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# EDITED TRANSCRIPT

LECO - Q2 2014 Lincoln Electric Holdings Inc Earnings Call

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**Schon Williams** *BB&T Capital Markets - Analyst*

**Joe O'Dea** *Vertical Research Partners - Analyst*

**Mark Douglass** *Longbow Research - Analyst*

**Liam Burke** *Janney Montgomery Scott - Analyst*

**Stanley Elliott** *Stifel Nicolaus - Analyst*

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## PRESENTATION

**Operator**

Greetings and welcome to the Lincoln Electric 2014 second-quarter financial results conference call. (Operator Instructions) This call is being recorded.

It is now my pleasure to introduce your host, Vincent Petrella, Executive Vice President and Chief Financial Officer. Thank you. Sir, you may begin.

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**Vincent Petrella** - *Lincoln Electric Holdings, Inc. - SVP, CFO, Treasurer*

Thank you, Karen, and good morning to everyone. Welcome to the Lincoln Electric 2014 second-quarter conference call.

We released our financial results for the quarter yesterday, and you can find our release on the Lincoln Electric website at LincolnElectric.com or by contacting our Investor Relations office at 216-383-2534.

Joining me on the call today is Chris Mapes, Lincoln's Chairman, President, and Chief Executive Officer. Chris will begin the discussion this morning with an overview of the quarter, and then I will cover the numbers in more detail as well as our uses of cash.

Following our prepared remarks, we will take your questions. As part of our webcast today, we are using a slide presentation which can be accessed on our website under the Company and Investor Relations tabs.

Before we start our discussion, please be reminded that certain statements made during this call and in our discussions may be forward-looking and actual results may differ from our expectations. Actual results may differ materially from such statements due to a variety of factors that could adversely affect the Company's operating results. 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.

Additionally, we also discuss financial measures that do not conform to US GAAP, and you may find important information on our use of these measures and their reconciliation to US GAAP in the financial tables that we have included in our earnings release.

With that, let me turn the call over to Chris Mapes. Chris?

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**Chris Mapes** - *Lincoln Electric Holdings, Inc. - Chairman, CEO, President*

Thank you, Vince, and good morning to everyone joining us on the call today. Moving to slide 3, we're pleased to report that improving demand, favorable mix, benefits from productivity initiatives, and disciplined cost management resulted in a considerable improvement in profit and earnings performance in the second quarter, both on a year-over-year and sequential basis. Second-quarter sales were steady at $729 million. Excluding foreign exchange, second-quarter sales increased 2%, a marked improvement from our first-quarter sales performance, which declined 3.5%, excluding foreign exchange.

The improvement in sales performance is primarily due to the positive year-over-year organic growth we achieved in our domestic North American and European markets. In North America, we saw both improved consumable and equipment demand, and in Europe equipment demand rose at a double-digit percentage rate.

Productivity improvement, operating leverage, and improved mix from products and geographies drove a significant improvement in profitability, with reported and adjusted operating income up 8%. Margins improved as well, with our adjusted operating margin up 120 basis points to a second-quarter record of 16%.

On a reported basis, EPS increased 10% to $0.96, and increased 11% to $1.01 on an adjusted basis, reflecting not only operational gains but our accelerated share repurchasing activity in the quarter, which contributed $0.03 to EPS. Returns on invested capital remained solid at 18.9%, and we generated good cash flow from operations, returning $87 million through share repurchases and dividends. This is an 18% increase compared to the prior year, from increases in both our dividend payout and share repurchases.

Per my comments highlighted in the release, we now expect $250 million of share repurchases in 2014. At this level, 2014 share repurchases would be approximately 50% higher than 2013 levels, reinforcing our confidence in our model and growth strategy.

Moving on to slide 4, it is clear that our second-quarter volume performance bounced back, with positive year-over-year growth across Europe and among North American domestic customers in the US, Canada, and Mexico. US exports improved sequentially from the first quarter, but were still soft year-over-year, reflecting the choppy demand cycles that are typical of export markets due to some project-based work.

Our European performance in the quarter was a positive sign. It was a broad-based improvement across many products and regions, and we saw positive demand for our new equipment offering.

Looking at our market by key end sectors, the areas of strength and weakness were consistent with what we have reported over several quarters. Our leading position in welding automation, combined with our innovative equipment and consumables portfolio, has allowed us to continue to benefit from the ongoing expansion in the transport sector, namely, in automotive and in railcar production. Here we are gaining new business as we convert customers' plants to Lincoln products and are seeing continued adoption of our growing ability to support multinational needs.

The energy sector is also an area of strength, where we continued to expand domestically and overseas with good second-quarter wins in developing markets such as Vietnam, North Africa, and in South America. We also saw improvement in general fabrication, which is typically indicative of overall GDP health; heavy fabrication, which is largely earthmoving and agricultural equipment; and in the structural sector, which represents demand in nonresidential construction and infrastructure products. We do believe that many of our end markets are largely improving, but at a slow rate.

Moving to slide 5, we continued to stay focused on executing our plan to achieve our long-term strategic goals. I am pleased to report that our key initiatives remain on track. Profitable growth remains a top priority for us.

