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Q3 2018 Lincoln Electric Holdings Inc Earnings Call

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## CONFERENCE CALL PARTICIPANTS

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## PRESENTATION

### Operator

Greetings, and welcome to the Lincoln Electric 2018 Third 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.

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

Thank you, Sherry. And good morning, everyone. Welcome to Lincoln Electric's 2018 Third 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](http://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 third quarter results and Vince will cover the quarter performance in more detail. Following our prepared remarks, we're happy to take your questions.

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 discuss financial measures that do not conform to U.S. GAAP, and a reconciliation of non-GAAP measures to the most comparable GAAP measures is found in the financial tables in our earnings release, which, again, is all available on the Investor Relations section of our website at [lincolnelectric.com](http://lincolnelectric.com).

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

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

Thank you, Amanda. Good morning, everyone. We're pleased to report that we achieved solid progress in the third quarter across a number of key initiatives and metrics. One year following the acquisition of Air Liquide Welding our teams are doing an excellent job capitalizing on growth, driving innovation, mitigating inflation and successfully executing a rigorous integration program in Europe.

While we still have work ahead of us, I'm proud of everything we've accomplished and then confident that our team, our strategy and our programs are yielding the right results for long-term success in industry leadership.

Looking at the third quarter. Sales increased 10.1% to \$737 million, driven primarily by strong mid-teens percent organic growth in our Americas Welding segment. Our initiatives to rich in mix, drive operational improvements and mitigate inflationary pressures due pricing measures were effective. Our combined efforts, along with strong Americas volume performance, allowed us to exceed dollar for dollar



recovery of rising cost and expand profit dollars margins in the quarter. Both gross profit and adjusted operating income increased approximately 16%. We increased our adjusted operating income margin by 80 basis points versus the prior year of 14.2%, which yielded a 28.1% incremental margin in adjusted operating income.

Adjusted EPS increased 30.1% to \$1.21 on strong Americas organic growth, the benefits of global initiatives, acquisition synergies and tax reform.

The team continue to drive improvement in our working capital ratios. Our initiatives yielded a 13% improvement in cash flows from operations and 112% cash conversion of net income. Overall, the team's solid execution generated a 410 basis point improvement in ROIC to 19.3%.

Moving to Slide 4. Industrial market demand continue to remain strong this quarter in the Americas region as well as in the Asia Pacific region of the International Welding segment. In Americas, we capitalized on a double-digit percent increase in organic sales across all of our major and market categories; Automotive, Heavy Industries, General Fabrication and in Energy.

Looking at product trends on a consolidated basis, demand was equally strong across consumables and equipment systems, suggesting solid production volumes and capital investment in a tight labor market. Automation sales increased year-over-year at a mid-single-digit percentage rate, with strong demand for integrated systems in the Heavy Industries and General Fabrication sectors, which outpaced automotive demand.

In Asia Pacific, an improved oil and gas mining sector combined with our enhanced commercial presence and a broader portfolio and driving double-digit percent organic growth in the region. Harris Products Group continued to do well in the markets, but faced challenging prior year comparisons after several quarters of strong organic growth.

While we are capitalizing on broadening demand in our end markets, we did report a double-digit volume decline in our International Welding segment, primarily from the active integration of the only Air Liquide Welding acquisition. With 6 manufacturing closures now completed across the European platform, along with several distribution centers and commercial back office and IT systems consolidation underway, we are executing our integration rapidly as planned. Our customers remain our priority during this time and our teams are working hard to ensure that we are meeting their needs. We are confident that our program is effective, and we will continue to push our integration activities forward through mid-2019 to achieve our targeted operational synergies by 2020.

It is the success of this program, along with the excellent execution of our 2020 Strategy and the many industry-leading solutions that will be showcased at the Fab Tech Expo in Atlanta in early November, which demonstrates how well the organization can operate through the cycle. It gives me great confidence that we are on the right side of the growth curve and are on track to generate superior value for our stakeholders.

And now, I'll pass the call to Vince.

