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LECO.OQ - Q1 2022 Lincoln Electric Holdings Inc Earnings Call

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OVERVIEW:

LECO reported 1Q22 consolidated sales of $925m, operating income of $161m, adjusted operating income of $163m, diluted EPS of $2.13, and adjusted diluted EPS of $2.10.

CORPORATE PARTICIPANTS

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CONFERENCE CALL PARTICIPANTS

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PRESENTATION

Operator

Greetings, and welcome to the Lincoln Electric 2022 First Quarter Financial Results Conference Call. (Operator Instructions). This call is being recorded. It is 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, Paula, and good morning, everyone. Welcome to Lincoln Electric's First Quarter 2022 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.

And joining me on the call today is Chris Mapes, Lincoln's Chairman, President and Chief Executive Officer; and Gabe Bruno, our Chief Financial Officer. Chris will begin the discussion with an overview of our results and business trends. Gabe will cover our first quarter financial performance in more detail, and then we'll pass the call to Chris to conclude with a review of updated assumptions for the year. Following our prepared remarks, we are 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 discussed financial measures that do not conform to U.S. GAAP. A reconciliation of non-GAAP measures to the most comparable GAAP measure is found in the financial tables in our earnings release, which is again available in the Investor Relations section of our website at lincolnelectric.com.

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

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

Thank you, Amanda. Good morning, everyone. Turning to Slide 3. We're pleased to report record first quarter sales, profitability, earnings and return performance, executing on a strong start to 2022. Sales increased 22% to a record $925 million, led by 22% organic growth. While we expected pricing strength from prior pricing actions, volume performance in our welding segments accelerated, reinforcing continued recovery momentum in end markets and demand for our automation solutions.

In addition to volume leverage, our diligent management of inflation, improved operational execution and automation, mix and structural savings offset higher employee costs, delivering a record 17.6% adjusted operating income margin at a 32% incremental margin. All of our segments delivered strong profit performance within the mid- to high end of their higher standard strategy 2025 profit target ranges. Adjusted earnings per share increased 53% to $2.10, a record performance. Additionally, we achieved a record 25% return on our invested capital and maintained strong cash flow generation. We returned approximately $138 million to shareholders through $105 million in share repurchases and paid out $33 million in dividends.

In mid-March, we chose to cease operations in Russia. Russia represents less than 1% of sales and asset value, so the impact is immaterial. But our focus has been on the continued support and safety of our employees during this time. While a dynamic quarter to manage through, I am proud of our results and our team's ability to execute in this market.

Looking at the first quarter demand on Slide 4. Our organic sales increased 22%, with 3% volume growth. Demand improved through the quarter and benefited by a pull-forward in orders following the start of the Ukraine conflict as global supply chains were disrupted. In the quarter, all reportable segments, geographic regions and main product families, all achieved positive organic sales growth. Automation and consumable organic sales increased at a mid-20% rate and outperformed equipment organic sales, which increased mid-teens percent.

Our automation portfolio achieved a record $154 million in sales in the quarter and is on track to achieve over $600 million in sales this year. Our end markets are showing good momentum with positive customer sentiment despite the tight supply conditions as customer backlogs grow and they pursue capital investments. All end markets achieved organic growth in the quarter, led by infrastructure construction, automotive and general fabrication, which all grew above 20% and represent over 60% of our revenue mix.

Energy and heavy industries achieved high to low teen percent growth, respectively, reflecting tougher comparisons in heavy industries and some choppiness in demand given customer supply constraints. We expect to see accelerated demand sequentially from heavy industries, automotive and energy as customers continue to resolve supply chain constraints and infrastructure and energy investments are deployed into the market.

And now I'll pass the call to Gabe to cover first quarter financials in more detail.

Gabriel Bruno - *Lincoln Electric Holdings, Inc. - Executive VP, CFO & Treasurer*

Thank you, Chris. Moving to Slide 5. Our consolidated first quarter sales increased approximately 22% to $925 million from a 19% increase in price and approximate 5% benefit from acquisitions, 3% higher volumes and a 4% unfavorable impact from foreign exchange. The weakening Turkish lira represented approximately 2/3 of the FX impact in the quarter. Starting April 1, in accordance with U.S. GAAP accounting rules, we will transition to a hyperinflationary accounting for our Turkey operations and will use U.S. dollars as their functional currency. This accounting change will not have a significant impact to the reported results of our Turkish business.