In the quarter, we saw benefits from our recent acquisitions in automation and ongoing expansion of our market presence through the adoption of Lincoln Electric Solutions. Additionally, we invested in innovation with a new licensing agreement with the NanoSteel Company. This agreement allows us to leverage their intellectual property for use with consumables in weld overlay and thermal spray applications. We see tremendous value in leveraging NanoSteel's technology with our own internal developments as we expect to expand applications for our growing alloy portfolio and leverage our extensive channel reach to target growth in the approximate $8 billion overlay and thermal spray marketplace.

Sectors such as maintenance and repair, heavy fabrication, mining, and oil and gas demand hard-wearing erosion-resistant surface treatments to extend the usable life of their products. NanoSteel's technologies deliver measurable value by extending the usable wear of a product over 4 times longer than traditional surface treatment technologies. We are confident that our partners and customers will look to Lincoln for these solutions.

Looking ahead to the third quarter, we are excited about our pipeline of new solutions that will be launched from our R&D and product development efforts. Operationally, the integration of higher growth automation, cutting, and alloy-based acquisitions is going well not only with back-office integration and process alignment, but also in our efforts to leverage product development in a seamless offering to our customers.

As we have noted in prior calls, we are focused on a number of initiatives to drive commercial and operational excellence, which we have summarized on this slide. I am pleased to report that we are progressing well across each one and are starting to see the leverage of the benefits from our investments in the business.

Before I pass the call to Vince I would like to emphasize that this quarter's performance demonstrates the benefit from our strategic focus on value and higher returns. While we certainly have more work and opportunity ahead of us, our initiatives focused on improved mix, solutions for our customers, and slight operating leverage were apparent in our key North American and European segments in the quarter.

Now I will pass the call to Vince.

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**Vincent Petrella** - *Lincoln Electric Holdings, Inc. - SVP, CFO, Treasurer*

Thank you, Chris. Walking through the income statement highlights on slide 6, our consolidated sales were up slightly compared with the first quarter of 2013. Volume decreased our reported sales by 1.4% and pricing was up 2.3%. Foreign exchange had a negative 1.9% impact on sales, and acquisitions contributed an increase of 1.2%.

Our second-quarter gross profit margin increased 140 basis points to 34.4%, compared to a 33% in the comparable prior-year period. The improved gross margins were primarily attributable to a better sales mix and operational improvements.

Second-quarter 2014 gross profit includes a $3.9 million gain from an insurance settlement. SG&A expense for the second quarter was relatively flat, increasing 20 basis points from the prior year or $1.9 million. The increased dollar amounts were primarily related to acquisitions.

Operating income for the quarter increased 110 basis points. Adjusted operating income before rationalization charges and charges related to the Venezuelan foreign exchange losses was $116.6 million or 16% of sales, a 120 basis point improvement over the prior year.

The effective tax rate for the quarter was 32.7%, compared with 31.9% in the prior year. Factors driving the higher effective tax rate in 2014 include greater earnings in higher tax rate jurisdictions and additional provisions for valuation allowances.

Diluted earnings per share increased 10.3% for the second quarter compared with the prior year. Excluding special items, our adjusted diluted earnings per share increased 11% in 2014 compared with 2013.

Earnings per share include $0.03 per share from the insurance settlement in the second quarter of 2014. Our Venezuelan operations contributed $0.04 per share to EPS in the second quarter of 2014.

On a reportable segment basis and excluding special items, North America welding adjusted EBIT margins increased by 150 basis points in the second quarter on flat volumes. However, domestic volumes did improve in the quarter while export volumes remained soft. Margins improved due to operational improvements, lower pension expense, and the $3.9 million gain from the insurance settlement previously mentioned.

Europe's welding's adjusted EBIT margin improved 390 basis points in the quarter. The improvement was attributable to the 3.1% increase in year-over-year volumes and improved product sales mix. We experienced better top-line results across a broad range of geographies in Europe including the UK, Germany, parts of Eastern Europe, and Russia.

The Asia Pacific segment recorded a 50 basis point adjusted EBIT in 2014. Our sales in Asia Pacific were down 3.2%, primarily due to foreign exchange translations. Sales in China were relatively stable on a year-over-year basis.

South America welding adjusted EBIT margin decreased to 12.8% in 2014 because of declines in our Venezuela operation results and broad weakness across the South American region. The price increases were primarily caused by the higher inflationary environment, particularly in Venezuela. The South America segment included $3.5 million of foreign exchange charges in 2014 and $2.5 million of charges in 2013 related to the Venezuelan currency remeasurement and devaluations.

Financial, regulatory, and operational changes to our Venezuelan operations will continue to dampen the margins achieved from the South America segment. These changes include the effect on earnings from devaluations in the Venezuelan currency, governmental limits on profit margins, disruptions to manufacturing operations from volatile supply sources, and more costly raw material sourcing requirements. We expect second-half earnings from the Venezuelan operations to remain insignificant relative to consolidated results of operations.

The Harris Products Group's second-quarter EBIT margins improved by 70 basis points. Margins improved from product mix and operational improvements.