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

Thank you, Chris. Moving to Slide 5. Our consolidated third quarter sales increased 10.1% on 7.1% higher price, 40 basis points of volume growth and a 4.4% benefit from 1 month of results from the Air Liquide Welding acquisition. This performance was partially offset by a 1.7% unfavorable impact from foreign exchange. Our third quarter gross profit increased 15.5%, and our gross profit margin increased 160 basis points to 34.1% as compared with 32.5% in the prior year. The increase reflects benefits of mix, volume and pricing measures in the Americas and integration initiatives. We incurred a \$3.5 million LIFO charge, reflecting raw material inflation and the estimated impact of U.S. trade tariffs.

Price cost trending improved in the quarter, contributing 60 basis points to gross margin. This compares to a 40 basis point headwind in the second quarter of this year.

Our SG&A expense increased 10.7% to \$148.1 million or 20.1% of sales, primarily due to higher compensation costs and

acquisition-related expenses.

Reported operating income declined 25.7% to \$100.8 million or 13.7% of sales as prior year results included the benefit of our bargain purchase gain related to the Air Liquide Welding acquisition. Excluding special items, operating income results in the quarter increased 16.5% to \$104.4 million or 14.2% of sales, an 80 basis point increase versus the prior year. Margin expansion reflected the benefits of volume improvements in the Americas, favorable mix, pricing management and operational initiatives.

Our third quarter effective tax rate was 26.3% as compared with 18.8% in the prior year. Excluding special items, our third quarter tax rate was 23.3% as compared with 31.3% in the prior-year period. The lower tax rate reflects the impact of the U.S. Tax Act and unfavorable discrete tax items in the prior year. We continue to expect our 2018 effective tax rate to be in the mid-20% range, subject to the future mix of earnings and the timing and extent of discrete tax items, including stock option exercises.

Third quarter diluted earnings per share declined 32.7% to \$1.07 compared with \$1.59 in the prior year, which benefited from special item income of \$0.66 per share, including the bargain purchase gain in the prior-year period.

On an adjusted basis, diluted earnings per share increased 30.1% to \$1.21 compared with \$0.93 per share in the prior year on higher organic sales, favorable mix and the lower effective tax rate.

Now moving to the geographical segments on Slide 6. Americas Welding segment's third quarter adjusted EBIT dollars rose 20.5% to \$89.3 million. The adjusted EBIT margin increased 90 basis points to 18.4% on 14.9% higher organic sales. Demand remained strong in the quarter and we started to see energy rebound on higher oil prices. Most end markets, including energy, experienced strong organic sales increases in the quarter. Both consumables and equipment systems volumes increased in the mid-to-high single-digit percent rate.

Automation solutions improved modestly as ongoing high-growth and projects were heavy and general industry customers were partially offset by slower demand in Automotive. Pricing performance reflected the benefits of prior pricing actions and the surcharge applied to recover tariffs.

Moving to Slide 7. The International Welding segment's adjusted EBIT increased slightly to \$10.7 million on pricing management and profitable growth in Asia Pacific. Adjusted EBIT margin declined by 20 basis points versus the prior year 5%. The benefits of Asia Pacific growth, our pricing actions and integration initiatives helped to mitigate the impact of lower volumes in Europe, stemming from actions we are taking to shape the business for our long-term success.

Moving to the Harris Products Group. Third quarter adjusted EBIT declined 6.1% to \$8.7 million. EBIT margin declined 60 basis points to 11.6% versus the prior year. While volumes held relatively steady against challenging prior year comparisons, lower commodity prices compressed margin performance.

Moving to Slide 9. Cash flow from operations increased 13.4% in the third quarter to \$106 million, and we achieved 112% cash conversion ratio on net income. Average operating working capital was 18.3% of sales, a 220 basis point improvement compared to the prior-year period end.

