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LECO.OQ - Q2 2021 Lincoln Electric Holdings Inc Earnings Call

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OVERVIEW:

Co. reported that 2Q21 YoverY consolidated sales growth was 39.9% and reported operating income was $121.8m.

CORPORATE PARTICIPANTS

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PRESENTATION

Operator

Greetings, and welcome to the Lincoln Electric 2021 Second Quarter Financial Results Conference Call. (Operator Instructions) And 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*

Good morning, Cara, and good morning, everyone. Welcome to Lincoln Electric's Second Quarter 2021 Conference. We released our financial results earlier today, and you can find our release as an attachment to this call's slide presentation as well as on the Lincoln Electric website at lincolnelectric.com, in the Investor Relations section.

Joining me on the call today is Chris Mapes, Lincoln's Chairman, President and Chief Executive Officer; and Gabe Bruno, our Chief Financial Officer. Chris will begin the discussion with an overview of our results and business trends, and Gabe will cover our second quarter financial performance in more detail. Following our prepared remarks, we're happy to take your questions.

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

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

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

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

Thank you, Amanda. Good morning, everyone. Turning to Slide 3. The second quarter marks the 1-year anniversary of COVID's significant impact across our business, and our team has done a tremendous job persevering through this challenge. Many of the regions we operate in are starting to return to more normalized business activity. However, we remain vigilant on rising global COVID cases and are continuing to operate under stringent best practice health and wellness protocols to ensure our employees' safety.

Turning to Slide 4 for second quarter highlights. I'm pleased to report that we achieved record earnings in the quarter driven by record sales, diligent price/cost management, increased productivity and the benefits of our prior cost reduction actions. I would like to thank our employees, our customers and our partners who continue to excel in such a challenging operating environment.

Sales increased approximately 40% in the quarter or 36% on an organic basis on broad recovery momentum from the prior year trough. Consolidated sales as well as International Welding and Harris Products Group sales trended above 2019 levels, and we expect Americas Welding to inflect positively in the third quarter.

Our team did an outstanding job addressing supply chain constraints and inflationary headwinds in the quarter. We leveraged our elevated inventory levels and supply chain partners to maintain product availability across substantially all of our portfolio, reaffirming Lincoln as a trusted and reliable supplier during this challenging period.

We also effectively managed raw material inflation through pricing actions and improved productivity, which resulted in neutral price/cost year-to-date. We will continue to monitor inflationary pressures in the business as we move forward.

Higher productivity, structural cost savings and disciplined management of discretionary spending offset higher employee costs which resulted in a near doubling of our adjusted operating income to $125 million and a 440 basis point increase to our adjusted operating income margin to 15.1%. I'm pleased to report that the International Welding segment achieved their double-digit EBIT margin goal in the quarter with an 11.6% adjusted EBIT margin.

Adjusted earnings per share increased approximately 109% to $1.67, a record second quarter performance. Return on invested capital improved 280 basis points to 21.4%, and cash flow from operations remained strong. We returned approximately $55 million to shareholders with $25 million in share repurchases and paid out $30 million in dividends.

Looking at the second quarter demand in more detail on Slide 5, trends remained strong through the quarter, ending with backlogs above 2019 levels. Organic sales increased 36% and all reportable segments, geographic regions and main product families achieved improved performance year-over-year and sequentially.

Equipment and consumable organic sales increased by approximately 40%, and are trending above 2019 levels. Automation organic sales inflected a high-teens percent growth as customers begin to reinvest in capital equipment.

With 80% of our revenue driven by growing end markets, we believe we are in the early stages of an industrial expansion. In the second quarter, we achieved a near doubling of organic sales in automotive transportation and strong double-digit percent growth in heavy industries, general industries and construction infrastructure. Energy remained challenged, but declines continue to narrow, and we achieved modest growth in downstream applications.

