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LECO - Q2 2019 Lincoln Electric Holdings Inc Earnings Call

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OVERVIEW:

Co. reported 2Q19 reported operating income of $105.2m and diluted EPS of $1.36.

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PRESENTATION

Operator

Greetings, and welcome to the Lincoln Electric 2019 Second Quarter Financial Results Conference Call. (Operator Instructions) And this call is being recorded.

It is now my pleasure to introduce your host, Amanda Butler, Vice President of Investor Relations and Communications. Thank you. You may begin.

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

Thank you, Cherie, and good morning, everyone. Welcome to Lincoln Electric's 2019 Second Quarter Conference Call. We released our financial results earlier today, and you can find our release as an attachment to this call's slide presentation as well as on the Lincoln Electric website at lincolnelectric.com in the Investor Relations section.

Joining me on the call today is Chris Mapes, Lincoln's Chairman, President and Chief Executive Officer; as well as our Chief Financial Officer, Vince Petrella. Chris will begin the discussion with an overview of second quarter results, and Vince will cover the quarter performance in more detail. And following our prepared remarks, we are happy to take your questions.

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

In addition, we 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 our Investor Relations section of our website at lincolnelectric.com.

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

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

Thank you, Amanda. Good morning, everyone. Moving to Slide 3. I am pleased to report that we maintained strong margin performance and improved cash generation, cash conversion and returns in a slowing economic environment. While organic sales declined 3.5% in the quarter on lower volumes, adjusted operating income dollars and margin held steady, resulting in an 8.5% decremental margin. Favorable mix and foreign exchange, positive price/cost and lower incentive compensation mitigated the impact of lower volumes, higher wage costs, acquisitions and growth investments.

Moving to earnings. Adjusted net income held steady and adjusted earnings per share increased 4.9% to $1.28. Returns remained strong with ROIC up 300 basis points to 21%. Cash generation increased 58% in the quarter and cash conversion was 131%. We returned $115 million to shareholders through a combination of our 21% higher dividend payout rate and $85 million in share repurchases in the quarter.

We continue to expect an elevated rate of share buybacks for the rest of 2019 due to our confidence in the business' strong cash flow generation and superior returns.

Moving to Slide 4. To discuss the 3.5% organic sales decline in more detail, the organic sales decline predominantly stemmed from anticipated challenges associated with weakening automotive demand, lower U.S. exports, persistent softness in Europe from our integration activities as well as weakening economic conditions in the region, narrowing price benefits as we anniversaried pricing actions, we also incurred incremental weakness in China in the quarter.

By customer geography, North America organic sales were steady year-over-year, highlighting the relative economic strength of our domestic economy. South America expanded, and Europe and Asia Pacific contracted. Organic sales by product area were mixed in the quarter. Consumables declined at a low single-digit percentage pace as weak International Welding demand trends offset flat America Welding segment sales and growth in The Harris Products Group. Standard nonautomated equipment organic sales were essentially flat in the quarter. Solid growth in Americas Welding from new equipment introductions offset declines in International Welding and in The Harris Products Group. Automation remain challenged on the weak automotive and heavy industry capital spending and a challenging prior year comparison, which resulted in a double-digit decline in that portfolio.

Most direct channel end market sectors showed decelerating global growth in the quarter led by heavy industries, general fabrication and energy; automotive and construction contracted mid-to high single-digit percent due to slowing vehicle production rates; a weak automotive capital investment cycle and timing of construction-related orders.

Looking to the balance of 2019, as previously discussed, our volume performance has faced challenged prior year comparisons through the first half of the year. We expect more favorable comparisons in the second half of the year with volumes anticipated to be flat to [up] (added by company after the call) low single-digit percent in the second half, which is an improvement over our first half performance.

Additionally, we successfully acquired a controlling stake in our Turkish JV, Askaynak, on July 1. This positions us as the #1 welding and cutting business in this market. We're excited to have the Askaynak team help us advance our growth strategy in the region. In this portion of the cycle, we're continuing to invest for growth and are diligently managing cost to ensure that we continue to drive value for all of our stakeholders.

And now, I will pass the call to Vince.

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

Thank you, Chris. Moving to Slide 5. Our consolidated second quarter sales declined 1.7% as a 3.4% benefit from acquisitions and a 1.7% higher price was offset by a 5.2% lower volumes and a 1.7% unfavorable impact from foreign exchange. Our second quarter gross profit margin increased 50 basis points to 34.7% due to positive price/cost, favorable mix and a $900,000 LIFO credit.