During the quarter, we paid a dividend of $18.5 million, compared with a dividend of $16.6 million in the prior year's second quarter. Second-quarter capital spending increased to $25.4 million, compared with the prior year's spend of $15.9 million, due to reinvestment programs in North America. Our 2014 capital spending plan is currently estimated at $70 million to $80 million, primarily associated with the significant reinvestment projects in both North and South American businesses.

During the quarter, we spent $68.3 million repurchasing about 1,009,000 shares for treasury. As Chris pointed out, we have increased our target for share repurchases to $250 million in 2014.

We ended the quarter with no net debt and $204 million of cash on the balance sheet. We will continue to invest in the business for the long run and more aggressively return cash to our shareholders.

With that, Karen, I would like to open the call for questions.

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## QUESTIONS AND ANSWERS

**Operator**

(Operator Instructions) Walter Liptak, Global Hunter.

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**Walter Liptak** - *Global Hunter Securities - Analyst*

Hi, thanks. Good morning, everyone. Vincent, you mentioned that the mix was favorable in North America. I wonder if you can talk about coming from new products or if it is from welding equipment versus consumable.

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**Vincent Petrella** - *Lincoln Electric Holdings, Inc. - SVP, CFO, Treasurer*

Yes, it is a product mix improvement towards higher-margin equipment, for the most part in North America, as well as in Europe for that matter.

**Walter Liptak** - *Global Hunter Securities - Analyst*

Okay. Chris, you mentioned that North America grew during the second quarter, and I think you were alluding to on a month-to-month basis. I wonder if you can talk about the progression during the quarter and what you have seen in July.

**Chris Mapes** - *Lincoln Electric Holdings, Inc. - Chairman, CEO, President*

Well, I mean certainly excited about the trend line in the quarter, Walt, especially coming off of what we viewed as a much softer Q1 than we had expected in the business. So we continued to see improvements in some of the various sectors in North America and globally. We certainly saw a continuing trend in the North American business.

And as you would expect, second quarter for us, generally one of the stronger quarters in the business for us. So very favorable trends. And, again, I think favorable trends across a broader group of industry segments as we look at the business not only in North America but globally.

**Walter Liptak** - *Global Hunter Securities - Analyst*

Okay. Can we get any color on that? Especially some of the bigger sectors, automotive, truck, nonres. How are some of the sectors trending?

**Chris Mapes** - *Lincoln Electric Holdings, Inc. - Chairman, CEO, President*

Yes, think that as I look at it, what I am excited about is at the end of the day we have seen a pretty strong movement in automotive and transport in the business for a period of time, and that is continuing. And that trend really has continued here in North America, especially.

But we are beginning to see some improvements in a couple of the other spaces. So heavy fabrication, general fabrication, we saw some improvements. We would hope that that would be resonant maybe in a slightly improving GDP economy, especially here in the US.

So I wouldn't say that we have all trending in the right direction. We still see real weakness in the mining space globally as well as in the shipbuilding space. But we are seeing a couple of those segments that had been relatively flattish starting to trend in a more favorable direction.

**Walter Liptak** - *Global Hunter Securities - Analyst*

Okay. What about non-res? Some of your competitors and distributors have been talking about non-res getting better.

**Chris Mapes** - *Lincoln Electric Holdings, Inc. - Chairman, CEO, President*

Yes, we see non-res getting a little bit better. Residential construction for us is not a big economic driver. The non-res business has been relatively flattish to a downward trend for a period of time.

We are starting to see more work in structural. We also see investment in that space now.

If you will recall, the Burlington Automation business that we purchased last year has some technology that fits into that space, and we are starting to see the demand for those products as some of those manufacturers are beginning to ramp up and look at productivity and investment in those particular businesses.

**Walter Liptak** - *Global Hunter Securities - Analyst*

Okay, all right. Then the last one, along those same lines, just if you could comment on July and how that has trended for you versus second quarter or year-over-year.

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**Vincent Petrella** - *Lincoln Electric Holdings, Inc. - SVP, CFO, Treasurer*

July has been stable with run rates in the second quarter. So what we see so far is a continuing improvement on a year-over-year basis, but not a significant inflection point by any means.

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**Walter Liptak** - *Global Hunter Securities - Analyst*

Okay, got it. Okay, thank you.

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**Operator**

Kathryn Thompson, Thompson Research.

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**Kathryn Thompson** - *Thompson Research Group - Analyst*

Hi. Thanks for taking my questions today. First, obviously you've put together a string of very good quarters in terms of increasing margins. But where do you -- is there a ceiling to pushing up margins in light of sales improvement?

And how should we think about where you think margins should go? Particularly as we progress through this recovery, if you think about not only volume improvement but also mix, and how that should be factored into margin improvement. Thank you.

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**Vincent Petrella** - *Lincoln Electric Holdings, Inc. - SVP, CFO, Treasurer*

Kathryn, I would start by saying it is our view that there isn't any limit on the improvements that we continue to believe we can make in our business. We are working hard at every day stripping costs out.