Moving to Slide 6. We're entering the third quarter, expecting continued year-over-year growth in our Welding segments with high backlog levels. Our Harris segment faces more challenging comparisons in the second half of the year due to a spike in prior year retail channel sales and higher price levels. But we expect continued momentum in the second half based on current order levels.

Overall, customer sentiment continues to be positive, yet cautious on supply chain, labor constraints and COVID-related disruptions, which may impact the timing of orders and deliveries. We remain focused on safety at Lincoln Electric and servicing customers with ample supply which positions us well to capitalize on near-term growth opportunities in this early stage of an industrial growth cycle.

Given the demand trends and the incremental pricing actions we have taken, we are adjusting our full year top line organic sales assumption to now be in the high teens percent range as compared with the previous low to mid-teens percent range. As stated before, this range does not include any future pricing actions, which may be warranted.

We are still assuming standard seasonality in the business for volume performance, with third quarter sales generally flat to slightly lower than second quarter results. We're also still expecting a full year incremental adjusted operating income margin in the high 20% range.

As we manage the business, we're focused on growth, innovation and acquisitions that are core tenets of our higher standard 2025 strategy. We're currently integrating our recent Zeman automation acquisition, maintain a full M&A pipeline and are looking forward to a series of product launches in the second half of the year, including yesterday's launch of our industry-leading enhanced IoT solution, CheckPoint.

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

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

Thank you, Chris. Moving to Slide 7. Our consolidated second quarter sales increased 39.9% due to 26% higher volumes, a 10% benefit from price, and a 3.3% favorable impact from foreign exchange, and a 60 basis point benefit from the Zeman acquisition.

Our gross profit margin increased 110 basis points to 33.2% as benefits from volumes and cost reduction actions were offset by higher raw material and freight costs, including a $9.5 million LIFO charge. LIFO charges for the first 6 months were approximately $13 million, and we expect an equivalent charge in the second half of the year.

Price/cost in the quarter was slightly positive and neutral year-to-date. We continue to target neutral price/cost on a full year basis as we work to mitigate inflation, including LIFO charges.

Our SG&A expense increased 19.9% or $25 million to $152 million in the quarter. Higher incentive compensation and employee costs represented substantially all of the increase, and we incurred $3 million in unfavorable foreign exchange. We expect 2021 SG&A expense to remain at this level through the balance of the year due to higher wage and incentive compensation. SG&A as a percent of sales decreased 310 basis points to 18.3% due to higher sales.

Reported operating income increased 206.4% to $121.8 million or 14.7% of sales. Operating income included approximately $3.3 million of special items. Excluding special items, adjusted operating income increased 98.6% to $125.1 million or 15.1% of sales, a 440 basis point increase versus the prior year.

Adjusted operating income benefited from improved volumes, cost reduction benefits and diligent price/cost management, which generated a 26.3% incremental margin. For the 6 months, incremental margins were 28.5%.

Our second quarter effective tax rate was 18.3% or 17.9% on an adjusted basis due to our mix of earnings and discrete items. This compares with a 19.8% effective tax rate or 20.3% on an adjusted basis in the prior year period. We expect our full year 2021 effective tax rate to be in the low 20% range, subject to the mix of earnings and anticipated extent of discrete tax items.

Second quarter diluted earnings per share increased 255.6% to $1.60 compared with $0.45 in the prior year. Excluding special items, adjusted diluted earnings per share increased 108.8% to a record $1.67 in the quarter.

Now moving to our reportable segments on Slide 8. Americas Welding segment second quarter adjusted EBIT increased 80.2% to $84.1 million. The adjusted EBIT margin increased 400 basis points to 16.9% from benefits of higher volumes, price/cost management and price cost -- prior cost reduction actions.

Americas Welding organic sales increased 35.3% led by 27.1% higher volumes and an 8.2% benefit from pricing actions implemented to mitigate inflation. End market recovery remains strong across the Americas, led by growth in automotive transportation, heavy industries and general industries. Demand drove growth in all product areas, including automation. Energy remained challenged, but we believe is in the early stages of a recovery.

