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LECO - Q1 2018 Lincoln Electric Holdings Inc Earnings Call

EVENT DATE/TIME: APRIL 23, 2018 / 2:00PM GMT

OVERVIEW:

Co. reported 1Q18 sales of $758m, reported operating income of $85.2m and diluted EPS of $0.92.

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PRESENTATION

Operator

Greetings, and welcome to the Lincoln Electric 2018 First Quarter Financial Results Conference Call. (Operator Instructions) And this call is being recorded.

It is now my pleasure to introduce your host, Amanda Butler, Vice President of Investor Relations and Communications. Thank you, you may begin.

Amanda H. Butler - *Lincoln Electric Holdings, Inc. - VP of IR & Communications*

Thank you, Latoya, and good morning, everyone. Welcome to Lincoln Electric's 2018 first quarter conference call. We released our financial results earlier today, and you can find our release as an attachment to this call's slide presentation as well as on the Lincoln Electric website at lincolnelectric.com in the Investor Relations section.

Joining me on the call today is Chris Mapes, Lincoln's Chairman, President and Chief Executive Officer; as well as our Chief Financial Officer, Vince Petrella. Chris will begin the discussion with an overview of first quarter results and Vince will cover the quarter performance in more detail. Following our prepared remarks, we are happy to take your questions.

But before we start our discussion, please note that certain statements made during this call may be forward-looking and actual results may differ materially from our expectations due to a number of risk factors. A discussion of some of the risks and uncertainties that may affect our results are provided in our press release and in our SEC filings on Forms 10-K and 10-Q.

In addition, we may discuss financial measures that do not conform to U.S. GAAP and a reconciliation of non-GAAP measures to the most comparable GAAP measure is found in the financial tables in our earnings release, which again is available in the Investor Relations section of our website at lincolnelectric.com.

And with that, I'll turn the call over to Chris Mapes.

Christopher L. Mapes - *Lincoln Electric Holdings, Inc. - Chairman, President & CEO*

Thank you, Amanda. Good morning, everyone. We're pleased to report good sales momentum in the first quarter. Sales increased 30.4% to $758 million. Organic sales increased 9.4% from 5.2% volume growth and 4.2% higher price. These results reinforce the continued strengthening in our end markets and the demand for our solutions.

Our sales also benefited from 18.3% from the Air Liquide Welding acquisition. We achieved a 17.2% increase in adjusted operating income. In our legacy business, we incurred a modest year-over-year decline in our adjusted operating income margin to 13.9%. Our performance reflected solid progress in mitigating sharp increases in raw material costs through operational initiatives and pricing actions.

We are confident that our global pricing actions and productivity initiatives will allow us to offset inflationary pressures. While there is a lag to achieve the full benefit of our initiatives, we are confident that we have the right strategy. We will continue to aggressively manage the business against inflationary headwinds.

Moving to earnings. Adjusted earnings per share increased 25% to $1.10. Working capital requirements increased this quarter with Air Liquide Welding and increased sales levels. The legacy Lincoln Electric business continued to manage the cash cycle carefully with a 16.5% working capital ratio to sales and ROIC improved 50 basis points to 16.7%.

Moving to Slide 4. We achieved solid growth momentum in the first quarter as most end markets continued to expand, including 2 of our largest sectors, heavy industries and general fabrication, which increased at a double-digit pace. Our organic sales increased across all of our reportable segments, led by the Americas Welding and the Harris Products Group.

We also achieved double-digit percent growth from both U.S. exports and our global automation portfolio, which continues to benefit from a broad improvement in end sector demand.

By product area, consumable organic sales increased at a double-digit rate and equipment increased at a mid- to high single-digit rate. Demand trends have remained strong through the second quarter, while capital investments in industrial production levels remain attractive. We continue to expect mid- to high single-digit percent organic sales growth in 2018.

We're continuing to invest in our portfolio of solutions to drive growth through the cycle. In the quarter, we acquired a small technology company, which will support our fifth generation of software-based IoT solutions for weld process control and monitoring. We also completed a small bolt-on acquisition that supports hardfacing solutions and services in the Asia Pacific region.

Moving to Slide 5, we are pacing ahead of plan on our Air Liquide Welding integration activities as the team continues to shape the business into a more efficient and successful enterprise in the region. We're making progress consolidating our manufacturing and distribution platforms and are starting to benefit from procurement synergies and more streamlined administrative and commercial departments. This resulted in a $0.06 adjusted EPS contribution in the first quarter, which represents $0.03 of synergy benefit in addition to the ALW's legacy $0.03 EPS per quarter run rate.