Our gross profit margin increased 210 basis points to 35.6% as benefits from volumes, mix, price management, improved operational execution and automation and structural savings offset higher raw material and freight costs, including an approximate $7 million LIFO charge. We will continue to take actions to mitigate the impact of inflation as conditions warrant.

Our SG&A expense increased 14% or $21 million due to approximately $15 million from higher incentive compensation and employee costs as well as higher discretionary spending. SG&A as a percent of sales decreased 120 basis points to 18%. We expect upcoming quarterly 2022 SG&A expense on a dollar basis to be in line with first quarter levels.

Reported operating income increased 55% to $161 million or 17.4% of sales. Operating income results included approximately $2 million of rationalization charges. Excluding special items, adjusted operating income increased 49% to $163 million or 17.6% of sales, a 320 basis point increase versus the prior year. Adjusted operating income benefited from improved volumes, mix, diligent pricing cost management and structural savings, which generated a 32% incremental margin. Other income was $4.6 million in the quarter, primarily representing a $3.7 million special item gain from the final settlement of a pension plan termination.

Our first quarter effective tax rate was approximately 21% due to our mix of earnings and discrete items. We continue to expect our full year 2022 effective tax rate to be in the low 20% range, subject to the mix of earnings and anticipated extent of discrete tax items. First quarter diluted earnings per share increased 73% to $2.13. Excluding special items, adjusted diluted earnings per share increased 53% to $2.10.

Now moving to our reportable segments on Slide 6. Americas Welding segment's first quarter adjusted EBIT increased approximately 46% to $112 million. The adjusted EBIT margin increased 310 basis points to 19.8% from volume growth, price management and operational improvements in automation, which allowed us to achieve our 2022 target of a low double-digit percent EBIT margin in that product area.

Americas Welding organic sales increased 25%, led by an approximate 20% benefit from pricing implemented to mitigate inflation and approximately 5% in volume growth. We achieved volume growth in all product areas in the region, led by equipment systems and automation. In addition, we were pleased to welcome the Kestra team in Brazil into the Lincoln Electric Company as a bolt-on acquisition on March 1. Kestra expands our specialty alloys capabilities in South America, and we expect the acquisition will contribute approximately $10 million to $15 million of annual sales to Americas Welding in 2022.

Moving to Slide 7. The International Welding segment's adjusted EBIT nearly doubled at 97% to $37 million. The adjusted EBIT margin increased 570 basis points to a record 14% primarily from price management, favorable mix and benefits of operational improvement initiatives. Organic sales increased approximately 23%, driven by price actions taken to offset broad inflation in the region. Volumes declined by 50 basis points due to continued slow industrial activity in China, which impacted consumable demand in the Asia Pacific region. We expect this trend to continue into the second quarter as COVID lockdowns persist in China.

In Europe, order rates accelerated through the quarter and volumes increased by approximately 2% on strong industrial activity in that region, including in the automotive and general fabrication sectors. A portion of the European volume growth may also reflect some accelerated buying following the start of the Ukrainian conflict and a subsequent surge in regional raw material costs. The segment also benefited from approximately 8% sales growth from our Zeman Automation acquisition, which has now anniversaried in the second quarter.

Moving to the Harris Products Group on Slide 8. First quarter adjusted EBIT increased approximately 5% to $20 million, and the adjusted EBIT margin decreased 250 basis points to 14.4% against a challenging prior year comparison. On a sequential basis, the adjusted EBIT margin improved 100 basis points as we progress on our acquisition integration initiatives. Harris' organic sales increased approximately 9% and 6% higher price to recover rising raw material costs and 3% higher volumes reflecting strength in industrial applications and in specialty gas. The segment also benefited from a 14% increase in sales from the FTP acquisition serving the HVAC market, which will anniversary in August.