Moving to Slide 9. The International Welding segment's adjusted EBIT increased 209.8% to $30 million. The adjusted EBIT margin increased 630 basis points to 11.6% on higher volumes, the benefits of operational improvement initiatives and price/cost management.

Organic sales increased 33.8%, reflecting strong volume growth across Europe and the Asia Pacific region on accelerating regional demand. An increase in automotive transportation, heavy industry and general industrial demand were the primary growth drivers in the segment. The segment also benefited 2% from the April 1 Zeman acquisition, which we expect will generate approximately $10 million of sales per quarter. Second quarter from -- second quarter sales from Zeman were lower due to the timing of revenue recognition.

Moving to the Harris Products Group on Slide 10. Second quarter adjusted EBIT increased 55.5% to $18.2 million. Adjusted EBIT margin increased 100 basis points to 15.3% due to higher volumes, which were partially offset by higher employee costs. Organic sales increased 44% with 22.9% higher volumes, primarily from broad strength in Harris' end markets, led by HVAC and the North American retail channel as well as a 21.1% benefit from pricing actions taken to recover rising commodity costs, such as silver and copper in their consumable products.

Moving to Slide 11. We generated approximately $100 million in cash flows from operations, which was impacted by $25 million in higher tax payments. Cash conversion for the quarter was approximately 82%, and we continue to expect our full year cash conversion in excess of 90%. Working capital remains intentionally elevated to support the recovery and mitigate supply chain constraints.

Moving to Slide 12. Given strong execution, 21.4% ROIC performance and continued strength in cash flows, we continued to invest in growth in the quarter. We invested $17.8 million in internal capital expenditures, and a net $83.7 million, for the April 1 Zeman acquisition. We also returned approximately $55 million to shareholders through share repurchases in our dividend program.

Looking ahead, we continue to expect our annual CapEx program to be $65 million to $75 million, and we will continue to repurchase shares opportunistically. We maintained ample liquidity with $767 million in the second quarter. With no near-term debt maturities and expectations of cash conversion in excess of 90%, we are focused on further investing in growth and returning cash to shareholders.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Your first question comes from the line of Bryan Blair with Oppenheimer.

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

Very solid quarter. Chris, you seem to really emphasize that we're in the early stage of an industrial expansion. We're on the same page with that. But it has been a while since we've had a healthy industrial cycle. Hoping you could offer a little more color on what drives your team's confidence in having some real demand runway.

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

Well, I would say a couple of things, Bryan. First is just the momentum we see across the breadth of the business as well as some of the that we see within the specific segments. I think an example of that would be the mining segment. It's been a while since we've seen a really strong mining segment within the business. You see the escalation in some of those commodity input costs that they've got from the mining side, whether that would be iron ore or copper or coal. And quite frankly, that drives demand and drives activity and replacement activity within those industries.

And that's just an example of one of them. But I do feel like we're entering and in the early stages. We can maybe look back and argue whether we're a quarter in or 2 quarters in, but I believe we're at the early start of a more positive industrial cycle. And I certainly see that as very positive for our business here at Lincoln Electric.

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

All makes sense. And great to see automation return to growth in the quarter. Is there any incremental detail you can offer on automation or order rates expected back half growth? And also, I know it's early days of owning the asset, but it would be great to hear a little more on Zeman integration and had a combination of SBA and PythonX is impacting growth prospects in structural steel.

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

Well, I'll talk a little bit about Zeman, and then I'll let Gabe give you a couple of comments about automation broadly. But I'll tell you, I'm happy with the projections that we think we have with the automation business. It's turned a little earlier than we had expected, and the team is really working hard at it.

At the Zeman acquisition, I think it's just the right strategic fit in a growing global segment for Lincoln Electric at the right time. So many individuals are very familiar with our Python technology, really a market-leading technology out there for robotic cutting, for that structural steel industry. And now we can provide another solution for that marketplace for them to be able to assemble the structural steel pieces for that industry.

