BRADY CORP
Form 10-K
September 13, 2018
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-K
x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended July 31, 2018
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission file number 1-14959
BRADY CORPORATION
(Exact name of registrant as specified in charter)

Wisconsin	39-0178960
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
6555 West Good Hope Road, Milwaukee, WI	53223
(Address of principal executive offices)	(Zip Code)

(414) 358-6600
(Registrant's telephone number, including area code)
Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Class A Nonvoting Common Stock, Par Value $.01 per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ý No ¨
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No ý
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No ¨
Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ý No ¨
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ý
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ý	Accelerated filer ¨	Emerging growth company ¨
Non-accelerated filer ¨	Smaller reporting company ¨	

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or ¨

revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).   Yes ¨   No ý

The aggregate market value of the non-voting common stock held by non-affiliates of the registrant as of January 31, 2018, was approximately $1,733,322,847 based on the closing sale price of $38.25 per share on that date as reported for the New York Stock Exchange. As of September 11, 2018, there were 48,465,547 outstanding shares of Class A Nonvoting Common Stock (the "Class A Common Stock"), and 3,538,628 shares of Class B Common Stock. The Class B Common Stock, all of which is held by affiliates of the registrant, is the only voting stock.

Table of Contents

INDEX

PART I	Page
Item.1 Business	3
General Development of Business	3
Financial Information About Industry Segments	3
Narrative Description of Business	3
Overview	3
Research and Development	5
Operations	5
Environment	6
Employees	6
Financial Information About Foreign and Domestic Operations and Export Sales	6
Information Available on the Internet	6
Item 1A. Risk Factors	6
Item 1B. Unresolved Staff Comments	10
Item 2. Properties	11
Item 3. Legal Proceedings	11
Item 4. Mine Safety Disclosures	11
PART II	
Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	12
Item 6. Selected Financial Data	14
Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations	15
Item 7A. Quantitative and Qualitative Disclosures About Market Risk	26
Item 8. Financial Statements and Supplementary Data	27
Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure	57
Item 9A. Controls and Procedures	58
Item 9B. Other Information	60
PART III	
Item 10. Directors, Executive Officers and Corporate Governance	60
Item 11. Executive Compensation	64
Compensation Discussion and Analysis	64
Management Development and Compensation Committee Interlocks and Insider Participation	76
Management Development and Compensation Committee Report	76
Compensation Policies and Practices	76
Summary Compensation Table	77
Grants of Plan-Based Awards for 2018	78
Outstanding Equity Awards at 2018 Fiscal Year End	79
Option Exercises and Stock Vested for Fiscal 2018	82
Non-Qualified Deferred Compensation for Fiscal 2018	82
Potential Payments Upon Termination or Change in Control	82
CEO Pay Ratio Disclosure	82
Compensation of Directors	86
Director Compensation Table — Fiscal 2018	87
Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	88
Item 13. Certain Relationships, Related Transactions, and Director Independence	89
Item 14. Principal Accounting Fees and Services	90
PART IV	

Item 15. Exhibits and Financial Statement Schedules	91
Item 16. Form 10-K Summary	95
Signatures	96

PART I

Item 1. Business

(a) General Development of Business

Brady Corporation ("Brady," "Company," "we," "us," "our") was incorporated under the laws of the state of Wisconsin in 191
The Company's corporate headquarters are located at 6555 West Good Hope Road, Milwaukee, Wisconsin 53223, and the telephone number is (414) 358-6600.

Brady Corporation is a global manufacturer and supplier of identification solutions and workplace safety products that identify and protect premises, products and people. The ability to provide customers with a broad range of proprietary, customized and diverse products for use in various applications, along with a commitment to quality and service, a global footprint, and multiple sales channels, have made Brady a leader in many of its markets.

The Company's primary objective is to build upon its market position and increase shareholder value by enabling a highly competent and experienced organization to focus on the following key competencies:

- Operational excellence — Continuous productivity improvement, automation, and process transformation.
- Customer service — Focus on the customer and understanding customer needs.
- Innovation advantage — Technologically-advanced, internally-developed proprietary products that drive revenue growth and sustain gross profit margins.
- Global leadership position in niche markets.
- Digital capabilities.
- Compliance expertise.

The long-term sales growth and profitability of our segments will depend not only on improved demand in end markets and the overall economic environment, but also on our ability to continuously improve operational excellence, focus on the customer, develop and market innovative new products, and to advance our digital capabilities. In our Identification Solutions ("ID Solutions" or "IDS") business, our strategy for growth includes an increased focus on certain industries and products, a focus on improving the customer buying experience, and increasing investment in research and development ("R&D") to develop new products. In our Workplace Safety ("WPS") business, our strategy for growth includes a focus on workplace safety critical industries, innovative new product offerings, compliance expertise, and improving our digital capabilities.

The following were key initiatives supporting the strategy in fiscal 2018:

- Increased our investment in R&D by 14.2% and enhanced our innovation development process and the speed to deliver high-value, innovative products that align with our target markets.
- Drove operational excellence and provided our customers with strong customer service.
- Executed sustainable efficiency gains and increased the use of automation throughout our global operations as well as our selling, general, and administrative structures demonstrated through a reduction in selling, general and administrative ("SG&A") expenses as a percentage of net sales.
- Expanded our digital presence demonstrated through increased WPS digital sales.
- Grew through focused sales and marketing actions in selected vertical markets and strategic accounts.
- Enhanced our global employee development process to attract and retain key talent.

(b) Financial Information About Industry Segments

The information required by this Item is provided in Note 8 of the Notes to Consolidated Financial Statements contained in Item 8 - Financial Statements and Supplementary Data.

(c) Narrative Description of Business

Overview

The Company is organized and managed on a global basis within two reportable segments: Identification Solutions and Workplace Safety.

The IDS segment includes high-performance and innovative industrial and healthcare identification products that are manufactured under multiple brands, including the Brady brand. Industrial identification products are sold through distribution to a broad range of maintenance, repair, and operations ("MRO") and original equipment manufacturing ("OEM") customers and through other channels, including direct sales, catalog marketing, and digital. Healthcare identification products are sold direct and through distribution via group purchasing organizations ("GPO").

3

Table of Contents

The WPS segment includes workplace safety and compliance products, which are sold under multiple brand names primarily through catalog and digital channels to a broad range of MRO customers. Approximately half of the WPS business is derived from internally manufactured products and half is from externally sourced products.

Below is a summary of sales by reportable segment for the fiscal years ended July 31:

	2018	2017	2016
IDS	72.1 %	71.9 %	71.0 %
WPS	27.9 %	28.1 %	29.0 %
Total	100.0%	100.0%	100.0%

ID Solutions

Within the ID Solutions segment, the primary product categories include:

- Facility identification and protection, which includes safety signs, pipe markers, labeling systems, spill control products, lockout/tagout devices, and software and services for safety compliance auditing, procedure writing and training.
- Product identification, which includes materials and printing systems for product identification, brand protection labeling, work in process labeling, and finished product identification.
- Wire identification, which includes hand-held printers, wire markers, sleeves, and tags.
- People identification, which includes name tags, badges, lanyards, and access control software.
- Patient identification, which includes wristbands and labels used in hospitals for tracking and improving the safety of patients.
- Custom wristbands used in the leisure and entertainment industry such as theme parks, concerts and festivals.

Approximately 67% of ID Solutions products are sold under the Brady brand. In the United States, identification products for the utility industry are marketed under the Electromark brand; spill-control products are marketed under the SPC brand; and security and identification badges and systems are marketed under the Identicard, PromoVision, and Brady People ID brands. Wire identification products are marketed under the Modernotecnica brand in Italy and lockout/tagout products are offered under the Scafftag brand in the U.K.; identification and patient safety products in the healthcare industry are available under the PDC Healthcare brand in the U.S. and Europe; and custom wristbands for the leisure and entertainment industry are available under the PDC brand in the U.S. and the B.I.G. brand in Europe.

The ID Solutions segment offers high quality products with rapid response and superior service to provide solutions to customers. The business markets and sells products through multiple channels including distributors, direct sales, catalog marketing, and digital. The ID Solutions sales force partners with end-users and distributors by providing technical application and product expertise.

This segment manufactures differentiated, proprietary products, most of which have been internally developed. These internally developed products include materials, printing systems, and software. IDS competes for business on several factors, including customer support, product innovation, product offering, product quality, price, expertise, production capabilities, and for multinational customers, our global footprint. Competition is highly fragmented, ranging from smaller companies offering minimal product variety, to some of the world's largest major adhesive and electrical product companies offering competing products as part of their overall product lines.

ID Solutions serves customers in many industries, which include industrial manufacturing, electronic manufacturing, healthcare, chemical, oil, gas, automotive, aerospace, governments, mass transit, electrical contractors, leisure and entertainment and telecommunications, among others.

Workplace Safety

Within the Workplace Safety segment, the primary product categories include:

- Safety and compliance signs, tags, and labels.
- Informational signage.
- Asset tracking labels.
- First aid products.

- Industrial warehouse and office equipment.
- Labor law and other compliance posters.

Table of Contents

Products within the Workplace Safety segment are sold under a variety of brands including: safety and facility identification products offered under the Seton, Emedco, Signals, Safety Signs, SafetyShop, Signs & Labels and Pervaco brands; first aid supplies under the Accidental Health and Safety, Trafalgar, and Securimed brands; wire identification products marketed under the Carroll brand; and labor law and compliance posters under the Personnel Concepts and Clement Communications brands.

The Workplace Safety segment manufactures a broad range of stock and custom identification products, and also sells a broad range of related resale products. Historically, both the Company and many of our competitors focused their businesses on catalog marketing, often with varying product niches. However, the competitive landscape continues to evolve at an accelerating pace. Many of our competitors extensively utilize e-commerce to promote the sale of their products. A consequence of this shift is price transparency, as prices on non-proprietary products can be easily compared. Therefore, to compete effectively, we continue to build out our e-commerce capabilities and focus on developing unique or customized solutions, dynamic pricing capabilities, enhancing customer experience, and providing compliance expertise as these are critical to retain existing customers and convert new customers.

Workplace Safety primarily sells to businesses and serves many industries, including manufacturers, process industries, government, education, construction, and utilities.

Research and Development

The Company focuses its R&D efforts on pressure sensitive materials, printing systems and software, and it mainly supports the IDS segment. Material development involves the application of surface chemistry concepts for top coatings and adhesives applied to a variety of base materials. Systems design integrates materials, embedded software and a variety of printing technologies to form a complete solution for customer applications. In addition, the R&D team supports production and marketing efforts by providing application and technical expertise.

The Company owns patents and tradenames relating to certain products in the United States and internationally. Although the Company believes that patents are a significant driver in maintaining its position for certain products, technology in the areas covered by many of the patents continues to evolve and may limit the value of such patents. The Company's business is not dependent on any single patent or group of patents. Patents applicable to specific products extend for up to 20 years according to the date of patent application filing or patent grant, depending upon the legal term of patents in the various countries where patent protection is obtained. The Company's tradenames are valid ten years from the date of registration, and are typically renewed on an ongoing basis.

The Company spent $45.3 million, $39.6 million, and $35.8 million on its R&D activities during the fiscal years ended July 31, 2018, 2017, and 2016, respectively. The increase in R&D spending in fiscal 2018 compared to the prior year was due to the hiring of additional engineers as well as additional spending on new product development within the IDS and WPS segments. As of July 31, 2018, 248 individuals were engaged in R&D activities for the Company, an increase from 218 as of July 31, 2017.