We have had some great success, in my opinion, rationalizing and repositioning our business in Europe. And that's, I think, a primary reason for the improvements in the margins there.

We are working at the top line to develop and introduce newer and better products to help push value realization for our customers and Lincoln. So we are working on all fronts to continue to gain leverage in the business and add value and expand margins.

So we are pleased with the progress that we have made over the last year or so in a relatively soft macro-environment where we do business. But we think there's still a lot of areas for improvement to continue driving expanding margins.

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**Kathryn Thompson** - *Thompson Research Group - Analyst*

Just as a follow-up to that question, if you look on a go-forward basis, if you were to put in broad buckets, would it be more of that new products, new and better products adding to margins? Or more on the -- in terms of additional cost-cutting and rationalization that would add to margin improvement, say over the next 2 years?

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**Vincent Petrella** - *Lincoln Electric Holdings, Inc. - SVP, CFO, Treasurer*

I think ultimately the greater leverage points are on the revenue line. We keep chipping away at costs and improving our manufacturing and our operational capabilities on the SG&A side.

At the end of the day, I would put more -- a disproportionate emphasis on ultimately growing that top line and gaining leverage there. From a longer-term perspective we have -- targeting high teens type of operating profit margin, and we think that that is certainly a very realistic intermediate- to longer-term target for the Company.

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**Kathryn Thompson** - *Thompson Research Group - Analyst*

Great, thank you.

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**Operator**

Schon Williams, BB&T Capital Markets.

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**Schon Williams** - *BB&T Capital Markets - Analyst*

Hi, good morning. Could we just talk a little bit about pricing? Obviously, the new pricing went through in North America in the quarter. I just want to see, is this the high-water mark for the year, I guess both for North America and maybe Europe as well? Pricing more flattish there?

I am just trying to get a sense of -- is there any incremental gains in pricing that could be coming in the back half of the year for those two markets?

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**Vincent Petrella** - *Lincoln Electric Holdings, Inc. - SVP, CFO, Treasurer*

Schon, I will respond first. As Chris pointed out I think in the previous comments, our second-quarter tends to be one of our high-water-mark margin quarters during the course of the year. It comes on the heels of our annual pricing adjustments within our industry.

It is also a stronger volume quarter traditionally. So I would expect this second quarter to be one of our highest margin quarters during the course of the year.

In regards to pricing, generally speaking, pricing is largely completed across-the-board during the first half of the year. That is not always the case. If there are adjustments required because of more highly inflationary conditions in a particular geography, or because raws or steel or key inputs are rising, we have in the past looked at pricing adjustments to recover those costs in the latter part of the year. But that is not a common circumstance over the past decade or so.

So, I would tell you that most of the pricing is in place, barring any kind of macro changes that would require us to act in the last half of the year.

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**Schon Williams** - *BB&T Capital Markets - Analyst*

Just as a follow-up, what are you seeing in terms of your raw materials, steel, and some of the other elements? Is that stable? Is that increasing?

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**Vincent Petrella** - *Lincoln Electric Holdings, Inc. - SVP, CFO, Treasurer*

It is relatively stable. We are seeing some slight increases in our most significant raw input costs during the first half of the year. And our expectations are that the rest of the year will be a moderate to modest inflationary environment across our portfolio.

**Schon Williams** - *BB&T Capital Markets - Analyst*

Okay. Then separately, I would like to maybe dive into Harris a little bit. The volumes there, weaker than what I expected. You noted, I guess, it was more on the equipment side.

Anything unusual or specific that you would highlight there?

**Chris Mapes** - *Lincoln Electric Holdings, Inc. - Chairman, CEO, President*

Really, two issues. I mean the equipment offering was softer for us in the quarter. At our Harris products business we actually had a quality issue that we were impacted with at the latter part of the quarter. We were very conservative in our approach to that and actually put some product on hold for a period of time; it did impact our supply position in the quarter.

We also had a very challenging quarter on a year-over-year basis just because of metal costs in the consumables side of the business. So I actually was very pleased with the way the Harris team actually managed the situation there, as well as their ability to maintain the operating margins that we had in the business and still am very favorable on our performance for that business in the back half of the year as we move beyond this particular issue. And that issue should have no impact for us in Q3 or Q4 or moving on forward.

**Schon Williams** - *BB&T Capital Markets - Analyst*

All right. That's helpful, guys. Thanks.

**Operator**

Rob Wertheimer, Vertical Research Partners.

**Joe O'Dea** - *Vertical Research Partners - Analyst*

Hi, good morning. It's Joe O'Dea on for Rob. Maybe first on Europe, just with the nice step-up in the margin activity there in 2Q, trying to understand a little bit better the contribution from mix, the stability of that mix going forward to continue to support those margins, and if there was anything -- any transitions in the quarter that created that kind of demand to shift more toward the favorable mix.

**Chris Mapes** - *Lincoln Electric Holdings, Inc. - Chairman, CEO, President*

Well, certainly we were very pleased with the performance of our European operations in the second quarter, and really a business that perform very well for us in the fourth quarter of 2013 as we began to see some of those businesses turn and some of the operational improvements take hold in the business. We were a little shallower in Q1, and then now we have had very strong performance in Q2.

