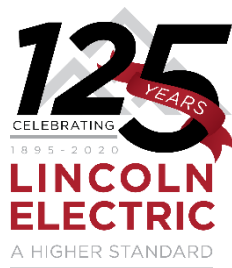


# Lincoln Electric Holdings, Inc.

## Third Quarter 2020 Earnings Call

October 27, 2020



# Safe Harbor and Regulation G Disclosures

## Forward-Looking Statements:

Statements made during this presentation which are not historical facts may be considered forward-looking statements. Forward-looking statements involve risks and uncertainties that could cause actual events or results to differ materially from those expressed or implied. Forward-looking statements generally can be identified by the use of words such as “may,” “will,” “expect,” “intend,” “estimate,” “anticipate,” “believe,” “forecast,” “guidance” or words of similar meaning. For further information concerning issues that could materially affect financial performance related to forward-looking statements, please refer to Lincoln Electric’s quarterly earnings releases and periodic filings with the Securities and Exchange Commission, which can be found on [www.sec.gov](http://www.sec.gov) or on [www.lincolnelectric.com](http://www.lincolnelectric.com).

## Non-GAAP Measures:

Our management uses non-GAAP financial measures in assessing and evaluating the Company’s performance, which exclude items we consider unusual or special items. We believe the use of such financial measures and information may be useful to investors. Non-GAAP financial measures should be read in conjunction with the GAAP financial measures, as non-GAAP measures are a supplement to, and not a replacement for, GAAP financial measures. Please refer to the attached schedule for a reconciliation of non-GAAP financial measures to the related GAAP financial measures.

# Operating Globally and Positioned to Respond to COVID-19 Challenges

- » **Remain focused on safety:** Implementing CDC and WHO best practice measures to protect employee health
  - Heightened hygiene and sanitation practices
  - Social distancing and safety protocols
  - Maximizing flexible and remote work arrangements
- » **Lincoln facilities are operating** as “essential businesses” focused on serving customers
- » **Maintaining wage levels and benefit programs**
- » **Concerned over rising global community COVID-19 cases**



### **Q3 2020 Highlights:** Improving demand trends and effective cost savings actions delivered solid profitability, earnings, cash generation and returns in a challenging environment

- » **Reported sales decreased 8.5% to \$668.9 million; Organic sales declined 8.3%**
- » **Achieved \$27 million in cost saving benefits**
- » **Adjusted Operating Income declined 12.6% to \$84.1 million; Adjusted Operating Income Margin increased 10 bps to 12.6% with a 12.3% decremental margin**
- » **Diluted EPS of \$0.97, Adjusted EPS of \$1.10**
- » **ROIC of 18.4%**
- » **Cash flow from operations of \$89.5 million with 117% cash conversion**
- » **Returned \$29 million to shareholders through our dividend program**
- » **Reduced outstanding debt by \$48 million and maintained a strong balance sheet**

# Q3 Demand Improved as Automotive and Industrial Production Rates Gained Momentum

- » **Q3 organic sales declines narrowed to -8.3%**
  - All regions improved
  - Harris Products Group achieved record organic sales performance on retail channel strength and higher commodity prices (copper and silver)
  - Equipment (non-automation) organic sales declined at a mid-single digit percent rate; Consumable and Automation organic sales declined at a high-single digit percent rate
  
- » **Q3 global end sector performance<sup>1</sup>**
  - Approximately 45% of revenue exposed to growing end sectors
    - General Fabrication and Infrastructure/ Construction sector sales increased
    - Automotive/Transportation declines narrowed to high single digit percent
    - Heavy Industries and Energy sector declines were higher than the consolidated average
  
- » **October orders moderating slightly from late Q3 levels due to seasonality**
  - Expect continued challenged Automation demand in Q4 and weakening Energy and Heavy Industry trends into 2021
  - Shape of the recovery remains unknown and additional shutdowns remain a risk

