFO*

Hi, Brian.

Brian Rafn - *Morgan Dempsey Capital Management - Analyst*

Question for you on the breathing apparatus. As you guys have seen this delay, what is your sense on the order rollout once these certifications are released? Is it an avalanche?

And then, a second part of the question is: What are you doing from a manufacturer supply? Are you guys building inventory on these new products? Or is there an issue where you might not want to build inventory because you are really not certified on it? I'm looking for a little color there?

Bill Lambert - *Mine Safety Appliances Company - President & CEO*

I think it is somewhere in the middle of what you describe, Brian. I don't think that we expect it to be any kind of an avalanche, per se, of new orders. There is a lot of interest by fire departments right now, as I indicated in my earlier commentary, and some of those fire departments are taking a wait-and-see because they want to see what the new breathing apparatus is, both from MSA and from our competitors.

So, we are anticipating it to be strong, but I don't think describing it as an avalanche of orders would describe the way we expect it to go. We expect it to be strong, we expect it to be a ramp up, but not an avalanche, per se.

As far as what we are doing, internally, from an inventory-build standpoint, we are strategically building our inventory, but at the end of the day, we also have to be a little bit cautious to say: Well, we don't have quite approved product, just yet, and approved configurations, just yet. So, we are trying to be smart about what we put into inventory in certain design configurations, and do it in the right way.

But just, let me put it in context, and some of the analysts, I think, understand this quite well, and you might also, Brian, because you have been following us for a while. When you look at our SCBA sales, overall, for MSA, the US fire service represents about 15% of total sales for North America, and it represents 7% of overall MSA sales.

So, just to kind of put it in context, SCBA sales for the US fire service are important to us. We are a market leader. But it's not driving, in this overemphasized way, the performance of MSA. We've got a lot of other levers that we are pulling, and we've got a lot of other product lines and markets that we are able to go after.

And sure, I'm disappointed that we saw a decrease in SCBA sales to the US fire service. But having said that, as we saw in the fourth quarter, there are other parts of the Business, there are other municipal fire departments in other parts of the world, where we are still able to sell product, and we can keep our performance on the up and up.

Brian Rafn - *Morgan Dempsey Capital Management - Analyst*

Bill, is your sense that the first adopters of these new standards, when they are certified, are your [Class E, A-1] urban, not so much your volunteer fire departments, your rural?

Bill Lambert - *Mine Safety Appliances Company - President & CEO*

Nish, I'll turn that question over to you.

Nish Vartanian - *Mine Safety Appliances Company - President of MSA North America*

No, I really don't see it that way. It's across the board. You'll have volunteer departments, just as you have the paid departments transitioning into the latest version SCBA, so it is pretty well spread across the --

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Brian Rafn - *Morgan Dempsey Capital Management - Analyst*

Okay. You mentioned, as one of your comments, today, Bill, you talked about -- let's see if the product here -- a Prime XIR gas detector and a DF-8500 toxic gas for China. And I think you alluded to the fact that these were designed and built in China. The question that I have, two parts: Is there, with technology is a lot of manufactured space that there are piracy and technology transfer issues, you don't open the paper at any single day and China is trying to steal something else.

One: How do you guys look at that piracy of technology if you are building stuff over there? And two: If you do domestic-content assembly in China, does that give you any preference in selling to Chinese fire departments or Chinese government entities?

Bill Lambert - *Mine Safety Appliances Company - President & CEO*

Let me answer that question in a couple of ways. Number one: There are a number of levels of security that we take to assure that our intellectual property is protected, from the processes and procedures we use in our Chinese R&D center, to things like our HR policies that allow us to have much, much lower turnover rates of our engineers than what are typical for many Chinese companies.

We are really pleased by our Chinese R&D development. How that organization has come up to speed. What they have done. How they live the MSA values. Having said that, we have some very specific and very tight security measures to make sure that our technology doesn't walk down the street, so to speak.

Additionally, some of the most secret IP that we have, we control in a very tight way. So, much of that, for instance, on the fixed-gas and flame-detection side of the Business, which were the products that you are talking about here, that IP -- the heart of that IP is held here in the US. So, a component or subassembly that incorporates some of that IP would then be shipped to our Chinese production facilities.

And so, we try to understand what's at the heart of the intellectual property, how do we protect that the most? But then, how do we also take advantage of, if you will, some of the things that we see by designing products in China for the China and Asian market? And we think that strategy that we've got going on over there is pretty successful, and I'm really pleased by these new products, which our Chinese R&D center and manufacturing center are bringing to market for the Asian oil-and-gas market.

Brian Rafn - *Morgan Dempsey Capital Management - Analyst*

And then, the second part of that is: For those products that you do develop there, does that give you any preference, sales advantage, any leverage selling into China with that content and assembly being sourced in China?

Bill Lambert - *Mine Safety Appliances Company - President & CEO*

I'll turn that over to Kerry. Kerry, how do you feel about that?

Kerry Bove - *Mine Safety Appliances Company - President of MSA International*

There's two parts to that question. One: It does give us a lot of advantage making the product in China. But on those products that we launched, one of those products, a version of it, a stainless-steel version of it was designed in China, but it's manufactured in the United States because of the fact that you manufacture it outside of China also gives you a market advantage. We can, because of our global footprint, we can take advantage of whatever way helps us in the market.