Operations

The materials used in the products manufactured consist of a variety of plastic and synthetic films, paper, metal and metal foil, cloth, fiberglass, inks, dyes, adhesives, pigments, natural and synthetic rubber, organic chemicals, polymers, and solvents for consumable identification products in addition to electronic components, molded parts and sub-assemblies for printing systems. The Company operates coating facilities that manufacture bulk rolls of label stock for internal and external customers. In addition, the Company purchases finished products for resale.

The Company purchases raw materials, components and finished products from many suppliers. Overall, we are not dependent upon any single supplier for our most critical base materials or components; however, we have chosen in certain situations to sole source, or limit the sources of materials, components, or finished items for design or cost reasons. As a result, disruptions in supply could have an impact on results for a period of time, but we believe any disruptions would simply require qualification of new suppliers and the disruption would be modest. In certain instances, the qualification process could be more costly or take a longer period of time and in rare circumstances, such as a global shortage of critical materials or components, the financial impact could be material. The Company currently operates 39 manufacturing and distribution facilities globally.

The Company carries working capital mainly related to accounts receivable and inventory. Inventory consists of raw materials, work in process and finished goods. Generally, custom products are made to order while an on-hand quantity of stock product is maintained to provide customers with timely delivery. Normal and customary payment terms range from net 10 to 90 days from date of invoice and vary by geography.

The Company has a broad customer base, and no individual customer represents 10% or more of total net sales.

Table of Contents

Average time to fulfill customer orders varies from same-day to one month, depending on the type of product, customer request, and whether the product is stock or custom-designed and manufactured. The Company's backlog is not material, does not provide significant visibility for future business and is not pertinent to an understanding of the business.

Environment

Compliance with federal, state and local environmental protection laws during fiscal 2018 did not have a material impact on the Company’s business, financial condition or results of operations.

Employees

As of July 31, 2018, the Company employed approximately 6,200 individuals. Brady has never experienced a material work stoppage due to a labor dispute and considers its relations with employees to be good.

(d) Financial Information About Foreign and Domestic Operations and Export Sales

The information required by this Item is provided in Note 8 of the Notes to Consolidated Financial Statements contained in Item 8 — Financial Statements and Supplementary Data.

(e) Information Available on the Internet

The Company’s Corporate Internet address is www.bradycorp.com. The Company makes available, free of charge, on or through its Internet website copies of its Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to all such reports as soon as reasonably practicable after such reports are electronically filed with or furnished to the SEC. The Company is not including the information contained on or available through its website as part of, or incorporating such information by reference into, this Annual Report on Form 10-K.

Item 1A. Risk Factors

Investors should carefully consider the risks set forth below and all other information contained in this report and other documents we file with the SEC. The risks and uncertainties described below are those that we have identified as material, but are not the only risks and uncertainties facing us. Our business is also subject to general risks and uncertainties that affect many other companies, such as market conditions, geopolitical events, changes in laws or accounting rules, fluctuations in interest rates, terrorism, wars or conflicts, major health concerns, natural disasters or other disruptions of expected economic or business conditions. Additional risks and uncertainties not currently known to us or that we currently believe are immaterial also may impair our business and financial results.

Business Risks

Failure to compete effectively or to successfully execute our strategy may have a negative impact on our business and financial results.

We actively compete with companies that produce and market the same or similar products, and in some instances, with companies that sell different products that are designed for the same end user. Competition may force us to reduce prices or incur additional costs to remain competitive in an environment in which business models are changing rapidly. We compete on the basis of several factors, including customer support, product innovation, product offering, product quality, price, expertise, digital capabilities, production capabilities, and for multinational customers, our global footprint. Present or future competitors may develop and introduce new and enhanced products, offer products based on alternative technologies and processes, accept lower profit, have greater financial, technical or other resources, or have lower production costs or other pricing advantages. Any of these could put us at a disadvantage by threatening our share of sales or reducing our profit margins, which could adversely impact our business and financial results.

Additionally, throughout our global business, distributors and customers may seek lower cost sourcing opportunities, which could result in a loss of business that may adversely impact our business and financial results.

Our strategy is to expand into higher-growth adjacent product categories and markets with technologically advanced new products, as well as to grow our sales generated through the digital channel. While traditional direct marketing channels such as catalogs are an important means of selling our products, an increasing number of customers are purchasing products on the internet. Our strategy to increase sales through the digital channel is an investment in our internet sales capabilities. There is a risk that we may not continue to successfully implement this strategy, or if successfully implemented, not realize its expected benefits due to the continued levels of increased competition and pricing pressure brought about by the internet. Our failure to successfully implement our strategy could adversely impact our business and financial results.

Table of Contents

Failure to develop technologically advanced products that meet customer demands, including price expectations, could adversely impact our business and financial results.

Development of technologically advanced new products is targeted as a driver of our organic growth and profitability. Technology is changing rapidly and our competitors are innovating quickly. If we do not keep pace with developing technologically advanced products, we risk product commoditization, deterioration of the value of our brand, and reduced ability to effectively compete. We must continue to develop innovative products, as well as acquire and retain the necessary intellectual property rights in these products. If we fail to make innovations, or we launch products with quality problems, or if customers do not accept our products, then our business and financial results could be adversely affected.

Our failure or the failure of third-party service providers to protect our sites, networks and systems against security breaches, or otherwise to protect our confidential information, could adversely affect our business and financial results.

Our business systems collect, maintain, transmit and store data about our customers, vendors and others, including credit card information and personally identifiable information, as well as other confidential and proprietary information. We also employ third-party service providers that store, process and transmit proprietary, personal and confidential information on our behalf. We rely on encryption and authentication technology licensed from third parties in an effort to securely transmit confidential and sensitive information, including credit card numbers. Our security measures, and those of our third-party service providers, may not detect or prevent all attempts to hack our systems, denial-of-service attacks, viruses, malicious software, break-ins, phishing attacks, social engineering, security breaches or other attacks and similar disruptions that may jeopardize the security of information stored in or transmitted by our sites, networks and systems or that we or our third-party service providers otherwise maintain.

We and our service providers may not have the resources or technical sophistication to anticipate or prevent all types of attacks, and techniques used to obtain unauthorized access to or sabotage systems change frequently and may not be known until launched against us or our third-party service providers. In addition, security breaches can also occur as a result of non-technical issues, including intentional or inadvertent breaches by our employees or by persons with whom we have commercial relationships. Although we maintain privacy, data breach and network security liability insurance, we cannot be certain that our coverage will be adequate or cover liabilities actually incurred, or that insurance will continue to be available to us on economically reasonable terms, or at all. Any compromise or breach of our security measures, or those of our third-party service providers, could adversely impact our ability to conduct business, violate applicable privacy, data security and other laws, and cause significant legal and financial exposure, adverse publicity, and a loss of confidence in our security measures, which could have an adverse effect on our business and financial results.

Demand for our products may be adversely affected by numerous factors, some of which we cannot predict or control. This could adversely affect our business and financial results.

Numerous factors may affect the demand for our products, including:

- Future economic conditions of major markets served.
- Consolidation in the marketplace allowing competitors and customers to be more efficient and more price competitive.
- Future competitors entering the marketplace.
- Decreasing product life cycles.
- Changes in customer preferences.
- Ability to achieve operational excellence.

If any of these factors occur, the demand for our products could suffer, and this could adversely impact our business and financial results.

The loss of large customers or a significant reduction in sales to large customers could adversely affect our business and financial results.

While we have a broad customer base and no individual customer represents 10% or more of total sales, we conduct business with several large customers and distribution companies. Our dependence on these customers makes relationships with them important. We cannot guarantee that these relationships will be retained in the future. Because these large customers account for a significant portion of sales, they may possess a greater capacity to negotiate reduced prices. If we are unable to provide products to our customers at the quality and prices acceptable to them, some of our customers may shift their business to competitors or may substitute another manufacturer's products. If one of our large customers consolidates, is acquired, or loses market share, the result of that event may have an adverse impact on our business. The loss of or reduction of business from one or more of these large customers could have an adverse impact on our business and financial results.

7

Table of Contents

We are a global company headquartered in the United States. We are subject to extensive regulations by U.S. and non-U.S. governmental and self-regulatory entities at various levels of the governing bodies. Failure to comply with laws and regulations could adversely affect our business and financial results.

Our operations are subject to the risks of doing business domestically and globally, including the following:

- Delays or disruptions in product deliveries and payments in connection with international manufacturing and sales.
- Regulations resulting from political and economic instability and disruptions.
- Imposition of new, or change in existing, duties, tariffs and trade agreements.
- Import, export and economic sanction laws.
- Current and changing governmental policies, regulatory, and business environments.
- Disadvantages from competing against companies from countries that are not subject to U.S. laws and regulations including the Foreign Corrupt Practices Act.
- Local labor regulations.
- Regulations relating to climate change, air emissions, wastewater discharges, handling and disposal of hazardous materials and wastes.
- Regulations relating to product content, health, safety and the protection of the environment.
- Specific country regulations where our products are manufactured or sold.
- Regulations relating to compliance with data protection and privacy laws throughout our global business.
- Laws and regulations that apply to companies doing business with the government, including audit requirements of government contracts related to procurement integrity, export control, employment practices, and the accuracy of records and recording of costs.

Further, these laws and regulations are constantly evolving and it is difficult to accurately predict the effect they may have upon our business and financial results.

We cannot provide assurance that our internal controls and compliance systems will always protect us from acts committed by employees, agents or business partners that would violate U.S. and/or non-U.S. laws, including the laws governing payments to government officials, bribery, fraud, anti-kickback and false claims rules, competition, export and import compliance, money laundering and data privacy. Any such improper actions could subject us to civil or criminal investigations in the U.S. and in other jurisdictions, lead to substantial civil or criminal, monetary and non-monetary penalties and related lawsuits by shareholders and others, damage our reputation, and adversely impact our business and financial results.

We depend on key employees and the loss of these individuals could have an adverse effect on our business and financial results.

Our success depends to a large extent upon the continued services of our key executives, managers and other skilled employees. We cannot ensure that we will be able to retain our key executives, managers and employees. The departure of key personnel without adequate replacement could disrupt our business operations. Additionally, we need qualified managers and skilled employees with technical and industry experience to operate our business successfully. If we are unable to attract and retain qualified individuals or our costs to do so increase significantly, our business and financial results could be adversely affected.

Divestitures, contingent liabilities from divested businesses and the failure to properly identify, integrate and grow acquired companies could adversely affect our business and financial results.

We continually assess the strategic fit of our existing businesses and may divest businesses that we determine do not align with our strategic plan, or that are not achieving the desired return on investment. Divestitures pose risks and challenges that could negatively impact our business. When we decide to sell a business or assets, we may be unable to do so on satisfactory terms and within our anticipated time-frame, and even after reaching a definitive agreement to sell a business, the sale is typically subject to pre-closing conditions which may not be satisfied. In addition, the impact of the divestiture on our revenue and net earnings may be larger than projected, which could distract management, and disputes may arise with buyers. We have retained responsibility for and have agreed to indemnify buyers against certain contingent liabilities related to a number of businesses that we have sold. The resolution of these contingencies has not had a material adverse impact on our financial results, but we cannot be certain that this favorable pattern will continue.

Our historical growth has included acquisitions, and our future growth strategy may include acquisitions. If our future growth strategy includes a focus on acquisitions, we may not be able to identify acquisition targets or successfully complete acquisitions due to the absence of quality companies in our target markets, economic conditions, or price expectations from sellers. Acquisitions place significant demands on management, operational, and financial resources. Future acquisitions will require integration of operations, sales and marketing, information technology, and administrative operations, which could decrease the time available to focus on our other growth strategies. We cannot assure that we will be able to successfully integrate acquisitions, that these acquisitions will operate profitably, or that we will be able to achieve the desired sales growth or operational success. Our business and financial results could be adversely affected if we do not successfully integrate the newly acquired businesses, or if our other businesses suffer due to the increased focus on the acquired businesses.