# 2020 Benefits from Cost Reduction Initiatives Increased to \$80 to \$85 Million

- » Achieved \$27 million in cost saving benefits in Q3 and \$60 million in the first nine months, primarily from temporary cost reductions
- » Maintained a substantial portion of temporary cost reduction actions in Q3:
  - Reduced work hours, overtime, headcount and contractor use
  - Reduced discretionary spending and travel
  - Deferred annual wage increases
  - Offered a voluntary separation incentive program
  - Closed 3 facilities and initiated 2 other facility rationalizations year-to-date
  - Limited capital investments to cost savings projects and growth initiatives
- » Realized \$6.3 million in pre-tax rationalization charges in Q3-2020
- » Expect approximately \$20 million of cost savings in Q4-2020 (50% permanent and 50% temporary)

**Expect \$80 to \$85 million in 2020 cost savings**

**Approximately 32% of 2020 cost savings are permanent**

**Expect to exit 2020 at \$10 to \$11 million in permanent cost savings per quarter**

# Income Statement – Q3 2020

\$ in Millions	Q3 2020	% of Sales	Q3 2019	% of Sales	YoY % Change <i>Fav/(Unfav)</i>
Net Sales	\$ 668.9		\$ 730.8		(8.5%)
Gross Profit	215.4	32.2%	238.4	32.6%	(9.6%)
SG&A	131.3	19.6%	148.3	20.3%	11.4%
Operating Income	77.8	11.6%	88.5	12.1%	(12.1%)
Special item charges <sup>1,2</sup>	6.3	0.9%	3.1	0.4%	(101.6%)
<b>Adjusted Operating Income<sup>1</sup></b>	<b>84.1</b>	<b>12.6%</b>	<b>91.6</b>	<b>12.5%</b>	<b>(8.3%)</b>
Interest Expense, net <sup>3</sup>	5.5	0.8%	6.4	0.9%	13.3%
Income Taxes <sup>4</sup>	14.8	2.2%	19.3	2.6%	23.5%
Effective Tax Rate <sup>4</sup>	20.2%		21.1%		90 bps
Net Income	\$ 58.5	8.7%	\$ 72.5	9.9%	(19.3%)
Special Items <sup>5</sup>	7.5	1.1%	(4.8)	0.7%	(58.5%)
<b>Adjusted Net Income<sup>1</sup></b>	<b>\$ 66.0</b>	<b>9.9%</b>	<b>\$ 67.7</b>	<b>9.3%</b>	<b>(2.5%)</b>
Diluted EPS	\$ 0.97		\$ 1.17		(17.1%)
<b>Adjusted Diluted EPS<sup>1</sup></b>	<b>\$ 1.10</b>		<b>\$ 1.09</b>		<b>0.9%</b>

Sales Mix <sup>6</sup>	
Volume	(9.5%)
Price	1.2%
Acquisitions	-
FX	(0.2%)
<b>TOTAL</b>	<b>(8.5%)</b>

<sup>1</sup> Please review the appendix for reconciliation of non-GAAP measures.

<sup>2</sup> Q3-2020 Special items include Rationalization and asset impairment charges of \$6.3 million. Q3-2019 Special items include Rationalization and asset impairment charges of \$1.5 million and \$1.6 million in Amortization of step up in value of acquired inventories.

<sup>3</sup> Interest Expense, net is defined as interest income earned from investments less interest expense from borrowings.

<sup>4</sup> Q3 2020 reported and adjusted effective tax rate was 20.2% as compared with a reported Q3-2019 tax rate of 21.1% or 22.4% on an adjusted basis.

<sup>5</sup> Special items include the charges noted in footnote 2 and a \$3.2 million pension settlement charge and a \$1.9 million tax effect of Special items in Q3 2020. This compares with a \$7.6 million gain on change of control related to the acquisition of Askaynak and a \$0.3 million tax effect of Special items in Q3-2019. Please refer to the appendix for further details.

<sup>6</sup> Figures may not sum due to rounding.