And I will tell you, I've already talked to a couple of customers out there in the marketplace, and they're very interested and excited about Lincoln Electric being able to provide them the complement of solutions, which really can take care of a great deal of the activity inside the structural steel manufacturing process.

So we believe it's going to be a great solution for us. The teams are working hard on the integration portion. I know that we'll be working with our customers and partners out there around the world. We've already developed a relationship here in the U.S. marketplace where we're going to be able to expand upon that offering with them. So I would say, off to a very solid start, very positive on the technology and the people that we have there. And I think it's a great strategic fit and then I'll let Gabe give a couple of other comments about automation, broadly.

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

Yes. So Bryan, thanks for that. As you know, we're very excited about the growth opportunities we see in our automation business. And we had discussed about seeing an inflection point towards the middle of this year. So we did see an acceleration of that in the second quarter. It was good to see we're in the high teens type of growth. And we've got strong quoting activity, very good backlogs going into the second half. So we'll continue to see that kind of momentum into the second half of the year.

I'd also comment our margin profile is improving. We've done things within our business model to integrate the acquisitions that we've done over the years. And so we're very confident that we're on the trajectory of reaching our target operating profit profile as we continue managing and growing in this business. So we're very excited about automation. And we're well positioned for continued growth as the capital markets start to expand, and we see a reinvestment in the necessary automation capabilities within factories of the world.

Operator

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

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

This is Mig Dobre. I wanted to ask a couple of questions on international. And I guess the first one, performance here, both volume and pricing quite a bit better than what I would have guessed. So 2 parts to my question. First, when I'm looking from a pricing standpoint, I obviously understand that input cost commodity price has gone higher, but this is the strongest pricing I've seen in international for far back as my model goes.

So I'm wondering if you're doing something different or if there's something sort of different in the environment now in your international business than maybe prior inflationary periods?

And then the second question is on volumes. It looks like in International, now you're running -- your volume is basically back to pre-COVID levels, back to 2019 levels. And I'm curious as to how you're sort of seeing the business progress here. Because it seems like you're picking up a little bit quicker in International than the Americas. So I'm wondering if there's some difference here that we need to be aware of.

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

Well, Mig, I'll start. And I think the first piece is, we've been talking to you and others about our continued expectations of improvements in the International business. And part of that improvement was a requirement of us to get better at managing that piece of the business, part of that was some system implementation that we needed to get across the portfolio.

Because I would tell you that one of the key elements of us managing some of the challenges that you have out there in an inflationary market like this is getting the right tools in place and then making sure that our teams are utilizing those tools and managing that process. And we have been very good at that at Lincoln Electric in general, but maybe not as good at that in that particular market. And we are making those improvements, and I'm excited about the work that the team is doing there on that. So I would tell you that a portion of that is just, quite frankly, process-driven.

Second thing I would tell you is we've been talking about going back out and making the improvements in the broad business to regain some of the customers and some of the relationships that may be during the integration over the last couple of years that were mitigated. And I think we're seeing that. We're seeing strong performance from the teams, especially in the European marketplace for us to be able to generate the improvements we're seeing in International at this point.

So a really solid quarter. We need to show consistency with that type of performance. I believe that we will, obviously, there is some seasonality associated with a portion of that in international markets that will be out there in Q3. But very excited about making this initial target and evaluating exactly then where we think we can take this area of our business as we're moving towards the end of the year and into 2022.

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

Okay. That's helpful, Chris. And you anticipated where I was going to go with my follow-up. I guess margins were quite good, as you pointed out here. And I'm wondering on the sustainability of this margin, as I'm thinking about the back half of the year, especially within the context of the seasonality that you talked about.

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

Yes. Look, I would tell you that we expect to see seasonality. And then the one thing, which I believe is just probably a little more opaque, a little bit more of a wildcard in the business. And this isn't just an International comment, it's probably a comment even across the Americas business. It's very difficult to get a feel for exactly what type of summer shutdowns we may see in various segments across the world.