Moving to Slide 9. We generated $43 million in cash flows from operations, which is seasonally lower in the first quarter. Working capital increased on higher sales levels and remains elevated to support the recovery and mitigate supply chain constraints.

Moving to Slide 10. We continue to pursue growth investments in the first quarter with an 88% increase in CapEx, spending approximately $90 million in the quarter, led by projects focused on long-term capacity needs, production upgrades, automation and investments and improve our competitive cost position. We also funded our Kestra acquisition, which will contribute to our record 25% ROI performance over time. Additionally, we repurchased $105 million of shares in the quarter, and we will continue to repurchase shares opportunistically as we balance capital allocation between growth investments, such as M&A and shareholder returns, including our long-standing dividend program.

Before I pass the call back over to Chris to discuss our updated assumptions for the balance of the year, I would like to reiterate the strength of our balance sheet with ample liquidity and investment-grade profile with no near-term debt maturities and expected 90% cash conversion this year.

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

Thank you, Gabe. Turning to Slide 11. We're entering the second quarter with strong momentum in order rates and record backlogs. And while the operating environment has become incrementally more challenged in our international markets, we are increasing our full year organic growth assumptions to now be in the mid-teens percent range. This compares to our prior assumption of a high single-digit to low double-digit percent organic growth rate. The increase reflects better-than-expected volume performance and additional price increases taken to mitigate rising raw material inflation.

Operational improvements in our automation portfolio and Americas Welding and continued structural savings in Europe have prompted us to increase our incremental operating income margin range to now be in the mid-20% range as compared to the low to mid-20% range. Our team continues to demonstrate our ability to generate superior value under challenging conditions and external risks, which are highlighted on Slide 11. We are effectively managing inflation and supply chain constraints. And while our direct exposure to many regional challenges is limited, we are monitoring for secondary impacts, and our teams are developing contingency plans to mitigate possible disruptions.

We continue to prioritize the safety of our organizational and focus on our customer-first service plan, and we are executing on our higher standard 2025 strategy to drive higher returns over the cycle.

A critical component of our strategy is growth. In our last Slide 12, we've highlighted 3 growth technologies that have recently entered the market and are receiving strong positive feedback from our customers. Cobots represented one of our fastest-growing product areas within automation in the first quarter. This simple automated technology offers small- and medium-sized fabricators the ability to automate various weld activities using non-welders to program and work side-by-side these mobile robotic weld units. Many customers view this solution as a low barrier, low-risk entry into automation to maintain or grow their weld capacity, addressing lack of skilled labor in the marketplace.

We're very excited about our patented laser hot wire technology for aluminum and steel electric vehicle battery systems. We are hosting an EV seminar in early May at our headquarters to present the superior weld performance. This unique Lincoln solution offers the EV automotive industry versus alternate solutions in the market at a time when capital investment for EV platforms is ramping up.

And finally, we're seeing positive adoption of our large-scale metal 3D printing solution. We just announced a successful project with Chevron with a 3D printed unique 500-plus pound nickel alloy spare parts in just days for one of their refineries. This kept them on a maintenance schedule on track. These examples are just a small representation of the innovation and process improvements our team brings to the market to help our customers build a better world.

And now I'd like to turn the call over for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question is from the line of Bryan Blair with Oppenheimer.

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

I was hoping you could provide a little more color on how orders trended through the first quarter and whether you're seeing a divergence in demand trends -- or a meaningful divergence in trends with Americas versus international welding in the early part of the second quarter.

Gabriel Bruno - *Lincoln Electric Holdings, Inc. - Executive VP, CFO & Treasurer*

Yes, Bryan, so just when you think about the quarter, we did see an acceleration progress throughout the quarter. That's pretty broad-based. We did announce a price increase beginning of April. So we do believe we have a little bit of pull-forward and some activity. And so because of that, we think about kind of first and second quarter being on balance, less maybe traditional seasonality into the second quarter. But we continue to see good strength, good demand progression into the second quarter here. So we're pretty pleased with what we're seeing.