# Americas Welding Segment

(\$ in Millions)	Q3 2020	Q3 2019	% YoY Change	Sales Mix <sup>1</sup>
<b>Net Sales</b>	\$ 371.5	\$ 443.5	(16.2%) ↓	<b>Volume</b> (15.6%)
<b>Adjusted EBIT</b>	\$ 59.1	\$ 74.1	(20.2%) ↓	<b>Price</b> (0.2%)
<b>Adjusted EBIT Margin<sup>2</sup></b>	14.7%	15.6%	(90) bps ↓	<b>Acq/Div</b> -
				<b>FX</b> (0.5%)
				<b>Total</b> (16.2%)

**Volume declines narrowed as automotive, infrastructure/construction and general industrial sector demand improved. Cost reduction actions and lower incentive compensation expense helped mitigate the unfavorable impact of lower volumes.**

<sup>1</sup> Figures may not sum due to rounding

<sup>2</sup> Adjusted EBIT Margin is calculated using Total Sales, which includes Inter-segment sales.



# International Welding Segment

(\$ in Millions)	Q3 2020	Q3 2019	% YoY Change		Sales Mix <sup>1</sup>	
<b>Net Sales</b>	\$ 196.9	\$ 205.4	(4.1%)	↓	<b>Volume</b>	(5.3%)
<b>Adjusted EBIT</b>	\$ 13.4	\$ 10.2	31.9%	↑	<b>Price</b>	-
<b>Adjusted EBIT Margin<sup>2</sup></b>	6.7%	4.9%	+180 bps	↑	<b>Acq/Div</b>	-
					<b>FX</b>	1.2%
					<b>Total</b>	<b>(4.1%)</b>

**Volume declines moderating due to growth in portions of Asia Pacific and ongoing recovery among certain European industrial end markets and automotive.  
Margin performance reflects improved demand and benefits of cost reduction actions.**

<sup>1</sup> Figures may not sum due to rounding

<sup>2</sup> Adjusted EBIT Margin is calculated using Total Sales, which includes Inter-segment sales.

# The Harris Products Group

(\$ in Millions)	Q3 2020	Q3 2019	% YoY Change		Sales Mix <sup>1</sup>
<b>Net Sales</b>	\$ 100.4	\$ 81.9	22.6%	↑	<b>Volume</b> 12.8%
<b>Adjusted EBIT</b>	\$ 17.6	\$ 11.0	59.3%	↑	<b>Price</b> 11.6%
<b>Adjusted EBIT Margin<sup>2</sup></b>	17.2%	13.2%	+400 bps	↑	<b>Acq/Div</b> -
					<b>FX</b> (1.7%)
					<b>Total</b> 22.6%

**Volumes higher on retail channel strength and price reflects rising commodity costs.  
Record margin performance due to strong organic sales.**

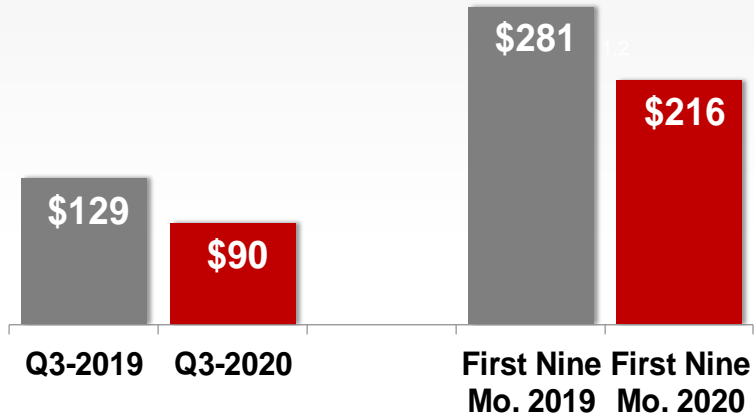
<sup>1</sup> Figures may not sum due to rounding

<sup>2</sup> Adjusted EBIT Margin is calculated using Total Sales, which includes Inter-segment sales.