A portion of those improvements are really from productivity items that were executed on over the last two or three quarters. You may recall that we did some restructuring of our solid wire business in that particular marketplace with moving some capacity to another location, as well as the consolidation of some machine capabilities from Italy into our operations in Bester.

Those were announced and we were executing on those in 2013, and now we are seeing the full benefits of those productivity improvements. Certainly those are structural improvements that we would expect to remain within the business.

We did launch a new equipment offering at the Essen show in Europe in the third quarter of last year. That offering has been received very well. We are actually a little challenged today on our ability to keep up with demand for some of those products in the marketplace; so certainly that mix would be from those products coming into the marketplace, which are favorable to the overall margins of the portfolio.

And probably most importantly -- and when I look at the business -- is the breadth of some of the improvements that we saw in Europe. So many of our businesses were up on a year-over-year basis.

It is just too early for me to have confidence that there is an overall structural shift in that economy. We would like to see a couple more quarters of improvement before we get much more confident in the broader European economy.

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**Joe O'Dea** - *Vertical Research Partners - Analyst*

Great. Thanks for the details there. Then second question, just on China and maybe framing it both in terms of equipment export into China as well as what you are seeing on the consumables side. And then just any shift in broad expectations across markets there from what you saw 3 months ago?

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**Chris Mapes** - *Lincoln Electric Holdings, Inc. - Chairman, CEO, President*

I wouldn't say we are seeing any broad shifts in the market in China. Our export business into that marketplace continues to be very solid.

As we mentioned, our exports in general have been relatively choppy through the first 6 months of the year, which that tends to be project-based business; it is not surprising for us. It is not dissimilar from the way we have seen those markets participate here at Lincoln.

We continue to work on our China business and our China strategy as we continue to try to evaluate how we can drive higher value-added solutions into those markets, and it continues to be a focus area for us.

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**Joe O'Dea** - *Vertical Research Partners - Analyst*

Okay. Thanks a lot.

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**Operator**

Mark Douglass, Longbow Research.

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**Mark Douglass** - *Longbow Research - Analyst*

Hi, good morning, everyone. Going back to Europe and your equipment sales, are these introduced new power supplies? Or is it a combination of new automation equipment you are pulling in?

The double-digit growth, was that organic? Did that include Robolution? Just a little more color, I guess, on the European equipment.

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**Vincent Petrella** - *Lincoln Electric Holdings, Inc. - SVP, CFO, Treasurer*

Yes, Mark, this is organic growth. This is in the equipment portfolio where we have introduced broad new product lines into the marketplace.

It is not on the automation side. It does not include the acquisition of Robolution. We think it's a deeper penetration of the market and, at least in my view, a clear improvement in our share position in Europe.

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**Mark Douglass** - *Longbow Research - Analyst*

Yes, it certainly implies a better market share. Good.

Then on Asia Pacific, in total what are the -- how are China and Australia sized relative to the segment? And are you seeing a bottoming in Australia mining? I assume that is dragging you down in Asia Pacific.

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**Chris Mapes** - *Lincoln Electric Holdings, Inc. - Chairman, CEO, President*

Well, Mark, as you can imagine, Australia and China are the largest components of our Asia Pacific business. We are beginning to see, we would hope, a bottoming in the mining piece in Australia. Although as you are probably well aware, there are a couple of other segments within Australia that are also suffering.

The automotive business in Australia is suffering with a couple of large global OEMs recently announcing in the last couple of quarters closure of facilities. Very pleased with the way our management team in Australia has reacted. We are actually investing in Australia in a new technical center for that region to be able to assist our teams in driving solutions to that particular marketplace.

Some strength in some energy spaces, especially LNG in the Australian marketplace. So I do think mining is kind of bottoming; but again there are a couple of other segments that are a little shallower also.

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**Mark Douglass** - *Longbow Research - Analyst*

Okay. Then finally, some investors have complained about a suboptimal capital structure with your net cash position. You have juiced the share repurchases here. What other plans do you have to reinvest or return even more to the shareholders?

Your dividend payout, still relatively modest. I think you could get to 30% even faster without breaking a sweat. Can you discuss your plans on your capital deployment?

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**Vincent Petrella** - *Lincoln Electric Holdings, Inc. - SVP, CFO, Treasurer*

Thank you, Mark. First, I would say that we are using our balance sheet and our capital allocation in all respects to improve our performance and our return of cash to shareholders. We are investing in all opportunities from a capital investment standpoint to internally improve our returns on invested capital. We are seeking out and acquiring all businesses that we think can improve our product portfolio, our geographical presence.

On the return of cash to shareholders issue, yes, indeed, we are ramping up our share repurchase activity. You can see that in the last couple years that we have stepped that up.

As far as the dividend is concerned, we have had two sizable double-digit increases over the past 2 fiscal years. Our annual dividend review process occurs in the late fall of the year, and I think our shareholders can count on another very robust, healthy dividend increase here in the October to December time frame.

So we are pulling all levers available to us to improve our returns for all shareholders.