We are subject to litigation, including product liability claims that could adversely impact our business, financial results, and reputation.

We are a party to litigation that arises in the normal course of our business operations, including product warranty, product liability and recall (strict liability and negligence) claims, patent and trademark matters, contract disputes and environmental, employment and other litigation matters. We face an inherent business risk of exposure to product liability and warranty claims in the event that the use of our products is alleged to have resulted in injury or other damage. In addition, we face an inherent risk that our competitors will allege that aspects of our products infringe their intellectual property or that our intellectual property is invalid, such that we could be prevented from manufacturing and selling our products or prevented from stopping others from manufacturing and selling competing products. To date, we have not incurred material costs related to these types of claims. However, while we currently maintain insurance coverage in amounts that we believe are adequate, we cannot be sure that we will be able to maintain this insurance on acceptable terms or that this insurance will provide sufficient coverage against potential liabilities that may arise. Any claims brought against us, with or without merit, may have an adverse effect on our business, financial results and reputation as a result of potential adverse outcomes. The expenses associated with defending such claims and the diversion of our management's resources and time may have an adverse effect on our business and financial results.

Failure to execute facility consolidations or maintain acceptable operational service metrics may adversely impact our business and financial results.

We continually assess our global footprint and expect to implement additional measures to reduce our cost structure, simplify our business, and standardize our processes, and these actions could result in unplanned operating costs and business disruptions in the future. In addition, the Company is reliant upon certain suppliers for certain raw or finished products. If we experience service disruptions with these suppliers, or if we fail to successfully address these inefficiencies, their effects could adversely impact our business and financial results.

Financial/Ownership Risks

The global nature of our business exposes us to foreign currency fluctuations that could adversely affect our business and financial results.

Approximately 50% of our sales are derived outside the United States. Sales and purchases in currencies other than the U.S. dollar expose us to fluctuations in foreign currencies relative to the U.S. dollar, and may adversely affect our financial results. Increased strength of the U.S. dollar will increase the effective price of our products sold in currencies other than U.S. dollars into other countries. Decreased strength of the U.S. dollar could adversely affect the cost of materials, products, and services purchased overseas. Our sales and expenses are translated into U.S. dollars for reporting purposes, and the strengthening or weakening of the U.S. dollar could result in unfavorable translation effects, which occurred during fiscal years 2016 and 2017. In addition, certain of our subsidiaries may invoice customers in a currency other than its functional currency or may be invoiced by suppliers in a currency other than its functional currency, which could result in unfavorable translation effects on our business and financial results.

Changes in tax legislation or tax rates could adversely affect results of operations and financial statements. Additionally, audits by taxing authorities could result in tax payments for prior periods.

We are subject to income taxes in the U.S. and in many non-U.S. jurisdictions. As such, our earnings are subject to risk due to changing tax laws and tax rates around the world. Our tax filings are subject to audit by U.S. federal, state and local tax authorities and by non-U.S. tax authorities. If these audits result in payments or assessments that differ from our reserves, our future net earnings may be adversely impacted.

On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (the "Tax Reform Act"). The changes included in the Tax Reform Act are broad and complex. The final transition impacts of the Tax Reform Act may differ from the provisional estimates provided due to changes in interpretations, any legislative action to address questions that arise, any changes in accounting standards for income taxes or related interpretations, or any updates or changes to estimates we have utilized to calculate the transition impacts. Additionally, longstanding international tax norms that determine each country's jurisdiction to tax cross-border international trade are evolving as a result of the Base Erosion and Profit Shifting reporting requirements recommended by the G8, G20 and Organization for Economic Cooperation and Development. As these and other tax laws and related regulations change, our financial results could be materially impacted. Given

Table of Contents

the unpredictability of these possible changes and their potential interdependency, it is difficult to assess the overall effect of such potential tax changes on our earnings and cash flow, but such changes could adversely impact our financial results.

We review the probability of the realization of our deferred tax assets quarterly based on forecasts of taxable income in both the U.S. and foreign jurisdictions. As part of this review, we utilize historical results, projected future operating results, eligible carry-forward periods, tax planning opportunities, and other relevant considerations. Adverse changes in profitability and financial outlook in both the U.S. and/or foreign jurisdictions, or changes in our geographic footprint may require changes in the valuation allowance for deferred tax assets. During the year ended July 31, 2018, we recorded a valuation allowance of $21.4 million against our foreign tax credit carryforwards primarily due to the passage of the Tax Reform Act, which modifies our ability to utilize foreign tax credits in future periods. At any point in time, there are a number of tax proposals at various stages of legislation throughout the globe. While it is impossible for us to predict whether some or all of these proposals will be enacted, it likely would have an impact on our results of operations and our consolidated financial statements.

Failure to execute our strategies could result in impairment of goodwill or other intangible assets, which may negatively impact earnings and profitability.

We have goodwill of $419.8 million and other intangible assets of $42.6 million as of July 31, 2018, which represents 43.7% of our total assets. We evaluate goodwill and other intangible assets for impairment on an annual basis, or more frequently if impairment indicators are present, based upon the fair value of each respective asset. These valuations include management's estimates of sales, profitability, cash flow generation, capital structure, cost of debt, interest rates, capital expenditures, and other assumptions. Significant negative industry or economic trends, disruptions to our business, inability to achieve sales projections or cost savings, inability to effectively integrate acquired businesses, unexpected significant changes or planned changes in use of the assets or in entity structure, and divestitures may adversely impact the assumptions used in the valuations. If the estimated fair value of our goodwill or other intangible assets change in future periods, we may be required to record an impairment charge, which would reduce the earnings in such period.

Substantially all of our voting stock is controlled by members of the Brady family, while our public investors hold non-voting stock. The interests of the voting and non-voting shareholders could differ, potentially resulting in decisions that unfavorably affect the value of the non-voting shares.

Substantially all of our voting stock is controlled by Elizabeth P. Bruno, one of our Directors, and William H. Brady III, both of whom are descendants of the Company's founder. All of our publicly traded shares are non-voting. Therefore, Ms. Bruno and Mr. Brady have control in most matters requiring approval or acquiescence by shareholders, including the composition of our Board of Directors and many corporate actions. Such concentration of ownership may discourage a potential acquirer from making a purchase offer that our public shareholders may find favorable, which in turn could adversely affect the market price of our common stock or prevent our shareholders from realizing a premium over our stock price. Certain mutual funds and index sponsors have implemented rules restricting ownership, or excluding from indices, companies with non-voting publicly traded shares. Furthermore, this concentration of voting share ownership may adversely affect the trading price for our non-voting common stock because investors may perceive disadvantages in owning stock in companies whose voting stock is controlled by a limited number of shareholders.

Failure to meet certain financial covenants required by our debt agreements may adversely affect our business and financial results.

As of July 31, 2018, we had $52.6 million in outstanding indebtedness. In addition, based on the availability under our credit facilities as of July 31, 2018, we had the ability to borrow an additional $297.0 million under our revolving credit agreement. Our current revolving credit agreement and long-term debt obligations also impose certain restrictions on us. Refer to Management's Discussion and Analysis of Financial Condition and Results of Operations within Item 7 for more information regarding our credit agreement and long-term debt obligations. If we breach any of these restrictions or covenants and do not obtain a waiver from the lenders then, subject to applicable cure periods, the outstanding indebtedness and any other indebtedness with cross-default provisions could be declared immediately due and payable, which could adversely affect our financial results.

Item 1B. Unresolved Staff Comments
None.

Table of Contents

Item 2. Properties

The Company currently operates 39 manufacturing and distribution facilities across the globe and are split by reporting segment as follows:

IDS: Thirty-one manufacturing and distribution facilities are used for our IDS business. Five are located in each of the United States and China; four in Belgium; three each in Mexico and the United Kingdom; two in Brazil; and one each in Canada, Germany, Hong Kong, India, Japan, Malaysia, Netherlands, Singapore, and South Africa.

WPS: Eight manufacturing and distribution facilities are used for our WPS business. Three are located in France; two are located in Australia; and one each in Germany, the United Kingdom, and the United States.

The Company's present operating facilities contain a total of approximately 2.1 million square feet of space, of which approximately 1.5 million square feet is leased. The Company believes that its equipment and facilities are modern, well maintained, and adequate for present needs.

Item 3. Legal Proceedings

The Company is, and may in the future be, party to litigation arising in the normal course of business. The Company is not currently a party to any material pending legal proceedings in which management believes the ultimate resolution would have a material effect on the Company's consolidated financial statements.

Item 4. Mine Safety Disclosures

Not applicable.

Table of Contents

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

(a) Market Information

Brady Corporation Class A Nonvoting Common Stock trades on the New York Stock Exchange under the symbol BRC. The following table sets forth the range of high and low daily closing sales prices for the Company's Class A stock as reported on the New York Stock Exchange for each of the quarters in the fiscal years ended July 31:

	2018		2017		2016	
	High	Low	High	Low	High	Low
4th Quarter	$40.65	$36.10	$39.80	$33.05	$32.68	$26.29
3rd Quarter	$39.00	$35.90	$39.75	$35.10	$27.82	$21.13
2nd Quarter	$39.75	$36.60	$39.45	$32.55	$26.39	$20.84
1st Quarter	$39.10	$31.95	$35.36	$31.86	$24.29	$19.52

There is no trading market for the Company's Class B Voting Common Stock.

(b) Holders

As of August 31, 2018, there were 1,080 Class A Common Stock shareholders of record and approximately 9,000 beneficial shareholders. There are three Class B Common Stock shareholders.

(c) Issuer Purchases of Equity Securities

The Company has a share repurchase program for the Company's Class A Nonvoting Common Stock. The plan may be implemented by purchasing shares in the open market or in privately negotiated transactions, with repurchased shares available for use in connection with the Company's stock-based plans and for other corporate purposes. On November 13, 2017, the Company's Board of Directors authorized a share repurchase program of 2,000,000 shares. The Company repurchased 5,100 shares at $36.00 per share during the three months ended July 31, 2018. As of July 31, 2018, there were 1,959,306 shares authorized to purchase in connection with this share repurchase program. The following table provides information with respect to the purchase of Class A Nonvoting Common Stock during the three months ended July 31, 2018:

Period	Total Number of Shares Purchased	Average Price paid per share	Total Number of Shares Purchased As Part of Publicly Announced Plans	Maximum Number of Shares That May Yet Be Purchased Under the Plans
May 1, 2018 - May 31, 2018	5,100	$ 36.00	5,100	1,959,306
June 1, 2018 - June 30, 2018	—	—	—	1,959,306
July 1, 2018 - July 31, 2018	—	—	—	1,959,306
Total	5,100	$ 36.00	5,100	1,959,306

(i) Dividends

The Company has historically paid quarterly dividends on outstanding common stock. Before any dividend may be paid on the Class B Common Stock, holders of the Class A Common Stock are entitled to receive an annual, noncumulative cash dividend of $0.01665 per share (subject to adjustment in the event of future stock splits, stock dividends or similar events involving shares of Class A Common Stock). Thereafter, any further dividend in that fiscal year must be paid on all shares of Class A Common Stock and Class B Common Stock on an equal basis. The Company believes that based on its historic dividend practice, this requirement will not impede it in following a similar dividend practice in the future.