Our SG&A expense was flat in dollar terms as lower incentive compensation expense and favorable foreign exchange offset higher wage and salary costs and added SG&A from acquisitions. SG&A as a percent of sales increased 20 basis points to 21%. Reported operating income increased 11.2% to $105.2 million or 13.5% of sales.

Operating income results included approximately $700,000 in special item charges. These charges are related to rationalization and asset impairments, primarily from our International Welding integration activities, acquisition transaction and integration costs, amortization of a step-up of acquired inventories offset by gains on asset disposals in International Welding. Excluding these special items, adjusted operating income declined 1% to $105.9 million or 13.6% of sales, a 10 basis point improvement versus the prior year.

Our second quarter effective tax rate was 17.4% compared to 27% in the prior year period. Excluding special items, our second quarter tax rate was 22%. This compares with 24.6% in the prior year period. We now expect our second half 2019 effective tax rate to be in the low 20% range, subject to the future mix of earnings and the timing and extent of discrete tax items, including stock option exercises.

Second quarter diluted earnings per share increased 30.8% to $1.36 compared to $1.04 in the prior year. Excluding $0.08 per share of EPS from special items, adjusted diluted earnings per share increased 4.9% to $1.28, benefiting from the effective tax rate and share repurchases. Unfavorable foreign exchange translation reduced EPS by approximately $0.01 per share in the quarter.

Now moving to the geographical segments on Slide 6. Americas Welding segment's second quarter adjusted EBIT dollars declined 3.8% to $84.9 million. The adjusted EBIT margin declined 130 basis points to 16.6% as lower volumes, higher salary and wage costs, acquisition costs and growth investments offset positive price/cost.

Looking at the top line, Americas Welding reported a 1.1% decline in organic sales against a challenging prior year comparison of 13.1% organic sales growth. The business reported a 3.6% decline in volumes primarily due to further weakness in automation from lower capital spending in automotive and heavy industry and challenging prior year comparisons.

Standard equipment volumes increased on new product introductions. The segment's 2.5% higher price reflects the anniversary of prior year pricing actions. We expect pricing to continue to narrow through the remainder of the year. Looking at Americas Welding direct channel end market demand trends, excluding automation orders, heavy industry organic sales increased at a low double-digit rate, and the business also experienced growth in general fabrication and energy.

Construction and infrastructure declined on timing of orders, and automotive was modestly weaker on moderating auto production rates. Americas Welding sales benefited 4.7% from the 2 automation acquisitions we announced in the fourth quarter and the Baker Industries acquisition on April 1. These acquisitions are expected to contribute approximately $40 million to $50 million in revenue through the balance of the year.

Now moving to Slide 7. The International Welding segment's adjusted EBIT decreased 6.7% to $15.2 million and the adjusted EBIT margin improved 50 basis points to 7%. Price/cost management, improved mix and benefits from rationalization and integration activities helped to mitigate the impact of lower volumes in approximately $1 million in unfavorable foreign exchange.

Organic sales decreased 8.5% as 1.2% higher price was offset by 9.7% decline in volumes. European volume declines narrowed in the quarter despite weakening macroeconomic conditions in the region and compressing organic sales trends in all end markets, except energy.

Double-digit percent volume weakness in China, led by weaker automotive and heavy industry sectors, contributed to the volume declines in the second quarter.

Moving to The Harris Products Group. Second quarter adjusted EBIT increased 32.8% to $13.5 million. Adjusted EBIT margin increased 320 basis points to a record 15% on favorable mix, accretive acquisitions and productivity improvements. Harris reported a 50 basis point decline in volumes as solid demand in the OEM channel and in the aluminum products were offset by weakness in the retail channel. Harris also recognized a 6.7% benefit from the fourth quarter acquisition of Worthington Industries' soldering business.

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Moving to Slide 9. Cash flows from operations increased 58% to $126 million, reflecting higher earnings and the collection of a tax receivable. Working capital increased on higher inventory and receivables.

Moving to Slide 10. We maintained a balanced approach to capital allocation, deploying $243 million in the quarter. We returned $115 million to shareholders, reflecting the 21% higher dividend payout rate and $85 million in share repurchases. We also invested in the business with $20 million in capital expenditures. We continue to estimate our full year capital spending to be in the range of $65 million to $75 million.