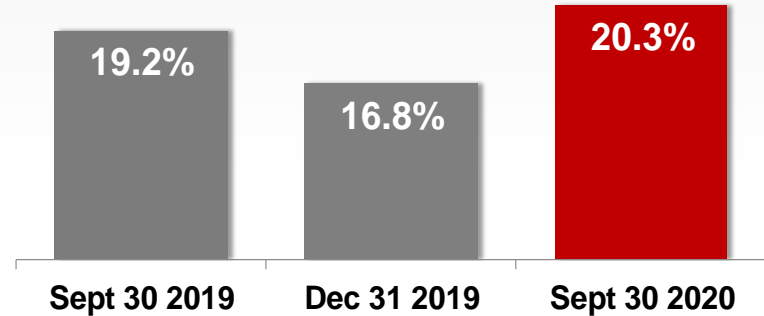
# Cash Flow From Operations Metrics

## Cash Flow from Operations

(\$ in Millions)



## Average Operating Working Capital to Net Sales Ratio



**Solid Q3 cash flow from operations resulting in 117% cash conversion<sup>1</sup>. Working capital reflects strategic inventory build to service recovery demand.**

# Solid Balance Sheet and Increased Liquidity in Q3

(Data as of September 30, 2020)

## » Investment grade profile balance sheet

- Total debt/EBITDA: 1.95x
- Net debt<sup>1</sup>/EBITDA: 1.54x

» Total debt: \$717M // Net debt: \$564M

» Debt Covenant: 3.5x Total Debt/EBITDA<sup>2</sup>

» \$700M in private Notes

- 3.3% interest rate with 14-year tenor
- First maturity August, 2025

» \$25M annual interest expense in 2020

## » Ample Liquidity of \$602M as debt was reduced by \$48M in Q3

- Cash: \$152M
- Available lines of credit: \$450M

» Expect continued generation of cash flows from reductions in working capital in 2020

» >100% cash conversion expected in 2020

<sup>1</sup> Net Debt is defined as Total debt less Cash and cash equivalents

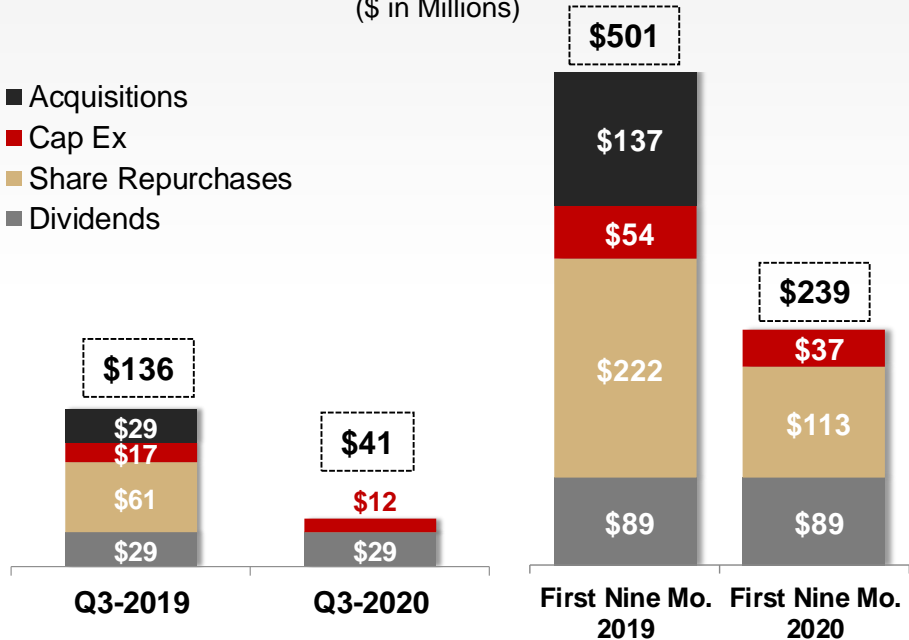
<sup>2</sup> Debt covenant ratios use a credit agreement adjusted EBITDA definition which differs slightly from standard EBITDA calculations