Table of Contents

During the two most recent fiscal years and for the first quarter of fiscal 2019, the Company declared the following dividends per share on its Class A and Class B Common Stock for the years ended July 31:

	2019	2018				2017			
	1st Qtr	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr
Class A	$0.2125	$0.2075	$0.2075	$0.2075	$0.2075	$0.2050	$0.2050	$0.2050	$0.2050
Class B	0.19585	0.19085	0.2075	0.2075	0.2075	0.18835	0.2050	0.2050	0.2050

(e) Common Stock Price Performance Graph

The graph below shows a comparison of the cumulative return over the last five fiscal years had $100 been invested at the close of business on July 31, 2013, in each of Brady Corporation Class A Common Stock, the Standard & Poor's (S&P) 500 Index, the Standard and Poor's SmallCap 600 Index, and the Russell 2000 Index.

	2013	2014	2015	2016	2017	2018
Brady Corporation	$100.00	$80.73	$74.99	$106.04	$112.15	$132.08
S&P 500 Index	100.00	116.94	130.05	137.17	159.18	185.03
S&P SmallCap 600 Index	100.00	111.04	124.33	131.61	154.85	190.64
Russell 2000 Index	100.00	108.56	121.62	121.54	143.97	170.94

Table of Contents

Item 6. Selected Financial Data

CONSOLIDATED STATEMENTS OF INCOME AND SELECTED FINANCIAL DATA
Years Ended July 31, 2014 through 2018

	2018	2017	2016	2015	2014
	(In thousands, except per share amounts)				
Operating data(1)					
Net sales	$1,173,851	$1,113,316	$1,120,625	$1,171,731	$1,225,034
Gross margin	588,291	558,292	558,773	558,432	609,564
Operating expenses:					
Research and development	45,253	39,624	35,799	36,734	35,048
Selling, general and administrative(2)	390,342	387,653	405,096	422,704	452,164
Restructuring charges(3)	—	—	—	16,821	15,012
Impairment charges(4)	—	—	—	46,867	148,551
Total operating expenses	435,595	427,277	440,895	523,126	650,775
Operating income (loss)	152,696	131,015	117,878	35,306	(41,211)
Other income (expense):					
Investment and other income (expense)	2,487	1,121	(709)	845	2,402
Interest expense	(3,168)	(5,504)	(7,824)	(11,156)	(14,300)
Net other expense	(681)	(4,383)	(8,533)	(10,311)	(11,898)
Earnings (loss) from continuing operations before income taxes	152,015	126,632	109,345	24,995	(53,109)
Income tax expense (benefit)(5)	60,955	30,987	29,235	20,093	(4,963)
Earnings (loss) from continuing operations	$91,060	$95,645	$80,110	$4,902	$(48,146)
(Loss) Earnings from discontinued operations, net of income taxes(6)	—	—	—	(1,915)	2,178
Net earnings (loss)	$91,060	$95,645	$80,110	$2,987	$(45,968)
Earnings (loss) from continuing operations per Common Share— (Diluted):					
Class A nonvoting	$1.73	$1.84	$1.58	$0.10	$(0.93)
Class B voting	$1.72	$1.83	$1.56	$0.08	$(0.95)
(Loss) Earnings from discontinued operations per Common Share - (Diluted):					
Class A nonvoting	$—	$—	$—	$(0.04)	$0.04
Class B voting	$—	$—	$—	$(0.04)	$0.05
Cash Dividends on:					
Class A common stock	$0.83	$0.82	$0.81	$0.80	$0.78
Class B common stock	$0.81	$0.80	$0.79	$0.78	$0.76
Balance Sheet at July 31:					
Total assets	$1,056,931	$1,050,223	$1,043,964	$1,062,897	$1,253,665
Long-term obligations, less current maturities	52,618	104,536	211,982	200,774	159,296
Stockholders' investment	752,112	700,140	603,598	587,688	733,076
Cash Flow Data:					
Net cash provided by operating activities	$143,042	$144,032	$138,976	$93,348	$93,420
Net cash (used in) provided by investing activities	(2,905)	(15,253)	(15,416)	(14,365)	10,207
Net cash used in financing activities	(90,680)	(136,241)	(99,576)	(32,152)	(115,387)
Depreciation and amortization	25,442	27,303	32,432	39,458	44,598
Capital expenditures	(21,777)	(15,167)	(17,140)	(26,673)	(43,398)

(1)

Operating data has been impacted by the reclassification of the Die-Cut businesses into discontinued operations in fiscal 2014 and 2015. The Company has elected to not separately disclose the cash flows related to discontinued operations.

Table of Contents

(2) During fiscal 2018, the Company recognized a gain of $4.7 million on the sale of its Runelandhs Försäljnings AB business.

(3) During fiscal 2014, the Company approved a plan to consolidate facilities in the Americas, Europe, and Asia in order to enhance customer service, improve efficiency of operations, and reduce operating expenses. This plan resulted in restructuring charges during fiscal 2014 and fiscal 2015. Fiscal 2014 also included restructuring charges from a business simplification project executed in a prior year.

(4) The Company recognized impairment charges of $46.9 million and $148.6 million during the fiscal years ended July 31, 2015 and 2014, respectively. The impairment charges primarily related to the following reporting units: WPS Americas and WPS APAC in fiscal 2015 and People ID in fiscal 2014.

(5) Fiscal 2018 was significantly impacted by the Tax Reform Act which resulted in total incremental tax expense of $21.1 million, which consisted of $1.0 million related to the recording of a deferred tax liability for future withholdings and income taxes on the distribution of foreign earnings, an income tax charge of $3.3 million related to the deemed repatriation of the historical earnings of foreign subsidiaries, and the impact of the Tax Reform Act on the revaluation of deferred tax assets and liabilities as well as the impact on the Company's fiscal 2018 earnings from the reduced tax rate was an additional income tax expense of $16.8 million. Fiscal 2015 was significantly impacted by the impairment charges of $46.9 million, of which $39.8 million was non-deductible for income tax purposes. Fiscal 2014 was significantly impacted by the impairment charges of $148.6 million, of which $61.1 million was non-deductible for income tax purposes.

(6) The Die-Cut business was sold in two phases. The first phase closed in the fourth quarter of fiscal 2014 and the second and final phase closed in the first quarter of fiscal 2015. The loss from discontinued operations in fiscal 2015 includes a $0.4 million net loss on the sale of the Die-Cut business, recorded during the three months ended October 31, 2014. The earnings from discontinued operations in fiscal 2014 include a $1.2 million net loss on the sale of the Die-Cut business recorded during the three months ended July 31, 2014.

Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations

Overview

We are a global manufacturer and supplier of identification solutions and workplace safety products that identify and protect premises, products and people. The IDS segment is primarily involved in the design, manufacture, and distribution of high-performance and innovative identification and healthcare products. The WPS segment provides workplace safety and compliance products, approximately half of which are internally manufactured and half of which are externally sourced. Approximately 50% of our total sales are derived outside of the United States. Foreign sales within the IDS and WPS segments are approximately 40% and 70%, respectively.

The ability to provide customers with a broad range of proprietary, customized and diverse products for use in various applications across multiple customers and geographies, along with a commitment to quality and service, have made Brady a leader in many of its markets. The long-term sales growth and profitability of our segments will depend not only on improved demand in end markets and the overall economic environment, but also on our ability to continuously improve the efficiency of our global operations, focus on the customer, develop and market innovative new products, and to advance our digital capabilities. In our IDS business, our strategy for growth includes an increased focus on certain industries and products, a focus on improving the customer buying experience, and increasing investments in R&D. In our WPS business, our strategy for growth includes a focus on workplace safety critical industries, innovative new product offerings, compliance expertise, and improving our digital capabilities.

Results of Operations

A comparison of results of operating income for the fiscal years ended July 31, 2018, 2017, and 2016 is as follows:

(Dollars in thousands)	2018	% Sales	2017	% Sales	2016	% Sales
Net sales	$1,173,851		$1,113,316		$1,120,625	
Gross margin	588,291	50.1%	558,292	50.1%	558,773	49.9%
Operating expenses:						
Research and development	45,253	3.9 %	39,624	3.6 %	35,799	3.2 %

Selling, general and administrative	390,342	33.3%	387,653	34.8%	405,096	36.1%
Total operating expenses	435,595	37.1%	427,277	38.4%	440,895	39.3%
Operating income	$152,696	13.0%	$131,015	11.8%	$117,878	10.5%

Table of Contents

References in this Form 10-K to “organic sales” refer to net sales calculated in accordance with U.S. GAAP, excluding the impact of foreign currency translation. The Company’s organic sales disclosures exclude the effects of foreign currency translation as foreign currency translation is subject to volatility that can obscure underlying business trends. Management believes that the non-GAAP financial measure of organic sales is meaningful to investors as it provides them with useful information to aid in identifying underlying sales trends in our businesses and facilitating comparisons of our sales performance with prior periods.

In fiscal 2018, net sales increased 5.4% to $1,173.9 million, compared to $1,113.3 million in fiscal 2017. The increase consisted of organic sales growth of 2.6% and a positive foreign currency impact of 3.0% due to the strengthening of certain currencies when compared to the U.S. dollar during the year, partially offset by a sales decline of 0.2% due to the divestiture of Runelandhs Försäljnings AB (“Runelandhs”), a business based in Kalmar, Sweden. Organic sales grew 3.4% and 0.7% in the IDS and WPS segment, respectively. The IDS segment realized sales growth in the Product ID, Wire ID, and the Safety and Facility ID product lines, partially offset by a sales declines in the Healthcare ID product line. Digital sales in the WPS segment improved, but were partially offset by a sales decline in the traditional catalog and other direct sales channels.

In fiscal 2017, net sales decreased 0.7% to $1,113.3 million, compared to $1,120.6 million in fiscal 2016, which consisted of organic sales growth of 0.5% and a negative currency impact of 1.2% due to the strengthening of the U.S. dollar against certain other currencies during the year. Organic sales grew 1.6% in the IDS segment and declined 2.0% in the WPS segment. The IDS segment realized sales growth in the Product ID and Wire ID product lines, partially offset by a sales declines in the Healthcare ID product line. Catalog sales in the WPS segment declined, but were partially offset by sales growth in the digital channel.

Gross margin increased 5.4% to $588.3 million in fiscal 2018 from $558.3 million in fiscal 2017. As a percentage of net sales, gross margin was 50.1% in both fiscal 2018 and fiscal 2017. Our on-going efforts to streamline manufacturing processes and drive operational efficiencies, including increased automation in our manufacturing facilities, reduced material and labor costs compared to the prior year, thus offsetting inflation and pricing pressures.

Gross margin declined 0.1% to $558.3 million in fiscal 2017 from $558.8 million in fiscal 2016. As a percentage of net sales, gross margin increased to 50.1% in fiscal 2017 from 49.9% in fiscal 2016. The increase in gross margin as a percentage of net sales was primarily due to our on-going efforts to streamline manufacturing processes and drive operational efficiencies in manufacturing facilities. These efforts resulted in reduced material and labor costs compared to the prior year.

R&D expenses increased to $45.3 million in fiscal 2018 from $39.6 million in fiscal 2017. The increase in R&D spending in fiscal 2018 compared to the prior year was primarily due to the hiring of R&D personnel as well as additional spending on new product development in connection with our focus on increasing new product sales within our IDS and WPS businesses.

R&D expenses increased to $39.6 million in fiscal 2017 from $35.8 million in fiscal 2016. The increase in R&D spending in fiscal 2017 compared to the prior year was primarily due to the hiring of R&D personnel as well as increased spending on printing and software solutions projects within our IDS businesses.