Moving to Slide 10. We continued to invest in the business in the third quarter with \$17.4 million in capital expenditures. We now estimate full year capital spending to be in the range of \$60 million to \$70 million. We also returned approximately \$97 million to shareholders in the quarter, with an 11% higher dividend payout rate and an acceleration in share repurchases to \$71 million. In the first 9 months of 2018, we repurchased approximately \$121 million of our shares. We will continue to pursue buybacks opportunistically based on our expected cash generation, our uses of cash, as well as share price performance through 2018.

In addition, our Board approved a 21% increase in our dividend payout rate, which reflects our ongoing confidence in the long-term strong cash flow generation capabilities of the company. We expect to maintain a balanced capital allocation strategy in 2018, prioritizing growth investments and returning cash to shareholders through our dividend program and share repurchases.

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

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) Our first question comes from Jason Rodgers from Great Lakes Review.

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#### **Jason Andrew Rodgers *Great Lakes Review - VP***

Wondered if you could talk about international volumes a little. Wondered how much of the decline there was due to market weakness versus integration activities and if you're seeing conditions improving or deteriorating there?

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

Well, Jason, I think as we shared with the integration of Air Liquide Welding since the acquisitions last August, we had an expectation that we were going to aggressively move forward with the integration to make the improvements in that business to drive the types of business model and returns that we were looking for over the course of driving those benefits by 2020. I think we had also shared that look it's very difficult while we're in the middle of the integration as I shared in my remarks the number of facilities that we have closed in the back office operations and logistics facilities as we're shipping that business. There is no question our integration activities are portion and probably a large portion of some of the challenges that, that business saw in the third quarter. I'm looking at data probably like other individuals where we see that quite frankly, Germany from an industrial production index has trended down slightly over the last 2 or 3 months. We science that there is some softness in some other areas on the core market in Europe, but it's very difficult for us to really have good guidance and how much of that is absolutely the market versus absolutely our integration activities. But let me be clear that we expected that it would be done in the quarter. I'm very excited about the the business and where we're driving that business model and our ability to drive the performance improvements that we outlined when we move forward to bring Air Liquide into the Lincoln Electric business and confident that we'll be able to execute on that strategy as we are moving through '19.

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#### **Jason Andrew Rodgers *Great Lakes Review - VP***

And it was good to see you got ahead of the raw material cost increases with pricing. What's the expectations for the fourth quarter, should we see even larger benefit?

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

I would say that the fourth quarter we ought to expect to see the same or similar type of price cost environment for the business with some positive results in the range of what we trended into in the third quarter.

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#### **Jason Andrew Rodgers *Great Lakes Review - VP***

And if I could just squeeze one more in. As far as Air Liquide, what does it contribute to EPS in the quarter? Are you still expecting \$0.06 contribution for the fourth and any early thoughts for next year?

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

Yes, Jason. It was only 1 month of acquisition activity in the quarter. The bulk of the business is being fully integrated into the Lincoln business. But if we were to make an estimate of that 1 month, I would put it at \$0.02 per share that was contributed by the Air Liquide business.

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### Operator

Our next question comes from Joseph O'Dea with Vertical Research.

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

On pricing, I think in each of the past 4 quarters you have taken some price action. And just where do you feel you stand at this point? Are there additional price actions that you're taking in the fourth quarter? And how do you think that's up for next year? Just given what you've had to do so far the ability to continue to taking price up as we move into next year?



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

Yes. Joe, my view is that based on what we see in terms of the inflationary environment and commodity prices starting to moderate that we won't see significant pricing actions in the fourth quarter from what's been taken in the first 3 quarters of the year. There will be spot cases here and there of having to take some pricing actions, but the broad price increases that we've seen this year, I think, will moderate in the fourth quarter from what we see on input costs so far in this quarter.

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

Just given the lag effect of costs, do you -- are the cost inflation we have seen, is that fully reflected in the P&L in the third quarter at this point? And so moving forward, we don't have that lag effect of continued inflationary pressure barring any additional moves in commodity prices?