# Capital Allocation

## Capital Allocation<sup>1</sup>

(\$ in Millions)

- Acquisitions
- Cap Ex
- Share Repurchases
- Dividends



## Q3 2020 Highlights

- » Capital Expenditures: \$12.1M
- » Dividend Payout Rate Increase: +4.3%
- » Return on Invested Capital: 18.4%

## Capital Allocation Outlook

- » Resuming share repurchases
- » Announced 25<sup>th</sup> consecutive annual dividend increase of 4.1%

<sup>1</sup> Figures may not sum due to rounding

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📞 216.383.2534

# Non-GAAP Information

Adjusted operating income, Adjusted net income, Adjusted EBIT, Adjusted effective tax rate, Adjusted diluted earnings per share, Organic sales, Cash conversion, Return on invested capital and Earnings before interest, taxes, depreciation and amortization ("EBITDA") are non-GAAP financial measures.

Management uses non-GAAP measures to assess the Company's operating performance by excluding certain disclosed special items that management believes are not representative of the Company's core business. Management believes that excluding these special items enables them to make better period-over-period comparisons and benchmark the Company's operational performance against other companies in its industry more meaningfully. Furthermore, management believes that non-GAAP financial measures provide investors with meaningful information that provides a more complete understanding of Company operating results and enables investors to analyze financial and business trends more thoroughly. Non-GAAP financial measures should not be viewed in isolation, are not a substitute for GAAP measures and have limitations including, but not limited to, their usefulness as comparative measures as other companies may define their non-GAAP measures differently.

# Non-GAAP Financial Measures

## Non-GAAP Financial Measures: Reconciliation of Operating Income, Net Income, Effective Tax Rate, and EPS to Non-GAAP Adjusted Operating Income, Adjusted Net Income, Adjusted Effective Tax Rate, and Adjusted EPS

(In thousands, except per share amounts)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Operating income as reported	\$ 77,793	\$ 88,544	\$ 198,631	\$ 288,208
Special items (pre-tax):				
Rationalization and asset impairment charges <sup>(2)</sup>	6,257	1,495	36,016	6,337
Acquisition transaction and integration costs <sup>(3)</sup>	—	—	—	1,804
Amortization of step up in value of acquired inventories <sup>(4)</sup>	—	1,609	806	3,008
Gains on asset disposals <sup>(5)</sup>	—	—	—	(3,045)
Adjusted operating income <sup>(1)</sup>	\$ 84,050	\$ 91,648	\$ 235,453	\$ 296,312
As a percent of total sales	12.6 %	12.5 %	12.0 %	13.1 %
Net income as reported	\$ 58,479	\$ 72,461	\$ 141,037	\$ 229,393
Special items:				
Rationalization and asset impairment charges <sup>(2)</sup>	6,257	1,495	36,016	6,337
Acquisition transaction and integration costs <sup>(3)</sup>	—	—	—	1,804
Pension settlement charges <sup>(5)</sup>	3,188	—	6,522	—
Amortization of step up in value of acquired inventories <sup>(4)</sup>	—	1,609	806	3,008
Gains on asset disposals <sup>(6)</sup>	—	—	—	(3,554)
Gain on change in control <sup>(7)</sup>	—	(7,601)	—	(7,601)
Tax effect of Special items <sup>(8)</sup>	(1,911)	(255)	(9,463)	(5,819)
Adjusted net income <sup>(1)</sup>	66,013	67,709	174,918	223,568
Non-controlling interests in subsidiaries' income (loss)	27	(4)	37	(26)
Interest expense, net	5,552	6,400	16,891	17,621
Income taxes as reported	14,797	19,340	41,834	58,832
Tax effect of Special items <sup>(8)</sup>	1,911	255	9,463	5,819
Adjusted EBIT <sup>(1)</sup>	\$ 88,300	\$ 93,700	\$ 243,143	\$ 305,814
Effective tax rate as reported	20.2 %	21.1 %	22.9 %	20.4 %
Net special item tax impact	—	1.3 %	(0.2 %)	2.0 %
Adjusted effective tax rate <sup>(1)</sup>	20.2 %	22.4 %	22.7 %	22.4 %
Diluted earnings per share as reported	\$ 0.97	\$ 1.17	\$ 2.34	\$ 3.64
Special items per share	0.13	(0.08)	0.57	(0.09)
Adjusted diluted earnings per share <sup>(1)</sup>	\$ 1.10	\$ 1.09	\$ 2.91	\$ 3.55
Weighted average shares (diluted)	60,018	62,061	60,202	62,972