We also invested $108 million for the Baker acquisition to further our automation and additive strategies. For the balance of the year, we will continue to prioritize growth investments and return cash to shareholders through our dividend program and share repurchases.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Saree Boroditsky with Jefferies.

Saree Emily Boroditsky - *Jefferies LLC, Research Division - Equity Analyst*

I appreciate the color on the volume outlook for the remainder of the year, but just wanted to see, is that largely related to the 4Q comp? Or do you expect any increase in demand?

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

Well, that would be our guidance we would provide for the second half in totality.

Saree Emily Boroditsky - *Jefferies LLC, Research Division - Equity Analyst*

Any color you can give us on the 3Q versus 4Q?

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

No, I don't think so at this point. We're just looking at our trends as we exit the second quarter into the third quarter, recognizing that the comparisons are going to start to ease in the third quarter. Fourth quarter for us is a little bit too far off, Saree, to make any predictions of an inflection upward from this point.

Saree Emily Boroditsky - *Jefferies LLC, Research Division - Equity Analyst*

Okay. And then you highlighted the timing of construction orders as an area of weakness in the quarter. There has been a lot of talk so far this earnings season about the negative impact of weather in the quarter. It is something that you saw? And do you expect this to pick up in the remainder of the year?

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

No. I mean, we wouldn't cite weather as a reason for any volatility that we saw in the quarter in respect to construction infrastructure orders. It's frankly a matter of just the year-over-year comparisons of larger orders in the prior year versus the current year. We don't think that, that trend will continue. We're a little bit more optimistic about some of the quoting and order activity we've seen in that space as we finish off the second quarter.

Saree Emily Boroditsky - *Jefferies LLC, Research Division - Equity Analyst*

Okay. And then just one last question, I'll leave it there. I believe you had 1 less selling day in the quarter. Is there -- was there any -- can you quantify that impact for us, if any?

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

Yes. That's correct. We would estimate that at about 1.5% of sales. The third quarter will be a flat in number of selling days, and we will pick that day up in the fourth quarter.

Operator

Our next question comes from Mig Dobre with Baird.

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

Maybe we can talk a little bit about your Americas business and margin, specifically. I mean, when I'm kind of looking at the second quarter, at least versus my model, the margins here were a little bit weaker than what I was thinking. I appreciate the color that you've already provided in terms of the moving pieces. But as you're looking at the back half of the year, based on what you know on your price/cost dynamics and any adjustments that I'm presuming you are making because, obviously, the volume -- overall, the volume environment is maybe weaker than you were anticipating earlier in the year. How do you advise us to think about margins sequentially and year-over-year in the segment?

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

Yes. Look, Mig. I think we're -- have comparable margins in the second half of the year than what we saw in the second quarter. There are obviously some puts and takes to that. You pointed out that we should have a little bit of a tailwind from some falling input costs. But we also recognize that the second quarter tends to be one of the better or the best volume and margin quarter in the year. So those we expect to offset each other and see a similar type of run rate in the second half of the year.

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

So that essentially, Vince, would imply margins being down quite a bit in the back half on a year-over-year basis? Is there nothing that you plan on doing on mitigating that drag?

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

No, there are lots of things we plan on doing. We're -- but one of the things you can't cover for, Mig, is a mid-single-digit volume decline. So we're doing very well in price/cost. We've managed that extraordinarily well. We are faced with higher SG&A and R&D investment costs for future. We don't expect to pull back on that spending in any material respect in the second half. So if we have these similar type of year-over-year volume trends, our expectation would be that we'd have a similar outcome.

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

Mig, I think the critical point that Vince is making there is that, look, we still have a lot of confidence in the strategy and the things that we've invested in, in the business. We've put an enormous amount of energy and structure and the cost associated with that and driving some new product initiatives and some focus in our SBUs that we've developed here in our Americas business, focusing on product categories that we're trying to drive primarily within our Americas business. And we're still confident that, that is the right strategy. So we're still intending to continue those investments in those areas of the business and recognizing that those investments will be a drag on our business as we move through the rest of 2019.

As you would expect, obviously, that's also one of the areas that we're expecting to make improvements in the volume side. And with the improvements in those volumes, we should start to see that turn more positive.