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

Yes, Bryan, I'd just add, one of the things about the business that we saw as we were migrating through 2021 and trended even more favorably as we're moving into '22 with part of the positive inflection in energy is that we just see such momentum in the global segments. And that momentum is positive for us.

And in our discussions, I think actually there's more regional risk as it relates to demand than there is right now within the segments because of the momentum that are in the segments today, and that regional risk certainly is more on the international side with the disruptive risks of the invasion and the European market and some of the COVID challenges that are there in China. I think that's where I actually see any risk to the momentum. But our segments are strong. Our solutions are strong. Our backlog is up. We have some very positive trending as we're moving into the rest of '22.

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

I appreciate the color there. And automation was obviously a highlight in the quarter, up mid-20s in revenue. Would you be willing to speak to growth expectations for the full year in automation and additive? And you mentioned the step up to low double-digit EBIT margin. So you are at least on track to achieving that goal for the year. Could that perhaps go a little bit higher?

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

Yes. So look, a great start to the year for the automation business. And we've been talking about the positive trends there. It was expected within our business. We saw a positive improvement throughout 2021. Certainly made another step change now as we're moving into the initial part of '22. And what I really like about that is we see the strong demand across the host of the industries. We see the cobots as an example of that. We see the acquisitions that we brought in that are also a catalyst. But I also see inside the business some of the operating improvements that we were looking for inside our automation business. And we saw those improvements in Q1.

So automation, really strong step. And if you look at the automation business, we entered the year being at really a $500 million run rate, and now as we look at the end of Q1, we're at a $600 million run rate. So just really strong performance from that business, a really good start.

Additive, I still think about it a little bit differently. This was an enormously successful project for us. And I believe that we can work with Chevron as a way to assist us in maybe bringing this into other areas of the energy market. I think it gives us even more confidence of the value proposition of this technology. And granted we just put that release out just a couple of days ago. We're still having those discussions with Chevron, but the success of this technology and creating a solution for them certainly gives us great confidence in our ability to drive Additive as a solution within the portfolio for Lincoln Electric and still very confident in it as a long-term product as it continues to be adopted across a host of industries.

Operator

Your next question is from the line of Mig Dobre with Baird.

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

I also want to ask about automation. So I'm curious if we can get a little more color in terms of either the verticals that are driving this growth. Anything happening outside of the automotive vertical that we should kind of know about? And then I'm also curious if some of the supply chain challenges, and I'm thinking about chips specifically that are impacting the robot manufacturers, are to some degree holding back your growth. So presuming that that wouldn't be a problem, I'm wondering if this business would actually be in a position to grow even faster than what we're currently seeing here. And related to that, are you getting the sense that the supply chain is improving at all? Or are we sort of still struggling the way we have for the past couple of quarters?

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

So look, Mig, thanks for the comments. I'm actually going to take your questions in a reverse order. So let's start with exactly whether we think the supply chain is getting better. I will tell you that our teams globally are doing an exceptional job of mitigating the potential impact for our customers. And I will tell you that we are using our balance sheet as a way to advance raw materials and components to try to minimize that impact. We're using our engineering resources to assist us in finding other available components or products that we can utilize in our systems.

Our teams are just doing really an exceptional job. I did a video this morning for our teams around the world, talking about our results, and it was one of my first comments because I realize that it's still very difficult, but that's an important point. The supply chains are still very challenged. We're managing it. We've been managing it for a while, but I'm not mitigating the challenge, which is still there.

As it relates to those chips and chip components into some of our supply base in automation and could that minimize or could it have minimized some of our growth, I will tell you, without question, minimized some of our growth in the back half of 2021. They -- we had a couple of scenarios where they were very challenged and they still are challenged relative to that piece. But we have seen some improvements as it relates to that, and that would primarily be in the robotic arm manufacturers and the supply we would have of those units to be able to drive those into our automation cells as we're providing those to the marketplace. And as you can imagine, we need those robotic arms also to be able to deliver the cobot growth that we're looking for in the marketplace, which was probably minimized early. So I think that got slightly improved, but you could certainly argue that we could have potentially accelerated some growth in automation if we would have had a smoother supply chain in some of those areas.