We will continue to aggressively implement our integration plans and look forward to updating you on our progress.

And now, I will pass the call to Vince. Vince?

Vincent K. Petrella - *Lincoln Electric Holdings, Inc. - Executive VP, CFO & Treasurer*

Thank you, Chris. Moving to Slide 6. Our consolidated first quarter sales increased 30.4% on 5.2% volume growth, 4.2% higher price and 18% benefit from the Air Liquide Welding acquisition and 2.7% from favorable foreign exchange.

Our first quarter gross profit margin declined 100 basis points to 33.9% as compared with 34.9% in the prior year. Approximately half of the decline was the addition of Air Liquide Welding. Excluding the acquisition and special items, gross profit margin was 34.4% or a 50-basis-point decline versus the prior year. Favorable mix was offset by timing of price cost recovery, including a $900,000 LIFO charge in our Americas Welding segment.

Our SG&A expense increased 30.8% to $161 million or 21.3% of sales due to the addition of Air Liquide Welding and acquisition-related expenses. Excluding the acquisition and special items, SG&A increased 11.5% to $133.4 million. The increase was primarily due to unfavorable foreign currency translation effects, higher incentive compensation costs and salary and wage costs.

Reported operating income increased 7.3% to $85.2 million or 11.2% of sales. Operating income results included approximately $12.1 million in special item charges related to the rationalization and asset impairments from our European integration activities and acquisition transaction and integration costs. Excluding these special items, adjusted operating income increased 17.2% to $97.3 million or 12.8% of sales. Excluding the acquisition and special items, adjusted operating income would have been $90.7 million or 13.9% of sales, a 40-basis-point decline versus the prior year due to unfavorable price cost, higher incentive compensation costs and salaries and wages.

Our first quarter effective tax rate was 27.8% compared with 28.3% in the prior-year period. Excluding special items, our first quarter tax rate was 24.5%. We continue to expect our 2018 full year effective tax rate to be in the low- to mid-20% range, subject to the future mix of earnings and the timing and extent of discrete tax items, including stock option exercises.

First quarter diluted earnings per share increased 9.5% to $0.92 compared with $0.84 from the prior year. On an adjusted basis, diluted earnings per share increased 25% to $1.10 on higher organic sales and the favorable impact of the U.S. Tax Act.

Now moving to the geographical segments on Slide 7. Americas Welding segment's first quarter adjusted EBIT dollars rose 12.7% to $77.4 million. The adjusted EBIT margin declined 10 basis points to 16.8% on rising raw material costs and higher incentive compensation and wage costs. Demand strengthened through the end of the quarter across all channels and most end markets.

Consumable and equipment volumes increased at a mid- to high single-digit rate. Americas segment's top 3 end markets grew in the quarter and automation growth resumed at a strong double-digit percent rate.

Moving to Slide 8. The International Welding segment adjusted EBIT increased 55.9% to $15 million due to the addition of Air Liquide Welding and growth in Asia Pacific. Adjusted EBIT margin declined 130 basis points to 5.9% because of the acquisition. Excluding the acquisition, adjusted EBIT margin was 7.1%, a 10-basis-point decline versus the prior year.

Organic sales increased 1.7% with 5.4% higher price and a 3.7% decline in volumes. Volumes were impacted by acquisition-related activities and lower sales in energy-related end markets.

Now moving to the Harris Products Group. First quarter EBIT margin held steady at 11.9% as volumes increased 9.3% from solid demand across all sales channels. Volume leverage was offset by unfavorable price and mix.

Moving to Slide 10. We generated $44 million of cash flows from operations in the first quarter as working capital needs increased with a higher sales growth rates and the addition of Air Liquide Welding. Excluding Air Liquide Welding, the average operating working capital ratio was 16.5%, a 60-basis-point improvement versus the prior-year period.

Moving to Slide 11. We've returned $40 million to shareholders in the quarter with an 11% higher dividend payout rate and $15 million in share repurchases. We also invested in the business with $15 million in capital expenditures and $5 million for the small bolt-on acquisitions previously mentioned.

We continue to estimate full year capital spending to be in the range of $60 million to $70 million. We expect to maintain this balanced capital allocation strategy in 2018, prioritizing growth investments and returning cash to shareholders through our dividend program and share repurchase activities.

With that, I would like to turn the call over to for questions. Latoya?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) The first question is from Joe O'Dea of Vertical Research Partners.