# Non-GAAP Financial Measures (continued)

## Footnotes for Non-GAAP Financial Measures: Reconciliation of Operating Income, Net Income, Effective Tax Rate, and EPS to Non-GAAP Adjusted Operating Income, Adjusted Net Income, Adjusted Effective Tax Rate, and Adjusted EPS

- 1) Adjusted operating income, Adjusted net income, Adjusted EBIT, Adjusted effective tax rate and Adjusted diluted earnings per share are non-GAAP financial measures. Refer to Non-GAAP Information section.
- 2) Primarily related to severance, asset impairments of long-lived assets and gains or losses on the disposal of assets.
- 3) Related to the acquisition of Air Liquide Welding and are included in Selling, general & administrative expenses.
- 4) Related to an acquisition and are included in Cost of goods sold.
- 5) Primarily included in Cost of goods sold.
- 6) Related to lump sum pension payments and are included in Other income (expense).
- 7) Related to the acquisition of Askaynak and is included in Other income (expense).
- 8) Includes the net tax impact of Special items recorded during the respective periods, including tax benefits of \$4,852 for the settlement of a tax item as well as tax deductions associated with an investment in a subsidiary in the nine months ended September 30, 2019.

The tax effect of Special items impacting pre-tax income was calculated as the pre-tax amount multiplied by the applicable tax rate. The applicable tax rates reflect the taxable jurisdiction and nature of each Special item.

# Non-GAAP Financial Measures

## Return on Invested Capital (ROIC) and Total Debt / EBITDA

(In thousands, except per share amounts)

(Unaudited)

Return on Invested Capital	Twelve Months Ended September 30,		Total Debt / EBITDA	Twelve Months Ended September 30,	
	2020	2019		2020	2019
Net income as reported	\$ 204,753	\$ 316,232	Net income as reported	\$ 204,753	\$ 316,232
Rationalization and asset impairment charges	44,867	7,269	Income taxes	58,412	66,508
Acquisition transaction and integration costs	—	2,637	Interest expense, net	22,685	21,964
Pension settlement charges	6,522	1,696	Depreciation and amortization	81,653	78,800
Amortization of step up in value of acquired inventories	806	3,008	EBITDA <sup>(1)</sup>	\$ 367,503	\$ 483,504
Gains on asset disposals	—	(3,554)		September 30, 2020	September 30, 2019
Gain on change in control	—	(7,601)	Total debt	\$ 716,834	\$ 727,177
Tax effect of Special items <sup>(2)</sup>	(11,030)	(12,583)	Total debt / EBITDA	1.95	1.50
Adjusted net income <sup>(1)</sup>	\$ 245,918	\$ 307,104			
Plus: Interest expense, net of tax of \$6,177 and \$6,410 in 2020 and 2019, respectively	18,564	19,265			
Less: Interest income, net of tax of \$513 and \$926 in 2020 and 2019, respectively	1,543	2,785			
Adjusted net income before tax-effected interest	\$ 262,939	\$ 323,584			
<b>Invested Capital</b>	<b>September 30, 2020</b>	<b>September 30, 2019</b>			
Short-term debt	\$ 1,147	\$ 13,293			
Long-term debt, less current portion	715,687	713,884			
Total debt	716,834	727,177			
Total equity	710,744	813,808			
Invested capital	\$ 1,427,578	\$ 1,540,985			
Return on invested capital <sup>(1)</sup>	18.4 %	21.0 %			

- Adjusted net income, Return on invested capital and EBITDA are non-GAAP financial measures. Refer to Non-GAAP Information section.
- Includes the net tax impact of Special items recorded during the respective periods, including tax benefits of \$4,852 for the settlement of a tax item as well as tax deductions associated with an investment in a subsidiary in the twelve months ended September 30, 2019.