And then to your first question, which is, what are we looking at as it relates to the segments? I will tell you, we've done a lot of segment work. And we brought in the Zeman acquisition in 2021, which is very focused in the structural steel marketplace. We've had other solutions in structural steel. Structural is one of those areas outside of automotive, which is very strong for us. We continue to see strength in appliance. We see strong strength in general fabrication. So yes, automation and automotive still has a real strong portfolio. But the growth and the execution in Q1 was very broad across the host of those industry segments.

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

Appreciate the color. Then I guess my second question, you used the term pull-forward and when an analyst hears that, he have to ask about it. Is there any way to quantify maybe what this pull-forward in demand is related to Russia and Ukraine. I'm presuming that all of this happened in Europe rather than your Americas business. And in terms of what was pulled forward, is it all consumables? Or has that been impacting equipment demand as well?

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

So look, it's a great question, Mig, and I wish I had a cleaner answer for you. So at the end of the day, was it more prevalent internationally than globally? Yes. Although I would tell you that some of the raw material impacts that were impacted by the invasion, things like nickel and other steel commodity products did permeate across global markets, and we did have to do pricing actions here in the Americas market, which might have brought some volume in. And it's just difficult for us to give you a finite number. So we decided to talk about the fact that we think it will probably moderate or eliminate what normally would be that sequential move we would see between Q1 and Q2.

But my other comment, because I just think it's critically important, is that irrespective of that just an exceptional quarter for Lincoln Electric. I mean I'm just very proud of the performance. Yes, we might have had a slight benefit associated with that. But at the end of the day, I think a really good executed quarter for us and a strong start to 2022.

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

I see. If I may, 1 final question. Your incremental margins were quite a bit better than what we were expecting in both International and Americas. So I guess my question on International specifically, how should we think about incremental margins going forward? Presumably, 50% is not the right assumption to be made, but given the distortions that we're seeing in pricing here in Turkey, maybe you can comment on Turkey, if that at all had an impact in the quarter as it pertains to the incremental margins. Really directionally any help here would be appreciated.

Gabriel Bruno - *Lincoln Electric Holdings, Inc. - Executive VP, CFO & Treasurer*

So Mig, keep in mind, as we progress our International business throughout 2021, we continue to increase the performance on our EBIT margin. So we're comparing less than double digits last year to our 40% this year. And that does come from just broad-based execution. The structural savings, we continue to shape our business model. You see that. It is going to temper as we progress the year. I mean we don't give incremental margins at a segment level. But we did have a pretty sizable step-up in our International business, which continues from what the business model and the acceleration we saw throughout 2021.

As it relates to Turkey, think about Turkey as a flip between -- on a go-forward basis between the FX impact and pricing. So that business, which represents less than 5% of our business, but significant impact on FX, has targeted pricing that ties larger to the U.S. dollar and euro. And so when you see the devaluation that we have seen in Turkish lira, that resulted in actions on pricing. So about 2/3 of that FX impact becomes an impact on pricing. And as we anniversary on a U.S. dollar functional currency, you'll see that impact move from FX into pricing.

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

Yes. And Mig, you saw from our comments that we've elevated our incremental margin expectations for the business for the year. And as Gabe said, we really don't get into the incremental margins by region. But if you look at the business and you know this business well, once we've had improvement in the automation space and the international space, which drive higher incremental margins for the business, it's a positive.

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

Right. But to clarify, Gabe, you're saying that this movement on Turkey is not something that has an outsized contribution to segment margin.

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

Yes, that's right. That's correct.

Gabriel Bruno - *Lincoln Electric Holdings, Inc. - Executive VP, CFO & Treasurer*

Just think about it as we -- in my comments, we're not going to see a significant impact on the Turkish results going to U.S. dollar, functional currency. The business, again, is largely managed in consideration of the euro and U.S. dollar movement.

Operator

Your next question is from the line of Dillon Cumming with Morgan Stanley.