Joseph O'Dea - *Vertical Research Partners, LLC - Principal*

First question, just on mix and thinking about consumables that you've seen up double digits the past couple of quarters. Is there anything within that where you're seeing a little bit of pull forward demand and trying to get in front of some of the cost increases? Or is that more just a pure reflection of what you're seeing in the end markets?

Christopher L. Mapes - *Lincoln Electric Holdings, Inc. - Chairman, President & CEO*

I think one of the things that we're very confident is we are seeing strength in the end markets globally. So we've seen that for a few quarters now. We continue to see that as we've moved through Q1 and into Q2. And I think that the challenge is that the inflationary pressures we're seeing are really global. So we've got price increases going in across the portfolio. And there is no question that pieces of that are probably impacted by some pull forward. But we've been in an inflationary environment for these products for a considerable period of time. And I have a difficult time believing that much of it is impacted from a pull forward. So I believe that most of it is really just the continuing strengthening of demand that we're seeing across the portfolio globally, although there are a multitude of pricing actions that are occurring globally around the world.

Joseph O'Dea - *Vertical Research Partners, LLC - Principal*

And then, just on some of the timing sensitivity with the price cost situation. Can you talk about -- I think, in general, you typically have cost locked-in about a quarter in advance. So presumably that would mean in your second quarter, cost is a little bit more challenging than first quarter and then there's just kind of lag effect of some of the price increases. So if we go back to the last update you gave, I think, we are still looking for incremental margins in the 20% to 25% range. Is that still the case? And can you talk about the cadence in 2Q and back half of the year with continued cost inflation over the course of this quarter?

Vincent K. Petrella - *Lincoln Electric Holdings, Inc. - Executive VP, CFO & Treasurer*

Yes, Joe. I do continue to expect us to be able to achieve that range in incrementals of 20% to 25% in a more normalized environment. We still are continuing to chase the inflationary raw material cost increases. We're putting more increases into the market, into the second quarter. But I would also say that the expectation of those normalized incrementals will come when the inflationary environment starts to stabilize and those last price increases roll through our financials during the course of that quarter and the succeeding quarter. So we really need to see a stabilization and the inflationary environment for us to start achieving those types of incrementals that we've achieved in the past.

Operator

The next question is from Nathan Jones of Stifel.

Nathan Hardie Jones - *Stifel, Nicolaus & Company, Incorporated, Research Division - Analyst*

I guess, I'm going to follow up on some of the pricing and incremental margin questions here. The price increases that you put through in the first quarter, can you talk about how much of those stock did you have to back off on any of those? And are the pricing increases in the second quarter of the same kind of magnitude, lower magnitude?

Vincent K. Petrella - *Lincoln Electric Holdings, Inc. - Executive VP, CFO & Treasurer*

I would say the bulk of the price increases did stick the effectivity across our global businesses were very high. If you look at our pricing in the welding business during the course of the first quarter, the Americas was up 4.6%, international is up 5.4%. That's largely in line with what we saw in the marketplace. We are again putting more pricing through in the second quarter on a global basis. I expect that we will see similar type of year-over-year pricing changes being mindful of lapping prior-year pricing that will mitigate the year-over-year impacts. But I think, we're going to continue to see these into very near future at least these mid-single digit type of pricing activities in the welding space.

Nathan Hardie Jones - *Stifel, Nicolaus & Company, Incorporated, Research Division - Analyst*

Okay. I guess, the next logical step on the price increases is to maybe ask a little bit about how this might affect demand in the marketplace, and I was thinking particularly on the equipment side where a lot of the sale has increased productivity, you're going to save the world the money. As you're putting through these price increases on equipment, how -- I mean, how do you think that might affect demand here if we continue to see raw material prices increase, you continue to have to pass those through? And what potential impact that could have on demand at some point here, like where is the tipping point on price?

Christopher L. Mapes - *Lincoln Electric Holdings, Inc. - Chairman, President & CEO*

Yes. We're not seeing that on the equipment side. Quite frankly, though, larger demand profile on the equipment side beyond just the need for the capital investment, reinvestment that are OEMs and other participants have in the marketplace is the fact of an ability to continue to drive productivity with that equipment and continuing to drive technologies and capabilities into these solutions that can assist them with productivity. So we're certainly not seeing any mitigation on the equipment side of the portfolio nor are we expecting any because of just moving through the raw material increases that are occurring with that particular product area, which certainly is less rapid than it is on the consumable side of the portfolio.

Nathan Hardie Jones - *Stifel, Nicolaus & Company, Incorporated, Research Division - Analyst*

Okay. That's helpful. So your position here is you don't think these price increases are at this point driving any declines in demand or could in the future?