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

Yes. I think, look, we've seen the commodity price inflation in the P&L. I don't see any lag associated with that. I think we recognize it as we were moving through the rest of '18 and moving into '19 we do expect that we still have some other inflationary pressures around wages or other things that will be impacting the business. But we would expect that we would be utilizing our Lincoln business system to be able to try to minimize, if not eliminate that the productivity actions that we will be driving in various places around the world. And that's probably the other comment that I would make is that we certainly have areas around the world that may or may not see different types of inflation on my comments certainly around the broad business and our ability to be able to manage that as we move through the rest of '18 and into '19.

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

And then last one on volume. When we look at kind of Europe and some of what's going on just want integration activity, but stepping back 4Q is a tougher comp on volume. How you are thinking about the volume set up moving forward, and kind of the activity you're seeing so far this quarter and just continue trends in, sort of, seeing continued improvement in volume demand side of things moving forward in both Americas and International some of the integration stuff?

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

Right. So as far as International is concerned, I expect more of the same, if not a greater deterioration year-over-year from International perspective based on where we're in our integration activities with Air Liquide and where those underlying markets are as Chris addressed a little bit earlier. So I expect from volume perspective we see double-digit declines in our international business. The Americas will continue to come up against more difficult comparisons as we exit the third quarter the fourth in the 2019. My expectations on the Americas is we will still see growth, albeit at a moderating rate as we continue to roll through 2018 based on the comparisons that we will come up against. The end markets continue to show positive momentum and strength. Oil and gas have started to pick up for us. So we do have reason for optimism, but this expansion and our growth in the Americas will continue into the fourth quarter and into 2019.

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**Operator**

Our next question comes from Nathan Jones with Stifel.

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

Maybe if I could just follow-up a little bit on the International volume picture here. I know it's pretty tough to separate out the disruption effect versus market effect in International Welding. But could you possibly give us a little more color around the volume impact from volume margin margin product lines that you've exited versus the combined the other two?

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

I would say, as I think Chris mentioned in his comments, we believe that substantial portion of these declines are related to our reshaping of the business and integrating the Air Liquide lines, manufacturing locations, distribution channels into the Lincoln business. It is challenging, Nathan, to be able to parse out the underlying market demand. But I -- my personal view is that in our core legacy business we have seen some softening, and I would put that at somewhere in the low- to mid-single digit type of performance in the European marketplace. So some of the contribution is from the market, but the majority of what we're seeing in International is exiting the lower



margin businesses and integration activities that need to stabilize as we work through the fourth quarter and into the first half of next year.

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

Maybe following on to that. You've seen accelerating volume declines in International, and I think that you've done a good job of explaining that and getting people to understand that. And you talked about double-digit and maybe a little bit saving in the fourth quarter. When do we hit the peak of that and start to see those volumes decline diminish as you comps and as the integration nears completion?

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

Right. So I think, Nathan, at this point it's worth noting that for the first time you're seeing a year-over-year change in the Air Liquide business that we purchased through that volume line. So when we acquired the business effective August 1 of last year, you would have only seen the sales being reported in the acquisition column. So you wouldn't have seen any kind of volume compression as we shape that business. So this is the first quarter, again, that you see the Air Liquide acquisition integration activities flow through volumes and pricing for that matter because for a year it shows up in that acquisition column. So I think it's important to note that the acceleration is also caused by the reporting for the first time of that business being part of the year-over-year comparison. Now to the second part of your question, I still believe that we're going to continue to see this kind of compression on a year-over-year basis in volumes in the fourth quarter. I believe that the first half next year will be largely a recovery period. We will start to stabilize the business that's been integrated. And then in the second half of next year I expect that we will start to see a more normalized growth pattern barring any other macro exogenous effects on our business that is not internally of focus. So first half of next year to stabilize, second half I think we will start talking about our integrated business.

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

So in both it's reasonable to assume that 1H because Air Liquide will be reported on an organic basis from a volume perspective. The volumes there would be down single digits and then maybe flat to up something like that in the second half?

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

I think they probably still be double-digit speakers we're comparing at against the business that had not been significantly restructured yet. And then in the second half of the year, I think certainly we can expect that we will have a stable business, again depending upon the backdrop of the macro. In this kind of environment, I would expect it to be flat or down by mid-single-digits, but that's my expectations for the second half of next year. Again, borrowing GDP, oil prices.