Dillon Gerard Cumming - *Morgan Stanley, Research Division - Research Associate*

Maybe to ask the question on incrementals in a different way. Obviously, 1 quarter doesn't make a year, but you just put out the 25 target last quarter. As you pointed out, you're already at the high end of the range in the Americas, high end in International. Would you kind of characterize the current level of margin performance as sustainable? And I guess, if so, do you feel like you might have to kind of reevaluate the higher end of those targeted ranges over the next few quarters?

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

Well, look, we certainly believe that those ranges that we executed on in the quarter are achievable. We've got them out there in our long-term strategy. And you're right, Dillon, at the end of the day, it's 1 quarter. We say we need to be able to perform at those levels through the cycle when we talk about the longer-term strategy. Am I excited about being able to share with our employees that we can obviously achieve those levels because we are in Q1? We probably won't revisit that discussion until we've achieved that type of performance for a period of time. And I think it's a positive sign on the execution of the strategy, and I think it's a positive sign on the way we're executing on the strategy.

And what I mean by that is just the breadth of the performance within Lincoln Electric in the quarter, execution on productivity initiatives that we've gotten within our automation business and globally with our restructuring and the work that we're doing on our business model internationally, growth in a host of the areas in our business, a step change in improvement in the operating model in automation where we bring that to the double-digit growth -- or double-digit operating margins that we're looking for, and obviously significant growth factor certainly forward as it's performed in Q1. So lots of positive elements to be able to highlight. We'll continue to watch that, but it is a positive for us to be able to show that level of performance in Q1.

Dillon Gerard Cumming - *Morgan Stanley, Research Division - Research Associate*

Got you. Yes, fair points and certainly encouraging. Maybe just a second question, not to belabor the point on price too much. Obviously, super strong in both the core welding segments. I guess, first, are you getting a sense that it might be kind of hitting the upper bound, in terms of like what's acceptable to customers? And I guess related to that, are there any growing concerns around the sustainability of that price in terms of being able to hold on to it if inflationary pressures start to kind of moderate a bit in the back half?

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

Well, look, if inflationary pressures start to moderate, then obviously we'll have to manage that within the business profile. And I think Lincoln Electric has shown an ability to manage that effectively. I think at the point in time today that, look, I'm not going to share with you that there are any customers in the world that like some of the inflationary dynamics that we've seen in the business. We don't like them at Lincoln Electric, but we have some of those inflationary pressures. I think our customers recognize that we're trying to drive them with solutions that improve their processes, improve productivity and that there's inflation in the marketplace, and it's got to be moved and Lincoln is going to bring that inflation in the marketplace when it has to.

And as it relates to the whole discussion around mitigating, we're just not seeing it mitigate at this point. We still believe we're an inflationary market. We've seen inflation. We -- you'll see that. And quite frankly, the charges we had to take in our LIFO charges in the quarter, we're seeing that in our employee costs. But Lincoln is also trying to drive productivity as a way to minimize some of that impact to our business. So we'll manage that inflation as we're moving forward. I'm just not comfortable in saying at this point that the inflation is starting to moderate or that we've seen at cresting within the business.

Operator

(Operator Instructions). Your next question is from the line of Steve Barger with KeyBanc Capital Markets.

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

The revenue comp from 2Q '21 was 40%, right? It was really strong. And you did say there could be some pull forward this quarter from the April price increase. Do you think you can put up double-digit growth in 2Q? Or is that more single digit and then you reaccelerate in the back half? I'm just trying to think about the cadence.

Gabriel Bruno - *Lincoln Electric Holdings, Inc. - Executive VP, CFO & Treasurer*

Yes, Steve, as you think about cadence, we're looking at steady, strong demand going into the second quarter. Our comments are more so related to the traditional seasonality that you would otherwise see in second quarter versus first quarter. So as you know, we're probably in the range of low to mid-single digits on progression from first quarter to second quarter. So we just believe that with the activity we saw as we ended the first quarter, that's probably going to be more in balance.

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

Got you. Okay. And if I look at the trends over the last 3 quarters, we've seen the sales contribution from volume decelerate and the contribution from price has accelerated, obviously, in response to the inflationary environment. But can you talk about how you're thinking about the contribution from price and volume relative to the mid-teens organic growth expectation for the year?