Christopher L. Mapes - *Lincoln Electric Holdings, Inc. - Chairman, President & CEO*

No, I don't. And I think you could also look towards the equipment side, especially on the large OEM side of our business being more of a capital equipment purchase. And if you look at the favorable trendline that we have in our automation businesses, which were up double digit in the quarter, that also gives me confidence that capital still moving towards these industries as they're seeing higher demands.

Operator

The next question is from Saree Boroditsky of Deutsche Bank.

Saree Emily Boroditsky - *Deutsche Bank AG, Research Division - Research Analyst*

With the integration of Air Liquide running ahead of schedule, do you see upside to your previous guidance for accretion, I think around $0.12 in the second half of the year?

Christopher L. Mapes - *Lincoln Electric Holdings, Inc. - Chairman, President & CEO*

Well, look, we're certainly very excited about the progress we're making with the integration. We've got our teams in Europe working steadily and making improvements. We're seeing those improvements both on the procurement side as well as operational efficiencies and there is a lot of activity. And our global teams are supporting them with their integration. As much as we're excited with the progress, we're really not making any change to those expectations at this point. But certainly, excited at the progress that we're making, excited about the teams, the technologies that we've found within the business. And I'm certainly still very bullish on the acquisition as it relates to the long-term benefits for Lincoln Electric, but not making any changes to our current financial forecast with the integration.

Saree Emily Boroditsky - *Deutsche Bank AG, Research Division - Research Analyst*

And then, you mentioned headwind associated with the incentive comp and wage cost Americas in the quarter. I was wondering if you could quantify that impact to margins and your expectations for those pressures as we go through the remainder of the year? I was just expecting incentive compensation headwinds debate especially as you go to the fourth quarter?

Vincent K. Petrella - *Lincoln Electric Holdings, Inc. - Executive VP, CFO & Treasurer*

Right. So the increase is over $4 million on a year-over-year basis ex Air Liquide and ex foreign currency translation. And the components of that increase really largely attributable to the higher profitability that the company is recording as well as the achievement of higher performance against established plans for 2018. So we can expect to continue to see that kind of year-over-year increase because of those factors.

Operator

The next question is from Mig Dobre of Baird.

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

Just looking to clarify prior comments. So in terms of your price cost, if we're thinking about your commentary for 2Q '18, is it fair to say that you've caught up now with your pricing action in 2Q versus the higher raw material environment? And if things stay flat sequentially, we should be thinking more normalized margins in Q3. Or will there still be a catch up based on where steel prices are right now into Q3 or maybe even Q4 as well?

Vincent K. Petrella - *Lincoln Electric Holdings, Inc. - Executive VP, CFO & Treasurer*

Yes, I think, the way I would describe, Mig, is that we're closing the gap. The gap is closed from the fourth quarter to the first. I think, we will need to continue to close that gap in the second quarter. And hopefully, in the second half of the year, should see a little bit better incremental performance, barring any continual increase in inflationary pressures that we've seen in the first half of the year.

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

Okay. So you'll be caught up basically?

Vincent K. Petrella - *Lincoln Electric Holdings, Inc. - Executive VP, CFO & Treasurer*

We will continue to close the gap.

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

Okay. Then my follow-up, I'm going to ask a little bit about capital deployment. You've done some share buybacks. Can you maybe help us understand maybe some updated thoughts as to how you're thinking about this portion of returning cash to shareholders? What are some of the things that you're watching for? How we should be thinking going forward?

Vincent K. Petrella - *Lincoln Electric Holdings, Inc. - Executive VP, CFO & Treasurer*

Sure. I would reiterate that our top priorities are to continue to reinvest in the business and look for those inorganic opportunities that fit our strategy and are attractive in the marketplace. So that, again, is the top priority for the company. When it comes to distributions to shareholders, we will continue to increase our dividend payout ratios in line with what we believe our long-term growth trajectories are and cash flows and earnings in the business.

And then lastly, presently, we are in a -- what I would refer to as more of a share buyback maintenance mode. We're looking for those opportunities to take shares out of the market at attractive prices during the course of the quarter and remainder of the year. We spent, as you know, about $15 million on share repurchases during the first quarter, which is a little higher than our expected run rate for the year. We increased our dividend rate by 11%, and we will continue to look for those opportunities to reinvest in the business as well.

Operator

The next question is from Jim Giannakouros of Oppenheimer.

James Giannakouros - *Oppenheimer & Co. Inc., Research Division - Executive Director and Senior Analyst*

I apologize if I've missed it, but I think you called out that price cost gap of 70 bps in 4Q. Did you give us a number on 1Q?