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

I see. Then last question for me. In International, we've seen margin up on a year-over-year basis. But, at least to me, it looks that your target, your 2020 target for double-digit margin in the segment seems unlikely to be reached. So my question is what is really going on here versus your initial plan. And what adjustments are you making in terms of your strategy going forward? And what should our expectations be in terms of this business' profitability longer-term?

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

Look, that's a great question. So look, I would tell you that in the International business, the one element that occurred for us in Q2 that we didn't have great visibility to was actually a downturn in our business in China. And our China business was a negative for us in the quarter, certainly impacting our overall margin performance within the business. As we think about the integration work that we're doing in Europe and the strategy we have of bringing that large business into the portfolio, we are still going to hold on to those targets of 10% operating profit within the International business, at least through the rest of 2019.

I think we've been pretty consistent in saying that we were going to continue on the execution of the integration, bringing in the products and technologies globally into that marketplace and make the improvements that we were looking for. We are holding to our path of saying that we'll get that business to stability in the back half of 2019 and then set up a growth platform for that business moving forward.

I would tell you that the markets -- that some of the underlying markets there in Europe certainly over the last 3 or 4 quarters have become softer, and that has made that more difficult. But still excited about the work our teams are doing, still believe we'll have that business stabilized in the back half of '19. And if necessary, relative to where we believe those targets will be, we'll be providing an update for that as we move into 2020.

Operator

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

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

Can you talk a bit a little bit more about what you're seeing in China and in the end markets where you're seeing some of the weakness, what happened from 1Q into 2Q? And whether, at this point, you're seeing some stabilization there? Or if it's more kind of monitoring with some ongoing softening?

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

Well, I think, a couple of comments. One is that if I think about it from a segment perspective, the challenging year-over-year comparisons in that marketplace came to us really from the automotive and the heavy industries portion of our participation in that market. So those were the 2 segments that we were most challenged with in the quarter. Obviously, there's some other dynamics in that marketplace relative to some of our products that are receiving tariffs on the imports of some of those products into that marketplace.

So we're evaluating all of those issues. It's just one that, as I talked about, the performance of the International business that hadn't been one that had been more of a headwind for us, and in Q2, became a headwind. And we really need more time in that marketplace to really understand whether that's going to trend through -- in the same manner through the rest of '19.

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

And maybe just a little bit of help on understanding what International is selling into China versus what Americas is selling into China, I don't know if one is a more automotive-oriented, but just some of the difference between those 2 exposures.

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

No. I wouldn't say that anyone is any -- that there's any difference in those exposures. I would just say that, obviously, in that particular marketplace, where over the last several years, we've been trying to focus more on our direct OEM relationships with some of our global customers in that marketplace. Certainly, in Q2, we saw softness in the automotive market and softness in heavy industries.

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

Okay. And then, I guess, the message being this is -- it's kind of a monitoring situation, no clear signs of stabilization at this point?

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

No. No signs of stabilization. But obviously, we're watching it very closely and trying to understand exactly what that demand profile will look like over the next few months.

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

Got it. And then just on -- I think, you've commented on some decent price/cost experience in the quarter. Could you talk about raw materials and what you're seeing within welding grade, wire prices and whether you've seen some relief in those costs? Or what other costs, I guess, you're managing in terms of the favorable price/cost?

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

Well, I would tell you that on a global basis, it's a little mixed. We have some markets where, quite frankly, we're seeing stability within those particular costs or slight declinations. Here in our Americas business, we have some slight declinations. But as it relates to us thinking about it from a global perspective, it should be a slight favorable for us. But at the end of the day, we have elements of raw material input costs that are also turning slightly negative on our consumables portion of our portfolio, some of the other things that we might be purchasing.

So I think at this point in the cycle, where the broad global marketplace is trying to get a better feel for what the demand levels are for a multitude of the industries, we'll have to see how those play out through the rest of 2019. But today, globally, mixed, slightly favorable in some markets.

Operator

Our next question comes from Chris Dankert with Longbow.

Christopher M. Dankert - *Longbow Research LLC - Research Analyst*

I guess, first off -- I mean, shortly -- a while ago you gave us some updates on pricing, is that still the same expectations for kind of flat to nominally negative in the third quarter and then also down slightly in the fourth quarter? Or is there any kind of update on that?

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

No. We would give you the same guidance today, flattish price year-over-year in the third quarter and some slight decline in the fourth quarter. But no change.