I hear everything from some people saying, look, there could be supply chain challenges maybe in automotive around chips, and maybe they might extend some activity. And then I also hear that many customers are also worried about the backlogs they have, and they may actually try to actually work through portions of those windows. And it's more difficult for us at this point in the cycle maybe to get a good handle on it.

I would expect normal seasonality. But I will share with you, we believe that we've made structural improvements in that business, and we expect to maintain those double-digit margins as we're moving through the rest of the year and then identifying what should be the next step improvement for that International business as we're moving into 2022.

Operator

Your next question comes from the line of Steve Barger with KeyBanc Capital Markets.

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

Looks like 2021 revenue probably gets back nicely above 2018 and 2019 of just over $3 billion with price and volume as strong as they are along with the structural cost actions you talked about. Do you think this year's gross margin can get back to the 33.5% of last year or even the 34% from 2018?

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

Yes. Steve, thanks for that question. One of the dynamics, obviously, is the mix of business and also price/cost. But we're pretty confident that we'll continue to manage price costs. And whether or not we exceed the gross profit profile going back to 2018, that's yet to be seen with the growth up in the financials, but we'll continue to manage price cost in a neutral level.

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

Yes. And Steve, this is Chris. Look, I know your comment was centered on gross margins, which I can assure you, we're very focused on them. But I will tell you, what excites me about the business as we see the momentum in the business, yet I still believe strongly we've got 2 areas of the business that will continue to improve as we drive those strategic initiatives. And that's getting the automation business up to the average target margins that we have for the company and the higher standard strategy. That should be able to provide us with some margin lift.

And as I mentioned in the earlier question, although we've achieved the first level within our International business, we certainly expect over the next several quarters to identify how we make further improvement. So I see those 2 areas of the business still as a catalyst for continued margin improvement for the business as we work through the next several quarters.

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

It's a good comment on the automation business. And I know the team is working hard to keep up right now across all product lines. But as you look at the bigger secular trends. How do you drive growth in the automation business? Are there opportunities to expand the material handling aspects further from the welding cell itself? Or just how do you see that playing out?

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

Yes. That's a great question, Steve. And I would tell you, I believe we've already made that step that at the end of the day, many of the processes and solutions or content within the cells that we're providing are already outside just the core welding expertise that we can provide. So that is one element of it.

But I will tell you, when I think about those broad secular trends, I don't think that the pandemic the challenges associated with the pandemic have done anything except accelerate that trend. And when we think about challenges associated with labor, challenges associated with supply chain, many people, especially in this market with the low cost of capital that's out there are going to quickly think about automation.

And I believe they're going to do that because I know that's what we're doing within our own business. So I believe that what we've had to manage through over the last 18 months or so only reiterates the confidence that we have in the automation business. And I believe it will just continue to be a larger and larger portion of our portfolio as we look at driving it to the higher standard strategy that we're trying to execute in 2025, of that being nearly $1 billion business for us with inside the portfolio.

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

Yes. I think just one quick one on that. Are you back to mid-teen-ish percent of automation relative to the total top line? Or is it still a little light?

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

No. That's about right, Steve. That's our run rate currently, yes.

Operator

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

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

Not to kind of beat a dead horse on automation here. But Chris, you obviously sound a lot more confident in the M&A pipeline. I think you changed the language in the slide deck from acquisition to [fertilize] that word, just curious, in terms of your confidence in the pipeline now, do you feel like something is more imminent? And if so, I guess is that more focused on the automation side of the portfolio versus the legacy Welding business?

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

Well, we certainly are focused in both areas, Dillon. We've said obviously, to get the -- to execute on the higher standard strategy. We need to have an acquisition execution component of that. I certainly like the automation business, executing on the Zeman acquisition, shows you our interest in continuing to deploy capital in that area.

But there are also areas in core welding. I think that one of the reasons why we're amplifying that is it's a requirement. It's something we know we need to execute on our long-term strategy. And quite frankly, our M&A pipeline is very active. So we're confident that with that and our ability to utilize our balance sheet. I love our investment profile. We should be able to identify and execute on those opportunities for our long-term strategy.