Vincent K. Petrella - *Lincoln Electric Holdings, Inc. - Executive VP, CFO & Treasurer*

No, I didn't, but the number in the first quarter is estimated to be 50 basis points on price cost contraction, on gross margins.

James Giannakouros - *Oppenheimer & Co. Inc., Research Division - Executive Director and Senior Analyst*

On gross margins, yes. And then, maybe tough to answer, but just trying to get a feel for price cost in automation sales. I know that a like-to-like comparison may be tough, but you spoke to mix from end market perspective. Any color you can give us on the margin progression in automation, just, again, citing historical lumpiness, 2017 tough comps, I just want to get to better beat on how you're leveraging that double-digit growth that you posted this quarter?

Vincent K. Petrella - *Lincoln Electric Holdings, Inc. - Executive VP, CFO & Treasurer*

First, automation is really no different than the input costs we're seeing in other parts of the equipment and machine business. So we're seeing inflationary activity there as well. From a margin perspective, both sequentially and year-over-year, year-over-year, in particular, we've seen some improvement in the margin profile of the automation book of business, largely due to more than double-digit higher growth rates at the top line. So when say there's any sort of underlying secular move that's meaningful there other than the business is strong and continues to grow at a nice pace on a year-over-year basis.

James Giannakouros - *Oppenheimer & Co. Inc., Research Division - Executive Director and Senior Analyst*

Okay. And one last on Slide 5, you guys have a few key action bullets there. Chris mentioned that there is no change to that $30 million that you are on track for operational synergies, but is there -- would you call it -- could you call out anything that is tracking ahead of plan? Or where there have been unforeseen hurdles that have arisen?

Vincent K. Petrella - *Lincoln Electric Holdings, Inc. - Executive VP, CFO & Treasurer*

I would just say that we've accelerated the actions that we laid out initially in our integration and synergy plans on the acquisition of this business. If anything, our confidence level is higher today than it was a quarter or 2 ago simply because we've been able to execute it on a more rapid pace than what we had anticipated at the outset. So again, to reiterate, Chris' comments and what we show on Slide 5, we are standing behind our original estimates. We believe that those are still appropriate and hopefully, the view is that the probability of these savings are just at a higher level today based on the success of our execution and maybe what we would have been saying a quarter or 2 ago.

Christopher L. Mapes - *Lincoln Electric Holdings, Inc. - Chairman, President & CEO*

Yes, I would just add that for our shareholders, the strategic importance is the confidence we have in this acquisition for the long term. We've found a multitude of things that we're very excited about. We've had the business now for 7 or 8 months and lots of very talented people, lots of opportunities with OEMs that they had relationships with. We're just very excited about the long-term strategic impact that we believe this can have for our international operations.

Operator

The next question is from Seth Weber of RBC Capital Markets.

Seth Robert Weber - *RBC Capital Markets, LLC, Research Division - Analyst*

I want -- can we go back to the international market commentary, the volumes were lower than what we thought. I think you called out energy, but also maybe some dislocation around the acquisition. I guess, two questions. Can you talk about that disruption and whether you expect that to continue? And is there any regional color that you could add onto that? I mean, I think I heard you say that Asia Pac was up. So maybe what are the markets that are softer?

Vincent K. Petrella - *Lincoln Electric Holdings, Inc. - Executive VP, CFO & Treasurer*

Right. So I would start by saying that the integration activities with Air Liquide and our go forward strategy in terms of channel and product positioning are leading us to deliberately shed some of the business and product sales that are not attractive. I think you can see that in the volume line. And we believe that over the longer term, it will be a more attractive business with a richer mix of higher-margin opportunities.

Certainly, the movement of the facilities and the consolidation of assets in Europe will also have some impact on our short-term revenue trajectories. But I would tell you the bulk of the activities are deliberate in pricing actions and consolidating that marketplace to a more attractive go forward profile. From an end market perspective, there are some broad-based end market improvements in Europe as well as Asia Pacific. And I would tell you that the energy markets were an exception to that as compared to maybe what we saw in the Americas, which showed some very slight improvement. So I would say that broadly speaking, the markets are improving, but maybe not as rapidly as what we're seeing in the Americas and Asia Pacific compared with Europe.

Seth Robert Weber - *RBC Capital Markets, LLC, Research Division - Analyst*

Okay, Vince. Are you seeing any of your -- any of the local European competitors kind of digging in to try and defend share or anything like that? Or has there been any reaction since the acquisitions, I guess?