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**Mark Douglass** - *Longbow Research - Analyst*

Thanks.

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**Operator**

Liam Burke, Janney Capital Markets.

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**Liam Burke** - *Janney Montgomery Scott - Analyst*

Thank you. Good morning, Chris; good morning, Vince. Chris, how does the acquisition pipeline look for you now? Are you seeing valuations get out of hand?

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**Chris Mapes** - *Lincoln Electric Holdings, Inc. - Chairman, CEO, President*

Well, I would tell you, I think the pipeline continues to have a multitude of assets for us to evaluate. It is probably not the valuation or the pipeline that I am concerned about. It is actually continuing to identify those quality assets that are going to be accretive to the portfolio as we execute on the 2020 Vision and Strategy.

So if we can find some more assets like we have in the past 12, 18 months -- like Tennessee Rand, like Burlington Automation -- I can assure you we would be very quick to bring them into the portfolio. Valuations, those tend to move between regions and between products and businesses, so I am probably less concerned about that as an inhibitor and more just really trying to find those valued assets that we can bring into the portfolio, that have the people and the technology that are accretive to our overall strategy for the Company.

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**Liam Burke** - *Janney Montgomery Scott - Analyst*

Okay. During the prepared comments, Vince mentioned -- highlighted some of the countries in Europe that have been doing okay for you. Is the Southern part of your European market getting any better? Is it stabilizing at all?

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**Chris Mapes** - *Lincoln Electric Holdings, Inc. - Chairman, CEO, President*

That was the one thing about the European business in the quarter that we were probably most happy with, was that when we evaluated the businesses across the portfolio we saw nearly every entity showing at least a slight improvement over the prior year. So even some of those portions of the region, like the South, that had been much more difficult, although coming off a very low baseline did show improvement over prior-year.

We just need to see a couple more structural improvements in the demand model there a couple more quarters before we have more confidence in Europe moving forward.

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**Liam Burke** - *Janney Montgomery Scott - Analyst*

Great, thank you.

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**Chris Mapes** - *Lincoln Electric Holdings, Inc. - Chairman, CEO, President*

But as we mentioned in the comments, the execution of the productivity improvements in solid wire, the consolidation of our plasma business into our Bester business, those things are completed; and we are seeing those benefits in the portfolio today.

**Liam Burke** - *Janney Montgomery Scott - Analyst*

Great. Thank you, Chris.

**Operator**

Stanley Elliott, Stifel.

**Stanley Elliott** - *Stifel Nicolaus - Analyst*

Good morning, everyone. Thank you for taking my questions. Could you guys break out the mix between consumables and equipment in the quarter, and then maybe how that tracked relative to last year?

**Vincent Petrella** - *Lincoln Electric Holdings, Inc. - SVP, CFO, Treasurer*

Yes, the mix, Stanley, is roughly 62%, 63% consumables; 37%, 38% equipment. That mix is relatively stable.

The equipment mix did tick up ever so slightly on a year-over-year basis. But still relatively stable, ex-acquisition effect.

**Stanley Elliott** - *Stifel Nicolaus - Analyst*

Then for the export business, you said it was still a little soft. Could you give us an idea maybe what that was on a percentage basis?

And then is this -- if I remember correctly, when we get in the back half of the year, the export volumes should start to face less challenging comparisons. Is that a fair way to think about that part of the business?

**Vincent Petrella** - *Lincoln Electric Holdings, Inc. - SVP, CFO, Treasurer*

Yes. The exports in the second quarter were down still mid-teens. You might recollect in the first quarter our exports business out of the US in dollar terms was down about 32%; so we did narrow that shortfall in the second quarter. But we are still down by a double-digit pace year-over-year.

The last half of the year will be moderately challenging. That turnabout in export volumes really accelerated in the first quarter of this year, so the comps well be moderately difficult. But not easy, for sure.

**Stanley Elliott** - *Stifel Nicolaus - Analyst*

Okay. Turning back to Asia Pacific, with the plan of I guess 18 month ago, 2 years ago, you did a lot of culling of revenues and making sure of the profitability, but volumes are still kind of flattish and so are margins. Does that mean that some of the projects that you had hoped to find more profitable projects got pushed to the right? Or is that still an ongoing evaluation?

**Chris Mapes** - *Lincoln Electric Holdings, Inc. - Chairman, CEO, President*

Well, I would tell you that it is an ongoing evaluation. We recognize that success for us in that market is an important part of our overall strategy. We continue to evaluate those products and services that we are providing in that market.

And I am actually excited about a couple of the things that we have seen there, actually improvements in our equipment market there in China and Asia Pacific. But still some challenging segments; and again, we continue to execute on that strategy for that region.

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**Stanley Elliott** - *Stifel Nicolaus - Analyst*

I think the recent wins you are talking about on the emerging markets I think is encouraging when it speaks to the whole value proposition you all bring. Were those more around energy markets? Or is there any more color you can give specifically on end market? I apologize if you did say that and I missed it.

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**Chris Mapes** - *Lincoln Electric Holdings, Inc. - Chairman, CEO, President*

No, actually those particular wins that we are having are broad-based. So we have had some nice wins in the pipe marketplace globally as well as some nice wins in the energy market.