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

Okay. Got that. And maybe just one question on the end market kind of outlook. Obviously, infrastructure is already kind of growing in the double-digit rate. So it seems like that business is improving nicely. But just curious, like in your conversations with customers and the kind of I guess backlog and quoting activity that you're kind of seeing on that side of the business.

Do you get the sense that your customers are actually positioning for a build by year-end? Or do you feel like they're just kind of willing to invest kind of ahead of any infrastructure package in the U.S.?

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

Look, I'm not getting a feel that we've got anybody doing any build. I'm not getting a feel that there's any front running associated with that particular type of opportunity. I think that, quite frankly, that would be another catalyst for us within the business. But I can't tell you that when I think about the business or the conversations I have with our customers that we've had people that are trying to get ahead of that by accelerating activity into their business. I see the infrastructure build as a potential additional opportunity for us as it relates to the demand profile for the business.

The other thing I would share as it relates to that question, I think the other challenge associated with that is the supply chain challenges that the industries are having. So our customers are having these supply chain challenges also mitigate some of their abilities to be able to, maybe move as quickly as they would like. So it actually may elongate out some of that demand. But I don't think there's any early activity on infrastructure.

Operator

Your next question comes 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. Now, why don't we go back to employee costs. Can you provide some color on what you're seeing there? Is it increased wages, finding new employees to add? And then similarly, could you talk about maybe the labor [quo] on the...

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

Adam -- you're kind of breaking up a little bit, Adam. But I think you're just asking to add some color on employee costs and trends. And just comment, as we've talked previously, our run rate for expectations on increases, merit ranges and otherwise, about $12 million annually. We're pretty much on track with that. Our incentive compensation is also a key driver. We were at about $17 million higher for the 6 months. We expect about $35 million currently in the profile of our business.

So we're running very much on track to where our expectations were as -- based on our last conversations. And I just comment that we did mention our incremental margins in the higher 20s. That builds into all those considerations, employee cost, incentive comp and otherwise.

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

Okay. That's helpful. Maybe on supply chain, are you seeing any impacts from supply chain constraints on the ability to ship to customers on time? Could you be realizing higher revenue if the supply chain allowed it?

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

Yes. Look, I think there's no question that if our supply chain was completely optimized at this point, we probably would have been able to move part of that backlog out to the marketplace. So the answer to that would be yes. The amount of that maybe is not as easy for me to give you a data point. But there's no question in my mind that if supply chains had been optimized, we probably would have been able to have more revenue in the quarter as we'd move those products into the marketplace.

Operator

(Operator Instructions)

Your next question comes from the line of Walter Liptak with Seaport.

Walter Scott Liptak - *Seaport Research Partners - MD & Senior Industrials Analyst*

I wanted to just ask a couple of follow-ons. The first one on the infrastructure bill, it looks like it could happen. Do you guys have any insight into what that might mean for some of your markets, your customers, your construction markets, et cetera? Like is there -- does anybody really have -- have there been any good studies, I guess, that you've seen about what the infrastructure bill might do for you?

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

No. I'll tell you, Walt. That's a great question. We've talked about it internally and obviously talked with a host of market participants about that piece. Remember that about 15% to 20% of our revenue are exposed into that particular segment. So it obviously can be significant enough that it has an impact for us.

But we're really waiting to see more specifics around the bill and exactly how and when those dollars would come to the marketplace if the bill moves forward. But in general, we recognize there could be a real favorable catalyst for us if we see that bill passed here before the end of the year as long as it's passed in a manner, which actually is talking about physical infrastructure improvements.