Christopher M. Dankert - *Longbow Research LLC - Research Analyst*

Got it. And it sounds like -- again, you had been expecting some better automotive, automation demand in the back half of the year kind of aided by turnaround activity. Is that now kind of out of your expectation?

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

Well, we are seeing the quoting and order book activity pick up in June and into July. But that's on a sequential basis from the first half of the year. So we would expect to still have year-over-year declines in the automation product category, but at a moderating pace to what we've -- would be exiting the second quarter on.

Christopher M. Dankert - *Longbow Research LLC - Research Analyst*

Got it. And just a very last one for me. Just any update on Baker and the 3D initiatives? And just anything to write home about there?

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

Look, only that the Baker acquisition from an integration perspective and the team that we brought into The Lincoln Electric Company is all that we expected. Great group of individuals. Very excited about the leadership team and their excitement about the work that we're doing with them. We had the team down here just a few weeks ago for a technology review and working with our teams here in the additive center that we have in Cleveland, Ohio.

So I'm very excited about the work we're doing. We continue to work with major OEMs, and we have made a few more different types of parts over the last several weeks, but we'll continue to advance that business as it's certainly still in its infancy.

Operator

Our next question comes from Nathan Jones with Stifel.

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

This is Adam Farley on for Nathan. Volume in Americas was actually better than we had expected. I know June is typically the biggest month of the quarter. So could you give us some color on how things trended through the quarter? Did things improve and -- or at least get not as worse? And what markets are showing the better trends?

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

Yes. So on a year-over-year basis, actually our June was better than the trending was showing in the quarter. We had a pickup in equipment and export orders, so we actually finished off the quarter with a little bit of a reversal of the trends that we had been seeing in the early parts of the quarter. So that enabled us to come in at the 3.6% volume decline on a year-over-year basis, on the back of export and standard equipment strength.

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

Okay. And then just turning to surcharges in steel. Now that some of these surcharges are going to be rolling off, what kind of headwind would that be the revenue? And then given that this would pass straight through to the customer, would the removal of tariffs actually be accretive to margins?

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

No. It wouldn't be accretive to margins. I would also estimate that the impact from the tariffs rolling off in the third quarter is right around 100 basis points on the consolidated business. So our price of 1.7% in the quarter would narrow by over 100 basis points in the third quarter year-over-year.

Operator

Our next question comes from Walter Liptak with Seaport Global.

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

Wanted to ask about the working capital numbers. Inventories went up with revenues coming down. And I wonder if you could you just provide some color on the thoughts there. And what does production need to look like in the second half to draw down inventories?

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

Yes. So some of it was acquisition-related, bringing in the acquisitions on a year-over-year basis. But we've also built a little bit of a finished goods inventory to improve some of our service levels around the world. So it's certainly a very well-managed and deliberate increase in inventories on a year-over-year basis.

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

Yes. Walt, maybe to add some color to that. An example of that would be in our European business, where last year we were in the middle of the integration. One of the things that we were challenged with last year in our European business is that we were not happy with the delivery metrics we were performing in the marketplace for our consumable products or equipment products in that market.

We struggled with the traditional August shutdowns in Europe, and we decided moving into this particular cycle that we were going to ensure that we have the appropriate products on the shelf for our customers, not only going into that portion of the cycle, but when they come out of that period as they move into September. So we strategically placed some inventories in the European market to ensure that we could meet those delivery expectations from our customers in that region of the world.

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

Okay. All right. Great. And Vince, you mentioned there were some M&A costs in that 130 basis points decline in the Americas. I wonder if you could quantify that for us. And does that recur in the third quarter?

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

Well, the disclosure was wrapped around the dilution of our operating profit margin from our acquisitions that we executed on. It had about a 40 basis point deterioration in consolidated operating profit and roughly 70 basis points on the Americas.

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

Okay. Is that out of the way now? Or does it -- we get some of that to reoccur in the third quarter?

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

Well, I think we'll have some of that drag in the second half of the year. But our expectations are that, that will narrow as we integrate those acquisitions and drive the overall automation margins up closer to the group average.

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

Okay. Okay. And if I could just go back to the comment on the second half where you were seeing volumes flat to low-single digits. And it's not clear to me why. Is it the easier comps after the rationalization in -- with Air Liquide Welding? Or is it kind of the June pickup that you were talking about? Why do we think that flat to low-single digits would be the number in the back half?