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**Operator**

Our next question comes from Mig Dobre with Baird.

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

I'm going to if I may stick with the discussion on international volume. And, Vince, I remember coming out of last quarter you were expectations were for volume decline in the back half somewhat similar to what we've seen in 2Q '18. Those expectations have changed a bit obviously, and I'm, sort of, wondering if this has to do with the environment or if this has to do with certain things that you're doing to get are either accelerated or maybe a little bit different than what you were thinking 3 months ago?

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

No, I think it's consistent with my response to Nathan. I think it's a little bit of both. I think the environment as far as we see in our legacy business in Europe has probably softened a little bit more and our activities in integration has accelerated as well. So I would tell you that the Air Liquide integration is tracking against our expectations and it's in line with what I would thought the closure of 6 facilities and the integration of these businesses would result in as far as year-over-year organic volume decline would be concerned.

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

Okay. That's helpful. And then a quick question on LIFO. At \$3.5 million of charge in the quarter, I don't quite remember what it was in from half, but how are you thinking for the full year here? What should we expect in the fourth quarter? And then I'm also wondering if material costs stay where they are right now, what is the LIFO impact next year, either additional charges or benefits?

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

Yes. So I think we have taken about \$9.5 million of LIFO charges through the 3 quarters period, which means that the rate of our charges are slowing as compared to what we took in the first half of the year. My expectations are that those will continue to moderate as we finish off the fourth quarter. As far as next year is concerned, Mig, the charges that we take next year are wholly and solely dependent upon where we end the year and then what inflation does in 2019. So there isn't an estimate that can be made at this point in time. But if our costs exit the year at a certain level and they don't change next year, then we have no charges. So it's fully dependent upon where we finish on December 31, 2018, and where we move on in '19 from there. So my expectations are for 2019 that hopefully we will see a flat inflationary environment from a raw material perspective.

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

Got it. And last one, if I may. On Slide 4, you're talking about the various sector performances, and obviously we're looking at financials pricing played a pretty good part in the quarter in driving organic growth. I'm, sort of, wondering when you're looking at Auto, Heavy Industry, General Fab, Energy, all these end markets that you called out on a volume basis leaving pricing alone, how are things trending, which one of these businesses are still accelerating versus maybe starting to level off?

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

Well, our 2 largest end-market segments were actually are our biggest increases year-over-year organically and even taking out price, both Automotive and Transportation and Heavy Fabrication had our biggest increases on a year-over-year basis. So that's very encouraging. And I know Automotive has had spotty reporting in this marketplace, but from a core Lincoln business perspective, taking out Automation business, which was a little softer in that space, we've seen very strong year-over-year improvements, not only in the Americas from a direct perspective, but in International as well.

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

Yes, we've been against that trend in Automotive now for several quarters. And I feel strongly it's just because of our success of being able to drive some unique solutions into that space. As Vince mentioned earlier, we're seeing a broad improvement in Energy globally. I believe that's a direct correlation to some of the increases we've seen in those crude prices on a global basis. And even that in the micro subject perspective, I mean, things like railcars certainly look like they are trending more favorably. So I think as we shared, we still see broad strength in host of the segments that are driving the business here in Lincoln Electric.

**Operator**

(Operator Instructions) Our next question comes from Walter Liptak with Seaport Global.

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

I wanted to ask on the International, sort of, a follow-on to your comments, Chris, about profitability. By 2020, what is your expectation from the profit run rate? Looks like your operating profit is running in about the \$50 million range, something like that. So it's stepped up a little bit this year, including Air Liquide Welding. But after this restructuring is done, the integration is done, what will be a normal run rate for you?