But it is really the benefits that we have of our global solutions and our dedication to industry segments around the world in providing focused technology solutions into the various industries that we are servicing. We have seen some nice wins there and certainly expect to have some more through the end of the year.

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**Stanley Elliott** - *Stifel Nicolaus - Analyst*

Perfect. Well, congratulations on a nice quarter and best of luck.

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**Operator**

Steve Barger, KeyBanc Capital Markets.

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**Steve Barger** - *KeyBanc Capital Markets - Analyst*

Hey, good morning. Question I get all the time from investors is trying to get a little more color around the whole process of going to Sicad II. Is there any discussion you can give us in terms of what the considerations are, if that has to happen, when that might happen?

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**Vincent Petrella** - *Lincoln Electric Holdings, Inc. - SVP, CFO, Treasurer*

I would tell you, Steve, there is still a lot of uncertainty going on in Venezuela in the market. But the way that I would approach this question is just to remind all of our institutions and investors of the historical earnings stream that has come out of Venezuela and where we are today.

So as a reminder, we have disclosed in the second quarter that our EPS from Venezuela was $0.04 per share. The comparable earnings from Venezuela was about $0.06 in the prior year's second quarter.

An additional reminder is that the first quarter of 2014 we had $0.14 per share come out of Venezuela. We have warned and disclosed, I think pretty robustly, that that $0.14 was going to come down pretty dramatically.

It is my view that the $0.04 is now not material to the operations of the consolidated business. It is also my view that the second half of the year will not be material. That $0.04 per share is not a bad proxy for what we might be making on a quarter-by-quarter basis.

Maybe the final reminder I would give you is that the third quarter of last year, that is third-quarter 2013, we had $0.11 per share from Venezuela. Then the fourth quarter of 2013 we had $0.22 per share come out of Venezuela.

So that is something to be mindful of when we think about the last half of the year as far as our consolidated results are concerned. We had that hyperinflationary impact in 2013 from Venezuela where the prior year had $0.06 in the second quarter, $0.11 in the third, $0.22 in the fourth. And we rolled the calendar this year and had another $0.14.

And now it is my view that you are going to see Venezuela be quite a bit less significant to the go-forward view of Lincoln Electric's consolidated earnings.

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**Steve Barger** - *KeyBanc Capital Markets - Analyst*

That's good detail. Thank you, Vince.

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**Vincent Petrella** - *Lincoln Electric Holdings, Inc. - SVP, CFO, Treasurer*

Just one last comment. If we go to Sicad II, the $0.04 per share will likely go down to zero to $0.01 per share. So there is not a big impact on our consolidated earnings going forward.

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**Steve Barger** - *KeyBanc Capital Markets - Analyst*

Would there be a balance sheet impact from a write-down of assets or anything?

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**Vincent Petrella** - *Lincoln Electric Holdings, Inc. - SVP, CFO, Treasurer*

That is disclosed in our 10-Q that will be filed later today, which is basically another charge to our net monetary asset position there.

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**Steve Barger** - *KeyBanc Capital Markets - Analyst*

Got it. My follow-up, on a happier subject, back to the capital allocation question. Has LECO ever paid a special dividend? Is that something the Board would consider, just in terms of being able to work down the cash and maybe give a little bonus to shareholders? Because you guys are clearly executing very well.

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**Vincent Petrella** - *Lincoln Electric Holdings, Inc. - SVP, CFO, Treasurer*

Well, I can't recollect in the history of Lincoln that we have paid a special dividend. We do evaluate all opportunities to return cash to shareholders. It is more likely that you will see a more rapid ratcheting up of our regular dividend in our annual review process, as well as our return of cash to shareholders through the share repurchase program. And that's what we continue to look at presently in the go-forward strategy.

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**Steve Barger** - *KeyBanc Capital Markets - Analyst*

Got it. Thanks very much.

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**Operator**

Joe Mondillo, Sidoti & Company.

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**Joe Mondillo** - *Sidoti & Company - Analyst*

Hi, guys. Good morning. Quick question on the export part of the business in North America. Can you tell us what the sequential quarter-to-quarter growth looked like? Also, remind us what the margins of export versus, I guess, the rest of the North America segment looks like.

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**Vincent Petrella** - *Lincoln Electric Holdings, Inc. - SVP, CFO, Treasurer*

Okay. Well, Joe, the actual numbers for the second quarter were about $63 million of US dollar exports out of our domestic operation here, compared to about $73 million in the prior year.

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**Joe Mondillo** - *Sidoti & Company - Analyst*

How about the first quarter of this year? Was it stable?

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**Vincent Petrella** - *Lincoln Electric Holdings, Inc. - SVP, CFO, Treasurer*

Well, the year-to-date numbers were $143 million last year and $108 million this year.

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**Joe Mondillo** - *Sidoti & Company - Analyst*

Okay, perfect. Thank you. Then just wondering if you could just give us an update on the automation part of the business. I know that is a big part of the secular growth within the industry and how you guys are tapping organic growth.