Selling, general and administrative ("SG&A") expenses include selling and administrative costs directly attributed to the IDS and WPS segments, as well as certain other corporate administrative expenses including finance, information technology, human resources, and other administrative expenses. SG&A expenses increased 0.7% to $390.3 million in fiscal 2018 compared to $387.7 million in fiscal 2017. SG&A expenses include a gain of $4.7 million on the sale of Runelandhs which closed in the fourth quarter of fiscal 2018. The increase in SG&A expenses from the prior year was entirely due to the impact of foreign currency translation, partially offset by the gain on the sale of Runelandhs and the Company's continued efforts to reduce its SG&A cost structure through efficiency gains and ongoing efforts to control general and administrative costs. SG&A expense as a percentage of net sales was 33.3% in fiscal 2018 compared to 34.8% in fiscal 2017. The decrease was a result of the Company's ongoing efficiency gains and continued efforts to control general and administrative costs as well as the gain of $4.7 million from the sale of Runelandhs.

SG&A expenses decreased 4.3% to $387.7 million in fiscal 2017 compared to $405.1 million in fiscal 2016. The decrease in SG&A expenses from the prior year was primarily due to reduced selling expenses from efficiency gains, continued efforts to control general and administrative costs, and foreign currency translation. These reductions were partially offset by increases in incentive-based compensation. SG&A expenses as a percentage of net sales was 34.8% in fiscal 2017 compared to 36.1% in fiscal 2016. The decrease was a result of the Company's ongoing efficiency gains and continued efforts to control general and administrative costs.

Operating income increased 16.5% to $152.7 million in fiscal 2018 compared to $131.0 million in fiscal 2017. Operating income includes a gain of $4.7 million on the sale of Runelandhs in fiscal 2018. The increase in operating income from prior year was primarily due to the 5.4% increase in net sales, 5.4% increase in gross margin, reduced SG&A expense as a percentage of net sales, and the gain on the sale of Runelandhs. These improvements leading to the increase in operating income in fiscal 2018 were partially offset by an increase in R&D spending.

Table of Contents

Operating income increased to $131.0 million in fiscal 2017 compared to $117.9 million in fiscal 2016. The increase of $13.1 million in operating income was primarily due to reduced SG&A expenses in both IDS and WPS segments, as well as reductions due to foreign currency translation. The decrease in SG&A expenses leading to the increase in operating income in fiscal 2017 was partially offset by an increase in R&D spending.

OPERATING INCOME TO NET EARNINGS

(Dollars in thousands)	2018	% Sales	2017	% Sales	2016	% Sales
Operating income	$152,696	13.0 %	$131,015	11.8 %	$117,878	10.5 %
Other income and (expense):						
Investment and other income (expense)	2,487	0.2 %	1,121	0.1 %	(709)	(0.1)%
Interest expense	(3,168)	(0.3)%	(5,504)	(0.5)%	(7,824)	(0.7)%
Earnings before income taxes	152,015	13.0 %	126,632	11.4 %	109,345	9.8 %
Income tax expense	60,955	5.2 %	30,987	2.8 %	29,235	2.6 %
Net earnings	$91,060	7.8 %	$95,645	8.6 %	$80,110	7.1 %

Investment and Other Income (Expense)

Investment and other income (expense) was $2.5 million in fiscal 2018 compared to $1.1 million in fiscal 2017 and an expense of $0.7 million in fiscal 2016. The increase in investment and other income in 2018 compared to 2017 was primarily due to an increase in the market value of securities held in executive deferred compensation plans and an increase in interest income due to an increase in cash and cash equivalents. The increase in investment and other income (expense) in 2017 compared to 2016 was primarily due to an increase in the market value of securities held in deferred compensation plans.

Interest Expense

Interest expense decreased to $3.2 million in fiscal 2018 compared to $5.5 million in fiscal 2017 and $7.8 million in fiscal 2016. The decline since 2016 was due to the Company's declining principal balance under its outstanding debt agreements.

Income Tax Expense

The Company's effective income tax rate was 40.1% in fiscal 2018. The effective income tax rate was significantly impacted by the U.S. Tax Reform Act enacted in fiscal 2018, which resulted in total incremental tax expense of $21.1 million during fiscal 2018. This incremental tax expense consisted of $1.0 million related to the recording of a deferred tax liability for future withholdings and income taxes on the distribution of foreign earnings, an income tax charge of $3.3 million related to the deemed repatriation of the historical earnings of foreign subsidiaries, and the impact of the Tax Reform Act on the revaluation of deferred tax assets and liabilities as well as the impact on the Company's fiscal 2018 earnings from the reduced tax rate was an additional income tax expense of $16.8 million. As a result of the U.S. Tax Reform Act, at this time the Company estimates its effective income tax rate to be in the mid-twenties for fiscal 2019.

The Company’s effective income tax rate was 24.5% in fiscal 2017. The effective income tax rate was reduced from the applicable U.S. statutory tax rate of 35.0% due to the generation of foreign tax credits from cash repatriations that occurred during the year and geographic profit mix, partially offset by adjustments to the reserve for uncertain tax positions.

The Company’s effective income tax rate was 26.7% in fiscal 2016. The effective income tax rate was reduced from the applicable U.S. statutory tax rate of 35.0% due to certain adjustments to tax accruals and reserves, the generation of foreign tax credit carryforwards, R&D tax credits and the domestic manufacturer’s deduction.

Business Segment Operating Results

The Company is organized and managed on a global basis within two reportable segments: ID Solutions and Workplace Safety. The Company's internal measure of segment profit and loss reported to the chief operating decision maker for purposes of allocating resources to the segments and assessing performance includes certain administrative costs, such as the cost of finance, information technology, human resources, and certain other administrative costs. However, interest expense, investment and other income (expense), income tax expense, and certain corporate administrative expenses are excluded when evaluating segment performance.

Table of Contents

Following is a summary of segment information for the fiscal years ended July 31:

(Dollars in thousands)	2018	2017	2016
NET SALES			
ID Solutions	$846,087	$800,392	$795,511
Workplace Safety	327,764	312,924	325,114
Total	$1,173,851	$1,113,316	$1,120,625
SALES GROWTH INFORMATION			
ID Solutions			
Organic	3.4 %	1.6 %	(0.7)%
Currency	2.3 %	(1.0)%	(3.1)%
Total	5.7 %	0.6 %	(3.8)%
Workplace Safety			
Organic	0.7 %	(2.0)%	(0.7)%
Currency	4.6 %	(1.7)%	(5.0)%
Divestitures	(0.6)%	— %	— %
Total	4.7 %	(3.7)%	(5.7)%
Total Company			
Organic	2.6 %	0.5 %	(0.7)%
Currency	3.0 %	(1.2)%	(3.7)%
Divestitures	(0.2)%	— %	— %
Total	5.4 %	(0.7)%	(4.4)%
SEGMENT PROFIT			
ID Solutions	$143,411	$130,572	$112,276
Workplace Safety	31,712	25,554	30,792
Total	$175,123	$156,126	$143,068
SEGMENT PROFIT AS A PERCENT OF NET SALES			
ID Solutions	16.9 %	16.3 %	14.1 %
Workplace Safety	9.7 %	8.2 %	9.5 %
Total	14.9 %	14.0 %	12.8 %

NET EARNINGS RECONCILIATION	Years ended:		
(Dollars in thousands)	July 31, 2018	July 31, 2017	July 31, 2016
Total segment profit	$175,123	$156,126	$143,068
Unallocated costs:			
Administrative costs	27,093	25,111	25,190
Gain on sale of business(1)	(4,666)	—	—
Investment and other (income) expense	(2,487)	(1,121)	709
Interest expense	3,168	5,504	7,824
Earnings before income taxes	$152,015	$126,632	$109,345

(1) Gain on the sale of Runelandhs Försäljnings AB relates to the WPS segment during the year ended July 31, 2018.

ID Solutions

Fiscal 2018 vs. 2017

Approximately 65% of net sales in the ID Solutions segment were generated in the Americas region, 25% in Europe, the Middle East and Africa ("EMEA"), and 10% in Asia Pacific ("APAC"). IDS sales increased 5.7% to $846.1 million in fiscal 2018, compared to $800.4 million in fiscal 2017. Organic sales increased 3.4% and foreign currency fluctuations increased sales by 2.3% due to the strengthening of other currencies when compared to the U.S. dollar in fiscal 2018 compared to fiscal 2017.

18

Table of Contents

The IDS business in the Americas realized low-single digit organic sales growth in fiscal 2018 compared to fiscal 2017. The increase was primarily due to growth in the Wire ID, Product ID, and Safety and Facility ID product lines. Growth was driven by an increase in sales to distributor channel partners as well as an overall increase in demand from diversified industrial customers. This organic growth was partially offset by a decline in the Healthcare ID product line primarily from pricing pressures caused by the consolidation of group purchasing organizations and healthcare systems along with a reduction in volume in certain product categories, compared to the same period in the prior year. Organic sales grew in the low-single digits in the United States, mid-single digits in Brazil and Canada, and high-single digits in Mexico.

The IDS business in EMEA realized mid-single digit organic sales growth in fiscal 2018 as compared to fiscal 2017. Organic sales growth in 2018 was primarily due to sales increases in the Wire ID, Product ID, and Safety and Facility ID product lines. Organic sales growth was led by businesses based in Western Europe and supplemented by businesses in emerging geographies; in particular, increased printer sales throughout the region drove the organic sales growth.

Organic sales in Asia grew in the mid-single digits in fiscal 2018 compared to fiscal 2017. The IDS Asia region realized organic sales growth in the Product and Wire ID product lines, partially offset by the Safety and Facility ID product line. Organic sales increased throughout most of Asia and was led by China where organic sales increased in the mid-single digits.

Segment profit increased to $143.4 million in fiscal 2018 from $130.6 million in fiscal 2017, an increase of $12.8 million or 9.8%. As a percent of net sales, segment profit increased to 16.9% in fiscal 2018, compared to 16.3% in the prior year. The increase in segment profit was primarily driven by sales growth, operational efficiencies in the Company's manufacturing processes, and efficiencies in SG&A expense in all regions, partially offset by pricing pressures in the healthcare product offerings in the Americas.

Fiscal 2017 vs. 2016

Approximately 70% of net sales in the ID Solutions segment were generated in the Americas region, 20% in EMEA, and 10% in APAC. IDS sales increased 0.6% to $800.4 million in fiscal 2017, compared to $795.5 million in fiscal 2016. Organic sales increased 1.6% and foreign currency fluctuations decreased sales by 1.0% due to the strengthening of the U.S. dollar against certain other major currencies in fiscal 2017 compared to fiscal 2016.

The IDS business in the Americas realized low-single digit organic sales growth in fiscal 2017 compared to fiscal 2016. The increase was primarily due to growth in the Wire ID product line due to increased sales of printer consumables, which were partially offset by a sales decline in the Healthcare ID product lines due to pricing pressures within certain product categories from the consolidation of group purchasing organizations. Organic sales grew in the mid-single digits in Canada, low-single digits in Mexico and Brazil, and grew slightly in the United States.

The IDS business in EMEA realized low-single digit organic sales growth in fiscal 2017 as compared to fiscal 2016. Organic sales growth in 2017 was primarily due to sales increases in the Product ID and Safety and Facility ID product lines. Organic sales growth in Western Europe was partially offset by organic sales declines in certain emerging markets due to weak demand in the oil and gas industry.

Organic sales in Asia grew in the high-single digits in fiscal 2017 compared to fiscal 2016. The IDS Asia region realized organic sales growth in both the OEM and MRO product categories in 2017 due to several new customer and project wins along with a general increase in activity within our existing customer base. Organic sales increased within all countries in the Asia region in 2017.

Segment profit increased to $130.6 million in fiscal 2017 from $112.3 million in fiscal 2016, an increase of $18.3 million or 16.3%. As a percent of net sales, segment profit increased to 16.3% in fiscal 2017, compared to 14.1% in the prior year. The increase in segment profit was primarily driven by operational efficiencies in our manufacturing processes in all regions, as well as a reduction in SG&A expense due to ongoing process improvement activities.