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

When we're talking about the International business, we've been on a path to make some improvement. Certainly, our Air Liquide Welding integration is a big piece of that profitability improvement and we've placed the targets out there for the improvements in that area of the business. We've also seen improvements in our China business as well as improvements in our Southeast Asia business. We've been certainly working inside of our European business, talking about how we need to drive that business into a double-digit operating profit profile business for us in Europe, and that's certainly the expectation that we have for the first of in improving the profitability of the business for us in International. So I view that, well, much like I view the improvements that we've made at the Harris business over the last several years that we've got this step change opportunity with the integration of Air Liquide and then we have a host of other initiatives globally to try to bring that International business to where we see steady continuous improvement in the profitability as we move forward. That is certainly the Air Liquide Welding integration is the big piece of that. But I will tell you we've also launched technical centers in Southeast Asia and we're driving improvements in that marketplace. We've launched the new technical



center in Shanghai and are beginning to see some improvements in that area of the China market. So I wouldn't want to imply that that's the only initiative that we have, but certainly Air Liquide is a large initiative.

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

Okay. Good point. Just to be clear though you're talking about double-digit operating margins by 2020, for International overall?

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

Yes.

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

Yes.

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

Okay. Just to delineate your Energy business and get a refresher, what is oil and gas as a percentage of revenue now for Lincoln direct and indirect?

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

It's -- on a direct basis, it's low double digits now.

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

Okay. And then presumably there's some direct -- have you been able to quantify that?

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

Yes. Well, the total Energy would be probably 20-percentish and then oil and gas would be low double digits.

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

Okay. Got it. And then just to delineate in. So shipbuilding pipeline offshore upstream, which ones are you seeing the pickup in and -- I guess, which ones are you seeing the pickup in?

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

Actually, we all saw a strong performance, double-digit improvement in all 3 categories of oil and gas, both up, mid and downstream. From a contribution perspective, midstream in this discrete quarter had probably the biggest impact, but it's gratifying to see that upstream really had a very strong result, particularly in the Americas in the quarter so. We're seeing it across the board, but the place that was soft for us over the past handful of quarters has been upstream and we just had a nice pickup in the third quarter in upstream.

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

Okay. Is your upstream offshore or is it land based?

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

It's all -- it's both. We have seen compression for some time now in offshore the first time that I can remember in a few quarters and at least from the Americas we saw offshore pickup slightly.

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

Okay. Great. And then on your capital allocation slide, share repurchase stepped up. Can you remind us how much is the Board approval and how much do you have left on it?

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

We still have ample. At this kind of run rate, we probably have 2 to 3 years that we have left on our share buyback activity.

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**Operator**

And our next question comes from Matthew Trusz with GE Research.

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**Matthew A. Trusz** *G. Research, LLC - Research Analyst*

How are -- in the Americas, how are things doing not only United States, talking about South America mostly?

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

We know the South American market has had some challenges associated with it. I mean, everyone is very familiar with the challenge associated with some of the inflationary pressures in Argentina and some of the challenges associated with Brazil. I will tell you that we're seeing -- beginning to see some improvements in those markets for Lincoln Electric. We're seeing some of those improvements coming from the mining sector that we are seeing in portions of those particular areas. And then I will tell you that we saw an improvement across all our product lines in Brazil. So that there certainly is still a smaller business for us, but we believe that Brazil has got some stability. We'll work through the inflationary pressures that are there in Argentina, and again mining has started to show some improvement, which is a big portion of the welding space when you look at Peru and Chile.

**Matthew A. Trusz** *G. Research, LLC - Research Analyst*

Okay. Just to follow-up on the Automotive discussion, could you provide a little more detail on the technologies that you're rolling out there? And then as far as when we think about stage or that you've in, are they pretty well penetrated with your customers or you just getting started?

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

No, look, the Automotive is a very broad space globally. Look, we've got some thin gauge galvanized capabilities we've got some other technologies that we have lost in the Automotive space to try to improve productivity for our customers. Most of those solutions involve us taking our machine technologies and many times offer solutions that we have embedded within that machine technology to really drive and improve process performance for various applications either into the Tier 1 OEM or down into the Tier 2 or the Tier 3. We've been focused on that space extensively over the last 2 to 3 years with some of these new application technologies that we've been bringing to the marketplace and we have seen those benefits certainly mature into the business. But I do not believe that we have fully penetrated, matter of a fact we're trying to bring some of those capabilities into the European market at this time. So we're still excited about being able to continue to drive those solutions and other solutions to improve upon the position in Global Automotive.