Vincent K. Petrella - *Lincoln Electric Holdings, Inc. - Executive VP, CFO & Treasurer*

We're seeing, from a competitive standpoint on a global basis, that we're not alone in terms of moving price up with input cost increases. The nature and extent and size of increases in costs cannot be ignored. And so, we're seeing broad increases across the competitive landscape from a pricing perspective.

Seth Robert Weber - *RBC Capital Markets, LLC, Research Division - Analyst*

Okay. And then maybe just a follow-up for Chris. The comment about lower demand and process industries. Do you have any thoughts as to what -- why that would be and what's driving that?

Christopher L. Mapes - *Lincoln Electric Holdings, Inc. - Chairman, President & CEO*

No. We've looked at that data. We really don't have any comment on it. I first would caution it by saying it's one data point for 1 quarter. We can't point towards any one area within process that would be driving that. So we're just not overreacting to it, just believing that it just may be an anomaly in the data, but we can't point towards anything in the business that's material.

Operator

The next question is from Walter Liptak of Seaport Global.

Walter Scott Liptak - *Seaport Global Securities LLC, Research Division - MD & Senior Industrials Analyst*

As a follow-up to the last one. I wonder if you could just give us an idea of the international markets with the volume down, how much do you think it's costing if you to go through these channel changes and product changes? I guess, how much do you think the growth rate got reduced in the quarter?

Christopher L. Mapes - *Lincoln Electric Holdings, Inc. - Chairman, President & CEO*

Yes. That's a great question, Walt. As you can imagine, with the -- if we were running the core business, it might be easier for us to be able to evaluate and define that. But with the integration of the Air Liquide side as well as the necessity for us to continue to push towards a richer mix of products, there is a lot of noise within the data. I'm confident that it probably did have a level of impact, but not comfortable trying to provide you with a number or analytical analysis. It's certainly there. I think for us, the more important pieces is the strategy we expected to drive. We knew that when combining these businesses, there were pieces of that portfolio that we would need to address, and we are. I think we'll continue to see that for another couple of quarters and then that should settle out.

Walter Scott Liptak - *Seaport Global Securities LLC, Research Division - MD & Senior Industrials Analyst*

Okay. Yes, I think it's a great strategy. So it sounds like the Europe markets are growing. I wonder if you can give us an idea of maybe the market growth rate for welding?

Christopher L. Mapes - *Lincoln Electric Holdings, Inc. - Chairman, President & CEO*

On the welding side, Walt, I probably look at the same data that you do and try to extrapolate that back from just the GDP within the region. I agree with you. We are seeing the European markets beginning to grow. There are a couple of areas that may be growing slightly faster. But we are seeing growth within that market on the welding side. Difficult for us to understand exactly what that growth rate might be. I would expect it's probably in the low-single digits and then you've got the inflationary impact impacting that also.

Walter Scott Liptak - *Seaport Global Securities LLC, Research Division - MD & Senior Industrials Analyst*

Okay. To go back to the price cost, I wonder if you can -- maybe we can look at it from a geographic basis, and I ask the question this way, is it -- where are you leading, where are you lagging Asia, Europe, North America, are you -- as you're closing that gap, where are you closest to closing the gap?

Christopher L. Mapes - *Lincoln Electric Holdings, Inc. - Chairman, President & CEO*

Well, again, I would point out that it is a global challenge associated with inflation. When you see the pricing actions that we took at the international business, I think, that there was enormous amount of price there as well as in our Americas business. I would actually point slightly towards our Harris business. Our Harris business has some challenges that we need to be able to mitigate in that area. But I don't think that we look at any one region as being an outlier. We've got aggressive actions across the portfolio globally and all of them are mitigating in. No one region necessarily stands out as an area of broad concern, although I would point towards meeting continued improvement in our Harris business.

Walter Scott Liptak - *Seaport Global Securities LLC, Research Division - MD & Senior Industrials Analyst*

Okay. All right, great. And then, I guess, just as a last one. It sounds like your U.S.-based energy business is doing well, and I think that's largely -- you probably measure it to pipe mills. I wonder as the markets changed, how are the pipe mills doing now?

Christopher L. Mapes - *Lincoln Electric Holdings, Inc. - Chairman, President & CEO*

Well, I'll tell you Walter, I probably think about less as pipe mills as much as it is pipeline as well as seeing now a longer term consistency in the stability and increasing value of oil. So look, we've seen now where the oil pricing has maintained and has become more steady, which is giving people more confidence in the capital investment. You're going to continue to see investment in the shale assets in the Americas business. And that's why I have confidence in energy over the longer term as it relates to oil being a large portion of the energy component. We've got oil prices, I believe, that are at some of their highest points since 2014 or 2015, which should continue to trend favorably for that segment for Lincoln Electric.