Any updates on how that has been progressing? And whether we saw -- was there any lumpy large sales that hit in the quarter that helped that product mix out?

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**Chris Mapes** - *Lincoln Electric Holdings, Inc. - Chairman, CEO, President*

Well, think the nice thing is that business just continues to grow within Lincoln. And as it continues to grow, some of the lumpiness associated with large projects or completion accounting will begin to continue to be minimized.

I will tell you I am very excited about the teams that we brought in. Our global automation and automation solutions group continues to work on really customer-facing technologies so that we can be one face to the customer globally and ensuring that we are driving those solutions to the various markets around the world. We continue to work on integrating back-office solutions, so that we can ensure that seamless offering is brought there productively.

And probably most importantly, it certainly is one of those key areas that we continue to seek out acquisitions for in the space. The Robolution acquisition has been integrated very well, and we continue to try to evaluate opportunities for us to expand that offering globally.

I just believe that it is going to be a significant portion of our 2020 Vision and Strategy as we continue to identify other solutions and assets and people that we can bring in to Lincoln Electric as we build out our automation solutions group.

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**Joe Mondillo** - *Sidoti & Company - Analyst*

Just a follow-up, lastly, with that. How integrated is the automation part of the business geographically within all your footprint?

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**Chris Mapes** - *Lincoln Electric Holdings, Inc. - Chairman, CEO, President*

Well, it is integrated in that we have all of those individuals around the world working as one team. There is a group that manages that for us, so they understand the various technologies that we are developing and providing. We share those solutions across our global platform.

We have not linked all of those systems together. However, we do have systems that allow them to be able to share their various technologies and solutions. So that while we are servicing global OEMs we want to be able to ensure that we can provide them that automation solution whether they are in Brazil or in Europe or in Asia Pacific. So, it is important for us to be able to link those businesses together and provide those solutions on a global basis.

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**Joe Mondillo** - *Sidoti & Company - Analyst*

All right, great. Perfect. Thanks a lot.

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**Operator**

(Operator Instructions) Walter Liptak, Global Hunter.

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**Walter Liptak** - *Global Hunter Securities - Analyst*

I wanted to ask about the double-digit equipment growth in Europe, and want to find out about whether that is sustainable or not. Was it related to a channel fill, or is it sell-through that we could see in the back half of the year as well?

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**Chris Mapes** - *Lincoln Electric Holdings, Inc. - Chairman, CEO, President*

I will tell you, Walt, it wasn't any channel fill. We did a broad update of our equipment offering for the European marketplace that we brought out in the Essen show that I mentioned really in the third quarter of 2013. That offering has been received very well, so I certainly have expectations that we will continue to see improvements in the demands for those products as we continue to move through the rest of 2014.

So I didn't see anything unusual relative to the offering. Again, I just think this is, quite frankly, Lincoln Electric making improvements in that market, probably taking some share in that market as our improved equipment offering is being received very well by the marketplace.

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**Walter Liptak** - *Global Hunter Securities - Analyst*

Okay, okay. Sounds good. With the 3% organic growth in the quarter and double-digit in equipment, that implies a decline, I guess, in the consumable part of the business. Wonder if you can just give us some view on what is happening in Europe with consumables.

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**Chris Mapes** - *Lincoln Electric Holdings, Inc. - Chairman, CEO, President*

I don't really see the consumable market as declining. When I look at that on a year-over-year basis, I expect that -- although I don't have that data in front of me, Walt, I expect that some of that may have to do with our consolidations of that solid wire strategy that I mentioned earlier.

We still see our consumable business as performing very well in there. And as I mentioned, when we looked across the broad portfolio in Europe, which would include our consumables offering, most of our businesses showed at least a slight increase on a year-over-year basis. So again, very confident and think that our consumables business is performing well for us in Europe.

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**Walter Liptak** - *Global Hunter Securities - Analyst*

Great, all right. Thank you.

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**Operator**

Thank you. That concludes our question-and-answer session for today. I would like to turn the conference back to Vincent Petrella for closing comments.

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**Vincent Petrella** - *Lincoln Electric Holdings, Inc. - SVP, CFO, Treasurer*

Thanks, Karen. Just to provide an additional update on Venezuela in response to Steve's question about our balance sheet position, at the end of June we have a net monetary asset position in Venezuela of about $24 million. That includes about $16 million of cash and cash equivalents.

If we were to move from the Sicad I rate to the Sicad II rate, the bulk of the $24 million would have to be written down. We have further disclosures in our Q that will come out today that suggest that that charge could be around $19 million to SG&A, with an additional $6 million that would flow through cost of goods sold, based on current inventory levels and use of the Sicad I exchange rate.

So hopefully that provides you, Steve, and our shareholders with additional information on Venezuela. And with that, I would like to wrap the call for today and thank you all for joining us and expressing your continued interest in Lincoln Electric. Very much look forward to reporting our progress on improving our business and returning cash to shareholders at our October call at the end of that month. Thank you very much.

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**Operator**

Thank you. This concludes today's teleconference. You may disconnect your lines at this time, and thank you for your participation.

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