**Operator**

Our next question comes from Bryan Blair with Oppenheimer.

**Bryan Francis Blair** *Oppenheimer & Co. Inc., Research Division - Director & Senior Analyst*

Just wanted to touch on automation a bit more. What is your current annual revenue there? And what's the run rate exposure to Automotive?

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

It's still roughly \$400 million of run rate and the exposure to Automotive is roughly 50%, 60% right now.

**Bryan Francis Blair** *Oppenheimer & Co. Inc., Research Division - Director & Senior Analyst*

Okay. So it's still slightly related to that market?

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

Yes.

**Bryan Francis Blair** *Oppenheimer & Co. Inc., Research Division - Director & Senior Analyst*

Okay. And you had pretty strong growth consistent this quarter in Heavy Industry, General Industry now offsetting some of the slowdown in Automotive. As you look to 2019, are you confident in continued growth in the automation revenue?

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

Yes, very much so. Look, let's step away from talking about the segments for a second and the underlying dynamics that are driving automation, which is the challenge associated with finding the skilled welder, and it need to continually be able to drive productivity,

especially with those individuals that might be viewing onshoring as part of their supply chain strategy as a requirement are looking towards automation. So I believe strongly that the long-term demand profile for automation is solid. And certainly, as we're seeing the strength of our segments as we're moving into the fourth quarter, I believe there will still will be capital investments in those General Industries and Heavy Industries companies as they continue to place automation within their operations. So it is always a little bit choppy, especially when you're talking about large projects, but we feel confident that we will continue to show that mid-to-high single-digit growth in automation as we're building out this business longer-term.

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**Operator**

And your final question comes from Steve Barger with Steven Capital.

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

I'm just going to follow-up on that automation question. Do you think that the Salesforce are you LECO has a good handle on segmenting the market the high return and high conversion opportunities or is there a good opportunity to get more process oriented in terms of how you go to market, thinking about targeting customers.

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

Steve, that's a very good question. And I would tell you, I want to both. So look, we believe the majority of the automation industry as it relates to welding and welding process improvement, they are going to be those customers that seek out a process solution that might be viewed as more entry-level, more of their first-step into automation and we want to make sure that we provide that solution to that customer base and, Steve, that's an important segment for us because many of those customers are going to see in our adoption rate and may then very many will move into the multi-arm or quite frankly, more complex typed automation systems, and we want to be their partner on that journey. But we certainly look at also those customers who are further in developing automation and that's what we're trying to bring our latest solutions and our technologies into that group to not only improve upon the automation they have, but to bring them other capabilities or competencies where we might be using sequence or we might be using other IoT type applications to provide them an enhanced capability from their current automation status. But look, I think it's a great question, but it's one that when we talk about internally, we want to drive products and solutions for each pieces of those automation segments.

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

Yes. Do you think the organization is collecting data from customer response and then inefficient we do really optimize the sales process across regions?

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

Look, I think it's one of those things always be better at. It's one of the challenges from continued perspective that as leaders and managers we need to make sure that people see that data is important and critical. But I fully have confidence that our employees around the world are in the manufacturing facilities our customers talking to them about those challenges. And we've made a large investment here over the last couple of years and implementing salesforce.com on a global basis. And certainly, that tool provides us with the collaboration tool to enhance upon those communications so we have visibility to those opportunities, much more quickly than what we had in the past.

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**Operator**

Ladies and gentlemen, this concludes our question-and-answer session. I would now like to turn the call back to Vincent Petrella for closing remarks.

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

Thank you, Sherry, and thanks to everyone for joining us on the call today and for your continued interest in Lincoln Electric. Look forward to discussing our progress at the end of the year, next year in 2019.

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**Operator**

Ladies and gentlemen, thank you for participating in today's conference. This does conclude the program. You may all disconnect, and have a wonderful day.



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