Operator

The next question is from Liam Burke of B. Riley FBR.

Liam Dalton Burke - *B. Riley FBR, Inc., Research Division - Analyst*

Chris, the automation businesses can be project-oriented and lumpy from quarter to quarter. Could you give us a sense as to how the bid activity or the order activity is going behind the sales there?

Christopher L. Mapes - *Lincoln Electric Holdings, Inc. - Chairman, President & CEO*

The bid activity has actually been very solid, very strong. As a matter of fact, the backorder that I see within that business as we're moving into Q2 looks very strong. The other element, which I would point towards is that we're seeing a slight shift in the segment mix inside of that. So our general industries businesses have come back and with some very nice projects and some very nice quotation activity over the last 60, 90 days. So we recognize this business can still have some choppiness associated with it. But we're certainly entering Q2 with a solid backlog, solid quotation book, and I fundamentally believe that manufacturers around the world and certainly here at Lincoln Electric were at times challenged in finding the number of employees that we need to meet some of this demand. And those OEMs are going to think about automation as one way to solve that problem. And we view that it's going to continue that trend as we move throughout 2018.

Liam Dalton Burke - *B. Riley FBR, Inc., Research Division - Analyst*

And then just staying on automation, geographically, the business is solid across the board?

Christopher L. Mapes - *Lincoln Electric Holdings, Inc. - Chairman, President & CEO*

Yes. Although -- certainly for us, that's much more of an Americas profile than it is a global profile. We have some global assets and some desires to continue to expand it globally, but a significant portion of the automation strategy today is an Americas strategy.

Operator

And the next question is from Steve Barger of KeyBanc Capital Markets.

Robert Stephen Barger - *KeyBanc Capital Markets Inc., Research Division - MD and Equity Research Analyst*

Chris, just a follow-up on the last comment about OEMs thinking about automation. With the CapEx cycle improving, do you think or can you see that that's driving market share gains right now? Or how are you measuring the effectiveness of investments in these tech-enabled or automated product lines?

Christopher L. Mapes - *Lincoln Electric Holdings, Inc. - Chairman, President & CEO*

Well, Steve, we certainly like seeing some of the general industries and general fabrication people stepping back into automation over the last couple of months. And when we look at that business, it's one of the reasons why we made a large investment in that area over the last few years, the continued desire of OEMs to be able to automate various welding processes to improve efficiency and productivity. And we believe those catalysts remain. So I'm still confident in the investment cycle on the capital side. I know that many OEMs that we talk to are still challenged in being able to identify enough employees to meet the upcoming demand they see in their business which drive them back automation. So those are the catalysts that we get confidence around and believing that it will continue to show a solid growth profile, a growth profile that we still expect to be 2x the global growth that you might see in just core welding.

Robert Stephen Barger - *KeyBanc Capital Markets Inc., Research Division - MD and Equity Research Analyst*

Got it. And to that point, this tech acquisition that you did, I know it's small. But can you talk more about what the product line is? How it fits with the portfolio? And how you leverage that for growth?

Christopher L. Mapes - *Lincoln Electric Holdings, Inc. - Chairman, President & CEO*

Yes. And it was a small acquisition. It was just an opportunity for us to acquire small business that had some very interesting software technologies associated with weld accuracy and weld process controls and data analytics. So an opportunity for us to bring something in from an acquisition perspective versus us building that enhancement internally. That's why we're excited about it. And it's just another complement to our continued portfolio of software solutions around IoT.

Robert Stephen Barger - *KeyBanc Capital Markets Inc., Research Division - MD and Equity Research Analyst*

Got it. And if I can squeeze just one more in. Vince, probably the biggest concern I hear from investors about is around price cost, and we've talked a lot about that on the call already. But can you just remind us why you're confident in the ability of LECO's market position of the product line to be able to drive that price realization to be able to recover whatever inflation is out there?

Vincent K. Petrella - *Lincoln Electric Holdings, Inc. - Executive VP, CFO & Treasurer*

Thanks, Steve. It's really -- that confidence is predicated on the history of our performance in these types of environments. Having seen our business perform in cycles over a very long period of time, understanding the strength of our brand and the ability to seek recovery of increases in input costs, historically, has been a good result for the company. So I -- I'm confident because of that history, I see it playing out again. We're in a very rapidly increasing inflationary environment. The company and the businesses globally will react to that and gives me that level of assurance that we see our incrementals be restored to a more normalized range once this inflationary environment starts to stabilize.