Brian Rafn - *Morgan Dempsey Capital Management - Analyst*

Okay. All right.

You guys talked, I think, a little bit about mining -- I think you mentioned some softness in Australia across the world. When you have seen some of these mining disasters, like Chile and that, how strong does the international mining safety, their OSHA, counterbalance or offset a business-cycle decline maybe in mining activity? Or is really the safety issue tied really and levered to the business sales?

Bill Lambert - *Mine Safety Appliances Company - President & CEO*

Yes, I think that, behind every mining disaster that you read about, there tends to be always increased regulation and safety standards that go into place. But I would say that the cyclical nature of the mining market far overshadows what we see happening when safety regs increase in some fashion. We really haven't quite seen the impacts of safety regulations that would outweigh what you see just happening overall in the cyclicality of the mining market on a global basis.

Brian Rafn - *Morgan Dempsey Capital Management - Analyst*

Okay. When you talked about R&D -- and this is probably an anecdotal observation. How do you see, Bill, your pipeline for 2014 in new products versus, say, maybe over the last three to five years. Is it as broad? Is it more niche segments? More products, less products, more high end, more low end -- how would you characterize 2014?

Bill Lambert - *Mine Safety Appliances Company - President & CEO*

As I indicated in my commentary, I am very excited about 2014's pipeline of new products. The SCBA we have talked about -- in each of the core areas -- I won't be too specific, here, announcing our product launches. In each of our core areas, we have got some really exciting products and technologies. Those tend to be the profitable -- more profitable, areas of our Business. And they tend to be, to use your words, more of the high-end type products.

I am very excited about what we have in the pipeline, what we plan to introduce, here, throughout the year. I'm hoping that in this call, next year, I can tell you about some of those great successes, and how that's impacted our Business.

Brian Rafn - *Morgan Dempsey Capital Management - Analyst*

Let me ask: When you look at your global footprint -- you guys have been global long before global was sexy. When you look at your brick and mortar all over the world, where are you putting capital expenditures for 2014? And how would you describe, maybe in broad terms, by a geographic segment, what your capacity utilization is? You don't have to go plant by plant. I'm just trying to get a sense as to where are bottlenecks, and where are areas where you do have some capacity?

Bill Lambert - *Mine Safety Appliances Company - President & CEO*

A lot of our CapEx is not going into bricks and mortar. A lot of our CapEx, quite honestly, is going into IT systems, throughout the world, that coordinate -- better coordinate our financial systems, reporting systems around the world. Ron Herring, in this call, mentioned our principal operating model that we are incorporating into MSA Europe. A move of our headquarters' functions to Switzerland has a lot of benefits to us. That is not a bricks-and-mortar type move, that's more along the lines of the SAP integration of all of our affiliates.

We are making investments in Latin America, for sure. We have added some capacity to parts of Latin America because we have seen such strong growth down there, and we continue to forecast stronger growth, even though it might be a little bit cyclical. We see a long-term trend that looks very favorable there.

But it is not about bricks and mortar. It is much more about adding IT systems to MSA so that we can more efficiently run our businesses -- have greater transparency to what's going on. We're adding tools -- some CapEx to tools, some of the new products that get developed and produced around the world, but it is not a bricks-and-mortar type build out.

Brian Rafn - *Morgan Dempsey Capital Management - Analyst*

Okay, and then just one final. You talked, certainly -- your exit from the ballistic helmet market; what would be left in military from the five core areas, and how you see that playing out?

Bill Lambert - *Mine Safety Appliances Company - President & CEO*

Well, as we talked about in years past, MSA is the largest producer of self-contained breathing apparatus to the US Air Force, so we still support that business. We are the only, to my knowledge, provider of SCBA to the United States Air Force, here and around the world, so you have that ongoing business. We've got other opportunities for other product lines in niche areas, but the really big ones: gas masks, going back years past; ballistic vests; ballistic helmets; those days are gone.

Brian Rafn - *Morgan Dempsey Capital Management - Analyst*

Okay. Given the Air Force, is there any, in that SCBA, is there any opportunity [might] with the Navy or the Marines?

Bill Lambert - *Mine Safety Appliances Company - President & CEO*

Sure, there's opportunity.

Nish Vartanian - *Mine Safety Appliances Company - President of MSA North America*

Sure, periodically, we have that. And, of course, US Coast Guard is also standardized on MSA SCBA.

Brian Rafn - *Morgan Dempsey Capital Management - Analyst*

Okay. Thanks, guys. Good job.

Bill Lambert - *Mine Safety Appliances Company - President & CEO*

Okay.

Operator

At this time, I would like to turn the call back to Mr. Ken Krause for final remarks.

Ken Krause - *Mine Safety Appliances Company - Executive Director of Global Finance*

Great. Thank you, Shannon.

Seeing that we have no more questions, that concludes this morning's call. If you missed a portion of the conference, an audio replay will be available on our website for the next 30 days, as well as the transcript of the call.

On behalf of our entire team here, I want to thank you, again, for joining us, and we look forward to talking with you again soon. Have a great day.

Operator

Thank you, ladies and gentlemen. This concludes today's conference. Thank you for participating. You may now disconnect.