The tax effect of Special items impacting pre-tax income was calculated as the pre-tax amount multiplied by the applicable tax rate. The applicable tax rates reflect the taxable jurisdiction and nature of each Special item.



# Segment EBIT

## EBIT and Adjusted EBIT Reconciliation – Three Months Ended September 30, 2020

(In thousands)

(Unaudited)

	Americas Welding	International Welding	The Harris Products Group	Corporate / Eliminations	Consolidated
<b>Three months ended September 30, 2020</b>					
Net sales	\$ 371,535	\$ 196,937	\$ 100,416	\$ —	\$ 668,888
Inter-segment sales	29,368	4,898	1,898	(36,164)	—
Total	<u>\$ 400,903</u>	<u>\$ 201,835</u>	<u>\$ 102,314</u>	<u>\$ (36,164)</u>	<u>\$ 668,888</u>
Net income					\$ 58,479
As a percent of total sales					8.7 %
EBIT <sup>(1)</sup>	\$ 52,076	\$ 11,031	\$ 17,587	\$ (1,839)	\$ 78,855
As a percent of total sales	13.0 %	5.5 %	17.2 %		11.8 %
Special items charges (gains) <sup>(3)</sup>	7,044	2,401	—	—	9,445
Adjusted EBIT <sup>(2)</sup>	<u>\$ 59,120</u>	<u>\$ 13,432</u>	<u>\$ 17,587</u>	<u>\$ (1,839)</u>	<u>\$ 88,300</u>
As a percent of total sales	14.7 %	6.7 %	17.2 %		13.2 %
<b>Three months ended September 30, 2019</b>					
Net sales	\$ 443,521	\$ 205,378	\$ 81,884	\$ —	\$ 730,783
Inter-segment sales	31,101	4,441	1,857	(37,399)	—
Total	<u>\$ 474,622</u>	<u>\$ 209,819</u>	<u>\$ 83,741</u>	<u>\$ (37,399)</u>	<u>\$ 730,783</u>
Net income					\$ 72,461
As a percent of total sales					9.9 %
EBIT <sup>(1)</sup>	\$ 74,110	\$ 14,681	\$ 11,038	\$ (1,632)	\$ 98,197
As a percent of total sales	15.6 %	7.0 %	13.2 %		13.4 %
Special items charges (gains) <sup>(4)</sup>	—	(4,497)	—	—	(4,497)
Adjusted EBIT <sup>(2)</sup>	<u>\$ 74,110</u>	<u>\$ 10,184</u>	<u>\$ 11,038</u>	<u>\$ (1,632)</u>	<u>\$ 93,700</u>
As a percent of total sales	15.6 %	4.9 %	13.2 %		12.8 %



# Non-GAAP Financial Measures (continued)

## Footnotes for EBIT and Adjusted EBIT Reconciliation – Three Months Ended September 30, 2020

- 1) EBIT is defined as Operating income plus Other income (expense).
- 2) The primary profit measure used by management to assess segment performance is Adjusted EBIT. EBIT for each operating segment is adjusted for special items to derive Adjusted EBIT.
- 3) Special items in 2020 reflect Rationalization and asset impairment charges of \$3,856 and \$2,401 in Americas Welding and International Welding, respectively, and pension settlement charges of \$3,188 in Americas Welding.
- 4) Special items in 2019 reflect Rationalization and asset impairment charges of \$1,495, amortization of step up in value of acquired inventories of \$1,609 and a gain on change in control of \$7,601 related to the acquisition of Askaynak in International Welding.