Operator

The next question is from Chris Dankert of Longbow Research.

Christopher M. Dankert - *Longbow Research LLC - Research Analyst*

It's great to see some of the more general fabs that's coming back. Forgive me if I missed it, but did you have any comment on automotive growth in the quarter just kind of versus production rate or any comment on auto?

Christopher L. Mapes - *Lincoln Electric Holdings, Inc. - Chairman, President & CEO*

Actually, auto for us was very positive in the quarter. We were up mid- to high single-digits in automotive. We've got some unique applications. We've been driving into that space over the last few quarters. So, although I believe that build rates especially here in the U.S. market have flattened or slightly decreasing, we continue to see favorable comparisons in our automotive space.

Christopher M. Dankert - *Longbow Research LLC - Research Analyst*

Got you. Great news there. And then just to circle back on automation really quick, I'm sure a lot of that is as you say, still trying to find labor efficiency, but I guess, is there anything that we should be aware of as far as new product introductions, anything else driving growth or lumpiness that we should be thinking about going forward?

Christopher L. Mapes - *Lincoln Electric Holdings, Inc. - Chairman, President & CEO*

Well, in the automation space, I think that's the unique element of automation that literally with every cell, at least for that particular OEM user, you're driving innovation because they're generally moving from a semi-automatic process into an automated cell. So each one of those have some uniqueness and depending upon the current processes that the OEMs participating with, with their fabrication, we're providing them with advanced solutions from their current process. So whether that's elements of the new small acquisition that we've got on weld tracking and data analytics or whether it would be vision systems or other types of technologies to enhance that process, I think, that's one of the interesting things about automation is it drives new technologies and new capabilities into the marketplace for that OEM.

Operator

The last question in queue will be from Mig Dobre of Baird.

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

Going to the Harris Products Group, can you maybe comment a little bit as to your volume expectations for the year? I know your comparisons are getting a little bit tougher. How do we think about that business going forward?

Vincent K. Petrella - *Lincoln Electric Holdings, Inc. - Executive VP, CFO & Treasurer*

I think the business will continue to remain strong during the remainder of the year. The end markets that they serve are strengthening, and I see a mid- to high single-digit type of finish to the year from an organic sales perspective. So I don't see the Harris Products Group falling off of those types of growth rates for the remainder of 2018.

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

Not to parse this too finally, but you were talking about improving pricing here as well and obviously organic would include both. Do you think that it's mostly kind of a surprising catch up that drives that? Or is it mostly volume?

Christopher L. Mapes - *Lincoln Electric Holdings, Inc. - Chairman, President & CEO*

Well, I think, it is a little bit of a pricing catch up in that business. The other thing, Mig, that I would point towards is the Harris Products Group has got a couple of new products that they've been driving into the marketplace. They've got another generation of their perfect flame technologies, which assist individuals that do large brazing within their OEM facilities to manage the gas usage more effectively. We've also had some new products and investments that we've made in our Harris business that advance the HVAC product portfolio. So we're also going to see the continued advancement of those new products as they move to the marketplace as a way to mitigate that. But certainly, as I think about Harris and looking at Q1 moving into Q2, we also are advancing some pricing to mitigate some of that impact.

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

Okay. That's great. And lastly, a housekeeping question. I've noticed that you changed the way you're reporting some line items in your P&L, and you've made some adjustments to 1Q '17 as well. It looks like other income, equity and affiliates and so on have been impacted. Vince, any color what's going on here?

Vincent K. Petrella - *Lincoln Electric Holdings, Inc. - Executive VP, CFO & Treasurer*

The only real change in classification is the treatment of portions, components of pension expense. So there is a new accounting standard that went into effect in the first quarter that requires all components of the pension expense other than service costs to be reflected below the operating profit lines. So the financing interest costs, amortizations, pension settlements, those types of items will be below the operating profit line going forward, and we reclassified the prior year for consistency sake. So there will be some further disclosure in our 10-Q footnotes when we release the 10-Q that gives you some more detail on that here in the coming weeks.

Operator

This concludes our Q&A session. I would now like to turn the call back over to Vincent Petrella for closing remarks.

Vincent K. Petrella - *Lincoln Electric Holdings, Inc. - Executive VP, CFO & Treasurer*

Thank you, Latoya, and thank, everyone, for joining us on the call today and for your continued interest in Lincoln Electric. We look forward to discussing the progression of our operational and strategic programs in the next quarter. Thank you very much.

Operator

Ladies and gentlemen, this concludes the program. You may disconnect.