Workplace Safety

Fiscal 2018 vs. 2017

Approximately 50% of net sales in the WPS segment were generated in Europe, 35% in the Americas, and 15% in Australia. WPS sales increased 4.7% to $327.8 million in fiscal 2018, compared to $312.9 million in fiscal 2017. The increase consisted of organic sales growth of 0.7% and a positive foreign currency impact of 4.6%, partially offset by a sales decline of 0.6% due to the divestiture of the Runelandhs business.

The WPS business in Europe realized low-single digit organic sales growth in fiscal 2018 compared to fiscal 2017. The growth in the region was driven primarily by businesses in the U.K. and France due to improvements in website functionality, growth in new customers, and key account management. Digital channel sales experienced double digit growth, partially offset by a low-single digit decline in traditional catalog sales in the Europe region in fiscal 2018 compared to fiscal 2017.

Table of Contents

Organic sales in the Americas declined in the low-single digits in fiscal 2018 compared to fiscal 2017. This decrease was primarily due to lower response rates to catalog promotions, even while large custom orders have been increasing. Traditional catalog channel sales declined in the low-single digits and digital sales declined in the mid-single digits. The rate of decline in the catalog channel lessened in the final two quarters of fiscal 2018. The decline in digital sales was impacted by a transition to a new digital sales platform during fiscal 2018, which is expected to return to sales growth in the near-term.

Organic sales in Australia grew in the low-single digits in fiscal 2018 compared to fiscal 2017. The WPS business has diversified its product offering into many different industries in Australia as sales to the mining industry became less significant over the past several years. Its strategy is continuing to focus on enhancing its expertise in these industries to drive sales growth, while addressing its cost structure to improve profitability.

Segment profit increased to $31.7 million in fiscal 2018 from $25.6 million in fiscal 2017, an increase of $6.1 million, or 23.8%. As a percentage of net sales, segment profit increased to 9.7% in fiscal 2018 compared to 8.2% in the prior year. The increase in segment profit was primarily due to sales growth and reduced SG&A expense.

Fiscal 2017 vs. 2016

Approximately 50% of net sales in the WPS segment were generated in Europe, 35% in the Americas, and 15% in Australia. WPS sales decreased 3.7% to $312.9 million in fiscal 2017, compared to $325.1 million in fiscal 2016, which consisted of an organic sales decline of 2.0% and a negative foreign currency impact of 1.7%.

The WPS business in Europe realized low-single digit organic sales growth in fiscal 2017 compared to fiscal 2016. The growth in the region was driven primarily by France and Sweden due to improvements in website functionality, digital sales, and key account management. Digital sales grew by double digits in the Europe region in fiscal 2017 compared to fiscal 2016.

Organic sales in the Americas declined in the high-single digits in fiscal 2017 compared to fiscal 2016. This decrease was primarily in North America due to lower response rates to catalog promotions and pricing pressures in industrial end markets. Although digital sales increased in the low-single digits, the increase was not enough to balance the decline in sales through the catalog channel. In addition, pricing pressures from certain competitors have led to an acceleration of organic sales declines in the region from prior years.

Organic sales in Australia were essentially flat in fiscal 2017 compared to fiscal 2016, following an extended period of organic sales declines. We have started to realize some sales growth by bringing our diverse product offering to many different industries in Australia as our sales to the mining industry have become less significant over the past several years. We continue to focus on enhancing our expertise in these industries to drive sales growth as well as addressing our cost structure to improve profitability.

Segment profit decreased to $25.6 million in fiscal 2017 from $30.8 million in fiscal 2016, a decrease of $5.2 million, or 16.9%. As a percentage of sales, segment profit decreased to 8.2% in fiscal 2017 compared to 9.5% in the prior year. The decrease in segment profit was primarily due to the decline in sales and reduced gross profit margins due to pricing challenges in the Americas region, which was partially offset by reduced selling, general and administrative expenses.

Liquidity & Capital Resources

Cash and cash equivalents were $181.4 million at July 31, 2018, an increase of $47.5 million from July 31, 2017. The following summarizes the cash flow statement for fiscal years ended July 31:

(Dollars in thousands)	2018	2017	2016
Net cash flow provided by (used in):			
Operating activities	$143,042	$144,032	$138,976
Investing activities	(2,905)	(15,253)	(15,416)
Financing activities	(90,680)	(136,241)	(99,576)
Effect of exchange rate changes on cash	(1,974)	178	2,752
Net increase (decrease) in cash and cash equivalents	$47,483	$(7,284)	$26,736

Fiscal 2018 vs. 2017

Net cash provided by operating activities in fiscal 2018 was comparable with fiscal 2017. The change was driven by an increase in net earnings adjusted for non-cash items which was offset by a decrease in cash provided by working capital in support of growth and a higher incentive compensation payment when compared to prior year.

Table of Contents

Net cash used in investing activities was $2.9 million during fiscal 2018, compared to $15.3 million in the prior year. The decrease in cash used in investing activities of $12.4 million was due to cash provided by the sale of Runelandhs offset by an increase in capital expenditures which were used primarily for manufacturing equipment and facility upgrades in the United States, Mexico, and Europe.

Net cash used in financing activities was $90.7 million during fiscal 2018, compared to $136.2 million during the prior year. The change of $45.5 million was primarily due to a decrease of $58.1 million in net credit facility and debt repayments in the current year resulting from the scheduled principal payment on the private placement note during fiscal 2017, which was partially offset by a $7.6 million decrease in proceeds from stock option exercises in the current year.

The effect of fluctuations in exchange rates decreased cash balances by $2.0 million in fiscal 2018, primarily due to cash balances held in certain currencies that depreciated against the U.S. dollar.

Fiscal 2017 vs. 2016

Net cash provided by operating activities increased to $144.0 million during fiscal 2017 compared to $139.0 million in the prior year. The increase in cash provided by operating activities of $5.0 million was primarily due to higher net earnings partially offset by lower non-cash depreciation and amortization.

Net cash used in investing activities was $15.3 million during fiscal 2017, compared to $15.4 million in the prior year.

Net cash used in financing activities was $136.2 million during fiscal 2017, compared to $99.6 million during the prior year. The increase in cash used in financing activities of $35.1 million was primarily due to an increase of $75.3 million in credit facility and debt repayments in fiscal 2017, which was partially offset by a $14.5 million increase in proceeds from stock option exercises in fiscal 2017. The remainder of the change was due to $23.6 million of cash used for share repurchases in the prior year, while no shares were repurchased in fiscal 2017.

The effect of fluctuations in exchange rates increased cash balances by $0.2 million in fiscal 2017, primarily due to cash balances held in certain currencies that appreciated against the U.S. dollar during the current fiscal year.

The Company's cash balances are generated and held in numerous locations throughout the world. At July 31, 2018, approximately 54% of the Company's cash and cash equivalents were held outside the United States. The Company's growth has historically been funded by a combination of cash provided by operating activities and debt financing. The Company believes that its cash flow from operating activities and its borrowing capacity are sufficient to fund its anticipated requirements for working capital, capital expenditures, common stock repurchases, scheduled debt repayments, and dividend payments for the next 12 months. Although the Company believes these sources of cash are currently sufficient to fund domestic operations, annual cash needs could require repatriation of cash to the U.S. from foreign jurisdictions, which may result in additional tax payments.

Refer to Item 8, Note 6, "Debt" for information regarding the Company's debt holdings.

Subsequent Events Affecting Financial Condition

On September 12, 2018, the Company announced an increase in the annual dividend to shareholders of the Company's Class A Common Stock, from $0.83 to $0.85 per share. A quarterly dividend of $0.2125 will be paid on October 31, 2018, to shareholders of record at the close of business on October 10, 2018. This dividend represents an increase of 2.4% and is the 33rd consecutive annual increase in dividends.

Off-Balance Sheet Arrangements

The Company does not have material off-balance sheet arrangements. The Company is not aware of factors that are reasonably likely to adversely affect liquidity trends, other than the risk factors described in this and other Company filings. However, the following additional information is provided to assist those reviewing the Company's consolidated financial statements.

Operating Leases — The leases generally are entered into for investments in facilities such as manufacturing facilities, warehouses and office space and Company vehicles.

Purchase Commitments — The Company has purchase commitments for materials, supplies, services, and property, plant and equipment as part of the ordinary conduct of its business. In the aggregate, such commitments are not in excess of current market prices and are not material to the financial position of the Company. Due to the proprietary nature of many of the Company's materials and processes, certain supply contracts contain penalty provisions for early termination. The Company does not believe a material amount of penalties will be incurred under these contracts based upon historical experience and current expectations.

Other Contractual Obligations — The Company does not have material financial guarantees or other contractual commitments that are reasonably likely to adversely affect liquidity.

Payments Due Under Contractual Obligations

The Company's future commitments at July 31, 2018, for long-term debt, operating lease obligations, purchase obligations, interest obligations, tax obligations and other obligations are as follows (dollars in thousands):

	Payments Due by Period					
Contractual Obligations	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years	Uncertain Timeframe
Long-term Debt Obligations and Notes Payable	$52,618	$—	$52,618	$—	$—	$ —
Operating Lease Obligations	51,210	14,826	18,725	13,612	4,047	—
Purchase Obligations(1)	48,633	48,607	13	—	13	—
Interest Obligations	4,466	2,233	2,233	—	—	—
Tax Obligations	20,430	—	—	—	—	20,430
Other Obligations(2)	2,813	377	698	598	1,140	—
Total	$180,170	$66,043	$74,287	$14,210	$5,200	$ 20,430

(1) Purchase obligations include all open purchase orders as of July 31, 2018.

(2) Other obligations represent expected payments under the Company's U.S. postretirement medical plan and international pension plans as disclosed in Note 4 to the Consolidated Financial Statements, under Item 8 of this report.

Inflation and Changing Prices

Essentially all of the Company's revenue is derived from the sale of its products and services in competitive markets. Because prices are influenced by market conditions, it is not always possible to fully recover cost increases through pricing. Changes in product mix from year to year, timing differences in instituting price changes, and the large amount of part numbers make it impracticable to accurately define the impact of inflation on profit margins.

Critical Accounting Estimates

Management's discussion and analysis of the Company's financial condition and results of operations are based upon the Company's Consolidated Financial Statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. The Company bases these estimates and judgments on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. Actual results may differ from these estimates and judgments.

Table of Contents

The Company believes the following accounting estimates are most critical to an understanding of its financial statements. Estimates are considered to be critical if they meet both of the following criteria: (1) the estimate requires assumptions about material matters that are uncertain at the time the accounting estimates are made, and (2) material changes in the estimates are reasonably likely from period to period. For a detailed discussion on the application of these and other accounting estimates, refer to Note 1 to the Company's Consolidated Financial Statements.