Walter Scott Liptak - *Seaport Research Partners - MD & Senior Industrials Analyst*

Okay. All right. Great. And then just a follow- on the earlier questions about the summer shutdowns and the seasonality. And I wonder if you could talk a little bit just about what you're hearing from your customers in the U.S. and in Europe about the summer shutdowns? Because I've heard from a couple of companies that they're going to shutdown early in the third quarter and let the supply chains catch up, and then they're hoping that they could run all out going into the end of the year and not take as long or even any winter shutdown. Is that what you're referring to? Or was that something else around the seasonality?

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

Walt, that's exactly the challenge. I said from customer to customer, from segment to segment, it all sounds a little bit different right now. I mean some of the automotive companies that we know have more challenges associated with some of the power electronics and the chips in their production process. We've heard some individuals talking about potentially longer shutdowns in the summer. We've had some talk about, quite frankly, trying to accelerate pieces in other segments. So it's -- right now it's just very difficult for us to get a handle on what the shutdown activity may look like in the third quarter or, if quite frankly, someone were to make decisions around longer shutdowns in the fourth quarter.

But I know this, that at the end of the day, that may create a slight level of choppiness. But it's not going to stop the momentum that we see within the business broadly or in the demand profiles in these industries. And we'll just have to work with our customers and evaluate that as we're moving through the quarter.

Walter Scott Liptak - *Seaport Research Partners - MD & Senior Industrials Analyst*

Okay. Did you -- in July, did you see any of that choppiness as maybe some customers took the early shutdown?

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

Only a couple, and I wouldn't say that it's material across the entire portfolio. Of course, as you know, on an international basis, most of that occurs in the latter part of the quarter versus the July window.

Operator

And our final question comes from the line of Steve Barger with KeyBanc Capital Markets.

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

Chris, the pricing strength obviously reflects the big steel price increase in the market. Our steel analyst expects more capacity is going to come online, maybe imports pick up and service centers are getting restocked which will bring steel costs back down. So, a, do you expect lower steel in the back half? And how would that play out for you?

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

Well, I'll tell you, Steve. I know that it looks like our steel costs at Lincoln Electric are going to be slightly higher in the third quarter than they were in the second quarter. So if those elements are starting to impact the marketplace, we're not seeing them in the execution of running the business on a global basis moving into Q3. So look, I've read some of the same things that your team may be talking about, but they just haven't started to materialize yet.

Obviously, if we were to start to see major reductions, then we'd be working with our customers and understanding exactly how and when that would flow through our business to be able to support them. But right now, we're not seeing that type of activity. And again, Q3 steel price is slightly higher than Q2 steel prices for Lincoln Electric.

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

Understood. And then for the 5 years before 2020, Harris margin averaged 12.2%. And obviously, that stepped up with volume and price and cost cuts last year, and it's running ahead again this year. Do you think the new upcycle normal for Harris is mid-teen? Or can it run to high teens? And what happens if precious metals moderate?

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

Yes. Steve, I would tell you that we were always talking to our teams inside of Lincoln Electric, much like we were talking to our automation teams that we expected them to get to our targeted average in our higher standard strategy, which you know is around that 15% target. So we believe they're doing the things to be able to continue to operate at that level. There are some mix challenges inside that business.

You may see a window of time as portions of the portfolio maybe are expanded that need to be addressed. But in general, just love the performance of that business. Love the fact that our international business has made their first target, but expect to continue to drive our Harris business where they would be operating at the average of the higher standard strategy.

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

Got it. And I guess one last question on that. I think new home sales took a step back because of maybe price appreciation or something. But what are -- what's the Harris team seeing in terms of demand in the back half?

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

Well, you and I both know, when you're talking about new home sales, the primary portion of that is generally the replacement market off the HVAC side because that's still probably 75% to 80% of the total market within HVAC. So I still think that the hot summer that many of the large HVAC producers are seeing and talking about as they're coming out with their second quarter earnings lead to still solid momentum within that business.

So yes, much like the International business, that business has some seasonality because of its exposure to HVAC, and that new home construction as well as replacement components. But there appears to still be very solid momentum in the business as we're looking towards the end of the year.

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*

I would 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

This concludes today's conference call. You may now disconnect.