Gabriel Bruno - *Lincoln Electric Holdings, Inc. - Executive VP, CFO & Treasurer*

Yes, Steve. So I'd like to anchor around that mid-single digits on volume assumptions. So just thinking about question. First quarter was over -- slightly over 3%. So we expect to see some acceleration in the balance of the year for volumes.

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

Right. Okay. Good. And Chris, really great to hear you talking about cobots. I was listening to another call from a major cobot OEM, and they said they're working with third-party application developers for welding attachments. And they saw 100% growth rate year-over-year there. So my question for you is, are you partnering with cobot OEMs? Or how are you going to market to make sure you're getting the share you want for that specific niche?

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

Well, we are partnering. At the end of the day, we've got relationships out there with individuals who have portions of the technology. And I think the key element of why we're in such a strong position to be able to be the market share leader with this application is that at the end of the day, it's moving through the channel and more importantly, it's going to those customers because they've got welding challenges. And when they've got welding challenges, they don't think about a cobot integrator; they think about Lincoln Electric. And so they're turning to us, and we're bringing them that solution.

I'll also share with you that we have a host of individuals that want to continue to talk to us about partnering with Lincoln as it relates to cobot applications. So getting to the market. And I will also share with you that we saw this market company very early and last year in utilizing our balance sheet as a way to prepare ourselves for growth in the marketplace, we brought forward a lot of commitments that we needed for components to be able to meet that demand in the marketplace. So we think we're well positioned. We love the solution and expect it to continue to grow at accelerated rates within the business throughout the rest of the year.

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

That's great. Can you tell us what percentage of the automation segment for you of the $600 million that you expect for this year is oriented towards cobots versus the bigger robotic sales?

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

As you can imagine, it's starting from a base of 0, Steve, with a new technology like that, it's still rather minimum, but it's got -- I wouldn't have any trouble with doing some ratio and telling you it's growing at well over 100%. That's not anything that's going to help you out. It's a great solution. But it's a small portion of this growth. This growth that you're seeing in automation is the broader growth that we have across the segments that certainly include the cobots, but it's a multitude of solutions that are driving that growth.

Operator

And your last question is from the line of Nathan Jones with Stifel.

Adam Michael Farley - *Stifel, Nicolaus & Company, Incorporated, Research Division - Analyst*

This is Adam Farley, on for Nathan. Turning to China, what is the revenue exposure there?

Gabriel Bruno - *Lincoln Electric Holdings, Inc. - Executive VP, CFO & Treasurer*

It's less than 5%, Adam.

Adam Michael Farley - *Stifel, Nicolaus & Company, Incorporated, Research Division - Analyst*

Okay. And with everything going on with the lockdowns in Shanghai, do you expect China to get worse in the short term? Or maybe what's included in guidance on when that improves?

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

Yes. Look, China, as we've all seen in the news, has been challenged, and we've had those challenges in Q1. We expect those challenges to probably continue, but we don't expect them to be any more material than what they were for us that impacted us in Q1. As Gabe shared, it's less than 5% of our revenue, and our teams are doing what we can to manage through some of the protocols that are required in that market.

Adam Michael Farley - *Stifel, Nicolaus & Company, Incorporated, Research Division - Analyst*

Okay. And turning to the impact from COVID in the quarter, the Omicron wave impacted earlier in the quarter. Was there any impact from employee absenteeism and did that impact production scheduling at all?

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

Yes. Look, like all manufacturers, we've had to manage challenges associated with the labor base, whether that is COVID-related or other challenges associated with turnover in various markets. So I'm confident that it probably had some level of impact in the business, but it certainly wasn't material. Our teams managed through that as best that they could. I really don't see that as a material impact within Lincoln Electric in the quarter.

Operator

This concludes our question-and-answer session. I would like to turn the call back to Gabe Bruno for closing remarks.

Gabriel Bruno - *Lincoln Electric Holdings, Inc. - Executive VP, CFO & Treasurer*

Thank you, Paul. I'd like to 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 strategic initiatives in the future. Thank you very much.

Operator

Ladies and gentlemen, this concludes today's conference call. Thank you for joining. You may now disconnect. Stay safe and well.