Income Taxes

The Company operates in numerous taxing jurisdictions and is subject to regular examinations by U.S. federal, state and non-U.S. taxing authorities. Its income tax positions are based on research and interpretations of the income tax laws and rulings in each of the jurisdictions in which the Company does business. Due to the ambiguity of laws and rulings in each jurisdiction, the differences and interplay in tax laws between those jurisdictions, the uncertainty of how underlying facts may be construed and the inherent uncertainty in estimating the final resolution of complex tax audit matters, the Company's estimates of income tax liabilities may differ from actual payments or assessments. While the Company has support for the positions it takes on tax returns, taxing authorities may assert interpretations of laws and facts and may challenge cross-jurisdictional transactions. The Company generally re-evaluates the technical merits of its tax positions and recognizes an uncertain tax benefit when (i) there is completion of a tax audit; (ii) there is a change in applicable tax law including a tax case ruling or legislative guidance; or (iii) there is an expiration of the statute of limitations. The gross liability for unrecognized tax benefits, excluding interest and penalties, was $20.4 million and $18.4 million as of July 31, 2018 and 2017, respectively. The entire amount of unrecognized tax benefits as of July 31, 2018 and 2017, would affect the effective income tax rate if recognized. Accrued interest and penalties related to unrecognized tax benefits were $5.8 million and $5.2 million as of July 31, 2018 and 2017, respectively. The Company recognizes interest and penalties related to unrecognized tax benefits in income tax expense on the Consolidated Statements of Earnings. The Company believes it is reasonably possible the amount of gross unrecognized tax benefits could be reduced by up to $9.7 million in the next twelve months as a result of the resolution of worldwide tax matters, tax audit settlements, amended tax filings, and/or statute expirations, which would be the maximum amount that would be recognized through the Consolidated Statements of Earnings as an income tax benefit.

On December 22, 2017, the U.S. Tax Cuts and Jobs Act (the "Tax Reform Act") was enacted. Among the significant changes to the U.S. Internal Revenue Code, the Tax Reform Act reduces the U.S. federal corporate income tax rate from 35.0% to 21.0%, imposes a one-time tax on deemed repatriated earnings of foreign subsidiaries, eliminates the domestic manufacturing deduction and moves to a partial territorial system by providing a 100% dividend received deduction on certain qualified dividends from foreign subsidiaries. As the Company has a July 31 fiscal year end, the lower corporate income tax rate will be phased in, resulting in a U.S. statutory federal income tax rate of 26.9% for the fiscal year ended July 31, 2018 and 21.0% for subsequent fiscal years.

As part of the transition to the partial territorial tax system, the Tax Reform Act imposes a one-time tax on the mandatory deemed repatriation of historical earnings of foreign subsidiaries. Companies can claim certain credits for foreign taxes deemed paid on foreign earnings subject to the mandatory deemed repatriation. The Company's provisional calculations resulted in an income tax charge of $3.3 million related to the deemed repatriation of the historical earnings of foreign subsidiaries during the year ended July 31, 2018. Existing foreign tax credit carryforwards were used to fully offset this tax, resulting in no cash payments related to this charge.

The reduction in the U.S. federal income tax rate requires the Company to remeasure its U.S. deferred tax assets and liabilities to the income tax rate at which the deductible or taxable event is expected to be realized, and changes the statutory U.S. federal tax from 35.0% to 26.9% for the entire year ended July 31, 2018. Additionally, the Company established a valuation allowance for deferred tax assets related to foreign tax credit carryforwards, primarily related to the impact of the Tax Reform Act on the Company's ability to generate future foreign-source income. The provisional impact of the Tax Reform Act related to the remeasurement of deferred tax assets and liabilities, the impact on the Company's fiscal 2018 earnings from the reduced tax rate, and the establishment of the valuation allowance discussed above resulted in net income tax expense of $16.8 million for the year ended July 31, 2018.

As a result of the Tax Reform Act, the Company expects that it will repatriate certain historical and future foreign earnings periodically, which in certain jurisdictions may be subject to withholding and income taxes. These additional withholding and income taxes are recorded as a deferred tax liability associated with the basis difference in such jurisdictions. During the year ended July 31, 2018, the Company recorded a provisional income tax expense of $1.0 million related to the recording of a deferred tax liability for future withholding and income taxes on the distribution of foreign earnings. The uncertainty related to the taxation of such withholding and income taxes on distributions under the Tax Reform Act and the finalization of future cash repatriation plans make the deferred tax liability a provisional amount.

Table of Contents

Goodwill and Other Indefinite-lived Intangible Assets

The allocation of purchase price for business combinations requires management estimates and judgment as to expectations for future cash flows of the acquired business and the allocation of those cash flows to identifiable intangible assets in determining the estimated fair value for purchase price allocation purposes. If the actual results differ from the estimates and judgments used in these estimates, the amounts recorded in the financial statements could result in a possible impairment of the intangible assets and goodwill or require acceleration of the amortization expense of finite-lived intangible assets. In addition, accounting guidance requires that goodwill and other indefinite-lived intangible assets be tested at least annually for impairment. If circumstances or events prior to the date of the required annual assessment indicate that, in management's judgment, it is more likely than not that there has been a reduction of fair value of a reporting unit below its carrying value, the Company performs an impairment analysis at the time of such circumstance or event. Changes in management's estimates or judgments could result in an impairment charge, and such a charge could have an adverse effect on the Company's financial condition and results of operations.

The Company has identified six reporting units within its two reportable segments, IDS and WPS, with the following goodwill balances as of July 31, 2018: IDS Americas & Europe, $292.2 million; People ID, $93.3 million; and WPS Europe, $34.3 million. The IDS APAC, WPS Americas, and WPS APAC reporting units each have a goodwill balance of zero. The Company continues to believe the discounted cash flow model and market multiples model provide a reasonable and meaningful fair value estimate based upon the reporting units' projections of future operating results and cash flows and replicates how market participants would value the Company's reporting units. The projections of future operating results, which are based on both past performance and the projections and assumptions used in the Company's current and long range operating plans, are subject to change as a result of changing economic and competitive conditions. Significant estimates used by management in the discounted cash flows methodology include estimates of future cash flows based on expected growth rates, price increases, fluctuations in gross profit margins and SG&A expense as a percentage of sales, capital expenditures, working capital levels, income tax rates, and a weighted-average cost of capital reflecting the specific risk profile of the reporting unit being tested. Significant negative industry or economic trends, disruptions to the Company's business, loss of significant customers, inability to effectively integrate acquired businesses, unexpected significant changes or planned changes in use of the assets or in entity structure, and divestitures may adversely impact the assumptions used in the valuations.

The Company completes its annual goodwill impairment analysis on May 1st of each fiscal year and evaluates its reporting units for potential triggering events on a quarterly basis in accordance with ASC 350, "Intangibles - Goodwill and Other." In addition to the metrics listed above, the Company considers multiple internal and external factors when evaluating its reporting units for potential impairment, including (a) U.S. GDP growth, (b) industry and market factors such as competition and changes in the market for the reporting unit's products, (c) new product development, (d) hospital admission rates, (e) competing technologies, (f) overall financial performance such as cash flows, actual and planned revenue and profitability, and (g) changes in the strategy of the reporting unit. In the event the fair value of a reporting unit is less than the carrying value, including goodwill, the Company would then perform an additional assessment that would compare the implied fair value of goodwill with the carrying amount of goodwill. The determination of the implied fair value of goodwill would require management to compare the fair value of the reporting unit to the estimated fair value of the assets and liabilities of the reporting unit. If necessary, the Company may consult valuation specialists to assist with the assessment of the estimated fair value of assets and liabilities for the reporting unit. If the implied fair value of the goodwill is less than the carrying value, an impairment charge would be recorded.

The Company considers a reporting unit’s fair value to be substantially in excess of its carrying value at 20% or greater. The annual impairment testing performed on May 1, 2018, in accordance with ASC 350, “Intangibles - Goodwill and Other” (“Step One”) indicated that all of the reporting units passed Step One of the goodwill impairment test, and each had a fair value substantially in excess of its carrying value.

Other Indefinite-Lived Intangible Assets

Other indefinite-lived intangible assets were analyzed in accordance with the Company's policy outlined above using the income approach. The valuation was based upon current sales projections and profitability for each asset group, and the relief from royalty method was applied. As a result of the analysis, all assets had a fair value in excess of carrying value.

New Accounting Standards

The information required by this Item is provided in Note 1 of the Notes to Consolidated Financial Statements contained in Item 8 — Financial Statements and Supplementary Data.

Table of Contents

Forward-Looking Statements

In this annual report on Form 10-K, statements that are not reported financial results or other historic information are "forward-looking statements." These forward-looking statements relate to, among other things, the Company's future financial position, business strategy, targets, projected sales, costs, earnings, capital expenditures, debt levels and cash flows, and plans and objectives of management for future operations.

The use of words such as "may," "will," "expect," "intend," "estimate," "anticipate," "believe," "should," "project" or "plan" c terminology are generally intended to identify forward-looking statements. These forward-looking statements by their nature address matters that are, to different degrees, uncertain and are subject to risks, assumptions, and other factors, some of which are beyond Brady's control, that could cause actual results to differ materially from those expressed or implied by such forward-looking statements. For Brady, uncertainties arise from:

- Brady's ability to compete effectively or to successfully execute our strategy
- Brady's ability to develop technologically advanced products that meet customer demands
- Difficulties in protecting our sites, networks, and systems against security breaches
- Decreased demand for the Company's products
- Brady's ability to retain large customers
- Extensive regulations by U.S. and non-U.S. governmental and self regulatory entities
- Risks associated with the loss of key employees
- Divestitures, contingent liabilities from divestitures and the failure to identify, integrate, and grow acquired companies
- Litigation, including product liability claims
- Brady's ability to execute facility consolidations and maintain acceptable operational service metrics
- Foreign currency fluctuations
- Changes in tax legislation and tax rates
- Potential write-offs of Brady's substantial intangible assets
- Differing interests of voting and non-voting shareholders
- Brady's ability to meet certain financial covenants required by our debt agreements
- Numerous other matters of national, regional and global scale, including those of a political, economic, business, competitive, and regulatory nature contained from time to time in Brady's U.S. Securities and Exchange Commission filings, including, but not limited to, those factors listed in the "Risk Factors" section within Item 1A of Part I of this Form 10-K.

These uncertainties may cause Brady's actual future results to be materially different than those expressed in its forward-looking statements. Brady does not undertake to update its forward-looking statements except as required by law.

Risk Factors

Refer to the information contained in Item 1A - Risk Factors.

Table of Contents

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

The Company’s business operations give rise to market risk exposure due to changes in foreign exchange rates. To manage that risk effectively, the Company enters into hedging transactions according to established guidelines and policies that enable it to mitigate the adverse effects of this financial market risk.

The global nature of the Company’s business requires active participation in the foreign exchange markets. As a result of investments, production facilities and other operations on a global scale, the Company has assets, liabilities and cash flows in currencies other than the U.S. dollar. The objective of the Company’s foreign currency exchange risk management is to minimize the impact of currency movements on non-functional currency transactions. To achieve this objective, the Company hedges a portion of known exposures using forward contracts. Main exposures are related to transactions denominated in the British Pound, the Euro, Canadian dollar, Australian dollar, Mexican Peso, the Malaysian Ringgit, the Chinese Yuan, and Singapore dollar. As of July 31, 2018, the notional amount of outstanding forward foreign exchange contracts designated as cash flow hedges was $27.2 million. The Company uses Euro-denominated debt of €45.0 million designated as a hedge instrument to hedge portions of the Company’s net investment in its Euro-denominated businesses. The Company's revolving credit facility allows it to borrow up to $150.0 million in currencies other than U.S. dollars under an alternative currency sub-limit. The Company has periodically borrowed funds in Euros and British Pounds under this sub-limit. Debt issued in currencies other than U.S. dollars acts as a natural hedge to the Company's exposure to the associated currency.

The Company also faces exchange rate risk from transactions with customers in countries outside the United States and from intercompany transactions between affiliates. Although the Company has a U.S. dollar functional currency for reporting purposes, it has manufacturing sites throughout the world and a significant portion of its sales are generated in foreign currencies. Costs incurred and sales recorded by subsidiaries operating outside of the United States are translated into U.S. dollars using exchange rates in effect during the respective period. As a result, the Company is exposed to movements in the exchange rates of various currencies against the U.S. dollar. In particular, the Company has more sales in European currencies than it has expenses in those currencies. Therefore, when European currencies strengthen or weaken against the U.S. dollar, operating profits are increased or decreased, respectively. Currency exchange rates increased fiscal 2018 sales by 3.0% compared to fiscal 2017 as the U.S. dollar depreciated, on average, against other major currencies throughout the year.

The Company is subject to the risk of change in foreign currency exchange rates due to its operations in foreign countries. The Company has manufacturing facilities and sells and distributes its products throughout the world. As a result, the Company’s financial results could be significantly affected by factors such as changes in foreign currency exchange rates or weak economic conditions in the foreign markets in which the Company manufactures, distributes and sells its products. The Company’s operating results are principally exposed to changes in exchange rates between the U.S. dollar and the Euro, the Australian dollar, the Canadian dollar, the Mexican Peso, the Singapore dollar, the British Pound, the Malaysian Ringgit, and the Chinese Yuan. Changes in foreign currency exchange rates for the Company’s foreign subsidiaries reporting in local currencies are generally reported as a component of stockholders’ investment. The Company’s currency translation adjustment recorded in fiscal 2018, 2017, and 2016 as a separate component of stockholders’ investment was unfavorable by $11.2 million, favorable by $8.6 million, and unfavorable by $1.4 million, respectively. As of July 31, 2018 and 2017, the Company’s foreign subsidiaries had net current assets (defined as current assets less current liabilities) subject to foreign currency translation risk of $170.0 million and $162.5 million, respectively. The potential decrease in net current assets as of July 31, 2018, from a hypothetical 10 percent adverse change in quoted foreign currency exchange rates would be approximately $17.0 million. This sensitivity analysis assumes a parallel shift in all major foreign currency exchange rates versus the U.S. dollar. Exchange rates rarely move in the same direction relative to the U.S. dollar due to positive and negative correlations of the various global currencies. This assumption may overstate the impact of changing exchange rates on individual assets and liabilities denominated in a foreign currency.

The Company could be exposed to interest rate risk through its corporate borrowing activities. The objective of the Company’s interest rate risk management activities is to manage the levels of the Company’s fixed and floating interest rate exposure to be consistent with the Company’s preferred mix. The interest rate risk management program allows the Company to enter into approved interest rate derivatives if there is a desire to modify the Company’s exposure to interest rates. As of July 31, 2018, the Company had no interest rate derivatives and no variable rate debt outstanding.

Table of Contents

Item 8. Financial Statements and Supplementary Data
BRADY CORPORATION & SUBSIDIARIES
INDEX TO FINANCIAL STATEMENTS

	Page
Report of Independent Registered Public Accounting Firm	28
Financial Statements:	
Consolidated Balance Sheets — July 31, 2018 and 2017	29
Consolidated Statements of Earnings — Years Ended July 31, 2018, 2017, and 2016	30
Consolidated Statements of Comprehensive Income — Years Ended July 31, 2018, 2017, and 2016	31
Consolidated Statements of Stockholders' Investment — Years Ended July 31, 2018, 2017, and 2016	32
Consolidated Statements of Cash Flows — Years Ended July 31, 2018, 2017, and 2016	33
Notes to Consolidated Financial Statements — Years Ended July 31, 2018, 2017, and 2016	34

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Brady Corporation
Milwaukee, Wisconsin

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Brady Corporation and subsidiaries (the "Company") as of July 31, 2018 and 2017, the related consolidated statements of earnings, comprehensive income, stockholders' investment, and cash flows for each of the three years in the period ended July 31, 2018, and the related notes and the schedule listed in the Index at Item 15 (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of July 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended July 31, 2018, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of July 31, 2018, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated September 13, 2018, expressed an unqualified opinion on the Company's internal control over financial reporting.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ DELOITTE & TOUCHE LLP
Milwaukee, Wisconsin
September 13, 2018

We have served as the Company's auditor at least since 1981; however, an earlier year cannot be reliably determined.

Table of Contents

BRADY CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
July 31, 2018 and 2017

	2018	2017
	(Dollars in thousands)	
ASSETS		
Current assets:		
Cash and cash equivalents	$181,427	$133,944
Accounts receivable — net	161,282	149,638
Inventories:		
Finished products	73,133	69,760
Work-in-process	19,903	18,117
Raw materials and supplies	20,035	19,147
Total inventories	113,071	107,024
Prepaid expenses and other current assets	15,559	17,208
Total current assets	471,339	407,814
Other assets:		
Goodwill	419,815	437,697
Other intangible assets	42,588	53,076
Deferred income taxes	7,582	35,456
Other	17,662	18,077
Property, plant and equipment:		
Cost:		
Land	6,994	7,470
Buildings and improvements	96,245	98,228
Machinery and equipment	270,989	261,192
Construction in progress	4,495	4,109
	378,723	370,999
Less accumulated depreciation	280,778	272,896
Property, plant and equipment — net	97,945	98,103
Total	$1,056,931	$1,050,223
LIABILITIES AND STOCKHOLDERS' INVESTMENT		
Current liabilities:		
Notes payable	$—	$3,228
Accounts payable	66,538	66,817
Wages and amounts withheld from employees	67,619	58,192
Taxes, other than income taxes	8,318	7,970
Accrued income taxes	3,885	7,373
Other current liabilities	44,567	43,618
Total current liabilities	190,927	187,198
Long-term obligations	52,618	104,536
Other liabilities	61,274	58,349
Total liabilities	304,819	350,083
Stockholders' investment:		
Class A nonvoting common stock — Issued 51,261,487 shares at July 31, 2018 and 2017, respectively (aggregate liquidation preference of $42,803 at July 31, 2018 and 2017)	513	513
Class B voting common stock — Issued and outstanding 3,538,628 shares	35	35

Additional paid-in capital	325,631	322,608
Earnings retained in the business	553,454	507,136
Treasury stock — 2,867,870 and 3,446,669 shares at July 31, 2018 and 2017, respectively, of Class A nonvoting common stock, at cost	(71,120)	(85,470)
Accumulated other comprehensive loss	(56,401)	(44,682)
Total stockholders' investment	752,112	700,140
Total	$1,056,931	$1,050,223

See Notes to Consolidated Financial Statements.

Table of Contents

BRADY CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EARNINGS
Years Ended July 31, 2018, 2017 and 2016

	2018	2017	2016
	(In thousands, except per share amounts)		
Net sales	$1,173,851	$1,113,316	$1,120,625
Cost of products sold	585,560	555,024	561,852
Gross margin	588,291	558,292	558,773
Operating expenses:			
Research and development	45,253	39,624	35,799
Selling, general and administrative	390,342	387,653	405,096
Total operating expenses	435,595	427,277	440,895
Operating income	152,696	131,015	117,878
Other income (expense):			
Investment and other income (expense)	2,487	1,121	(709)
Interest expense	(3,168)	(5,504)	(7,824)
Earnings before income taxes	152,015	126,632	109,345
Income tax expense	60,955	30,987	29,235
Net earnings	$91,060	$95,645	$80,110
Net earnings per Class A Nonvoting Common Share:			
Basic	$1.76	$1.87	$1.59
Diluted	$1.73	$1.84	$1.58
Dividends	$0.83	$0.82	$0.81
Net earnings per Class B Voting Common Share:			
Basic	$1.75	$1.86	$1.57
Diluted	$1.72	$1.83	$1.56
Dividends	$0.81	$0.80	$0.79
Weighted average common shares outstanding:			
Basic	51,677	51,056	50,541
Diluted	52,524	51,956	50,769

See Notes to Consolidated Financial Statements.

Table of Contents

BRADY CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Years Ended July 31, 2018, 2017 and 2016

	2018	2017	2016
	(Dollars in thousands)		
Net earnings	$91,060	$95,645	$80,110
Other comprehensive (loss) income:			
Foreign currency translation adjustments:			
Net (loss) gain recognized in other comprehensive (loss) income	(11,195)	8,621	(1,405)
	(11,195)	8,621	(1,405)
Net investment hedge and long-term intercompany loan translation adjustments:			
Net loss recognized in other comprehensive (loss) income	(2,480)	(1,404)	(2,280)
	(2,480)	(1,404)	(2,280)
Cash flow hedges:			
Net gain (loss) recognized in other comprehensive (loss) income	966	(225)	(1,254)
Reclassification adjustment for losses included in net earnings	551	486	196
	1,517	261	(1,058)
Pension and other post-retirement benefits:			
Net gain (loss) recognized in other comprehensive (loss) income	446	647	(293)
Actuarial gain amortization	(576)	(483)	(612)
Prior service credit amortization	—	—	(1,035)
	(130)	164	(1,940)
Other comprehensive (loss) income, before tax	(12,288)	7,642	(6,683)
Income tax benefit (expense) related to items of other comprehensive (loss) income	569	2,421	(3,028)
Other comprehensive (loss) income, net of tax	(11,719)	10,063	(9,711)
Comprehensive income	$79,341	$105,708	$70,399

See Notes to Consolidated Financial Statements.

Table of Contents

BRADY CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' INVESTMENT
Years Ended July 31, 2018, 2017 and 2016

	Common Stock	Additional Paid-In Capital	Earnings Retained in the Business	Treasury Stock	Accumulated Other Comprehensive (Loss) Income	Other
	(In thousands, except per share amounts)					
Balances at July 31, 2015	$548	$314,403	$414,069	$(93,234)	$ (45,034)	$(3,064)
Net earnings	—	—	80,110	—	—	—
Other comprehensive loss, net of tax	—	—	—	—	(9,711)	—
Issuance of 308,059 shares of Class A Common Stock under stock plan	—	(3,830)	—	8,300	—	—
Other (Note 7)	—	(10)	—	(228)	—	(799)
Tax shortfall from exercise of stock options and deferred compensation distributions	—	(1,716)	—	—	—	—
Stock-based compensation expense (Note 7)	—	8,154	—	—	—	—
Purchase of 1,153,689 shares of Class A Common Stock	—	—	—	(23,552)	—	—
Cash dividends on Common Stock						
Class A — $0.81 per share	—	—	(38,001)	—	—	—
Class B — $0.79 per share	—	—	(2,807)	—	—	—
Balances at July 31, 2016	$548	$317,001	$453,371	$(108,714)	$ (54,745)	$(3,863)
Net earnings	—	—	95,645	—	—	—
Other comprehensive income, net of tax	—	—	—	—	10,063	—
Issuance of 1,061,660 shares of Class A Common Stock under stock plan	—	(5,868)	—	23,591	—	—
Other (Note 7)	—	1,943	—	(347)	—	3,863
Tax shortfall from exercise of stock options and deferred compensation distributions	—	37	—	—	—	—
Stock-based compensation expense (Note 7)	—	9,495	—	—	—	—
Cash dividends on Common Stock						
Class A — $0.82 per share	—	—	(39,037)	—	—	—
Class B — $0.80 per share	—	—	(2,843)	—	—	—
Balances at July 31, 2017	$548	$322,608	$507,136	$(85,470)	$ (44,682)	$—
Net earnings	—	—	91,060	—	—	—
Other comprehensive loss, net of tax	—	—	—	—	(11,719)	—
Issuance of 842,305 shares of Class A Common Stock under stock plan	—	(7,171)	—	16,234	—	—
Tax benefit and withholdings from deferred compensation distributions	—	214	—	(422)	—	—
Stock-based compensation expense (Note 7)	—	9,980	—	—	—	—
Purchase of 40,694 shares of Class A Common Stock	—	—	—	(1,462)	—	—
Adoption of ASU 2018-02 (Note 1)	—	—	(1,869)	—	—	—
Cash dividends on Common Stock						
Class A — $0.83 per share	—	—	(39,998			