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

Yes. Well, Walt -- look, I would say that there's no question, there's some easier comps for us in the back half the year, and that's where you start the discussion from. I would say the favorable elements as we're moving to the back half of the year is that if we still look at our segments on a global basis, most of those direct channel end markets grew in Q2 with energy and the heavy industries and general fabrication still moving slightly positive. We've had some new product introductions that we're releasing globally, which we saw some of the benefit of in Q2. I expect to continue to see more of that benefit as we're moving into Q3.

And then I think that the challenging side associated to that would be whether we continue to see the level of drag that we've seen in our automation business, although as Vince mentioned, we see some improvements in some of the order book that we had. And then I think the other challenge associated with it would be whether we continue to see general demand deteriorate in the European market as we're continuing to rationalize that business, especially with that market always being a little difficult to forecast in Q3 with the broad European shutdowns that generally occur in August.

So positive side, market's still trending favorably, some new product benefits that we think that we will see, certainly better comps. Challenges to that would be certainly where automation business continues to turn as well as risks associated with the underlying market in Europe.

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

Okay. All right. If I could just ask one last one to Vince. How much is -- what's the total share repurchase authorization? And how much is left on that?

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

Well, we have about 4.2 million shares available on our authorization at this point in time at the close of the second quarter.

Operator

Our next question comes from Jason Rodgers with Great Lakes Review.

Jason Andrew Rodgers - *Great Lakes Review - VP*

I did want to ask about the European integration activities from the Air Liquide acquisition, if they're completed, still ongoing? And when do you expect to reap the benefits from those?

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

Yes. No. As we've talked about, our expectation is to finish off those activities in the back half of 2019, get that business stabilized so that it can be foundational for us to be able to drive growth as we're moving into 2020. I think as I mentioned earlier in the call, we are seeing some softness in those markets and have seen some softness in a few of those markets in Europe over the last couple of quarters, which have created a little more headwind. But our teams continue to work on the plan that we have as it relates to that integration, continuing to make great progress. And I believe that we'll have that business stabilized and then develop that foundation for us to grow from that as we're moving into early 2020.

Jason Andrew Rodgers - *Great Lakes Review - VP*

And you've given some long-term projections for the additive manufacturing business. What's the reasonable expectation for what that business could do next year in terms of revenues or a range of revenues?

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

Yes. As we've talked about our entrance into the additive space, we're very excited about that, and we'll be reporting out additive and our automation businesses as 1 discussion. I think the target you're referencing is that as we look at our Higher Standard 2025 Strategy longer-term, we'd like to have that business be $1 billion in revenue as it moves to 2025.

We're continuing to make advancements in additive. We haven't put out any targets out there for revenue for next year and won't. But I can tell you, we're continuing to make progress, and we'll try to provide you with updates as best as we can in that area of the business.

Operator

Our next question comes from Bryan Blair with Oppenheimer.

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

I wanted to stick with automation for a second. So Vince, I believe you said $40 million to $50 million in second half revenue contribution in the recent deals. Is that correct?

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

That's correct.

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

Okay. And then how should we think about EPS accretion in the back half?

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

From those acquisitions, I think we have a current estimate of maybe $0.02 a share per quarter.

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

Per quarter. Okay. All right. And any color you can provide on the current deal pipeline? I know that you've spoken recently and the reference recently that's on M&A targets remain pretty expensive and signaled that you're willing to buy back shares and you have some repurchase capacity remaining. But anything that could be actionable over the near term?

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

Look, I would tell you that -- I think, the pipeline as we've shared the last several quarters has remained solid. I think we'll continue to take our disciplined strategic approach as we evaluate acquisition opportunities globally. I'm very excited about what we've completed in the last 12 months with the Coldwater Engineering acquisition and Inovatech as well as Baker Industries and now in July 1, acquiring the other 50% ownership interest in our Askaynak joint venture in Turkey.

So I believe we are meeting strategically what we're looking for from an acquisition perspective, and we'll continue to try to identify those products or solutions that can add value to our portfolio and our long-term strategy as we move forward. But the pipeline is healthy, and we continue to evaluate a multitude of various opportunities.

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

Got it. And I appreciate the color. And one last one, if I can, on HPG margin on a record performance in the quarter. Could you parse out the favorable mix impact? And how we should think about second half profitability in that business?

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

I certainly think that we'll be able to maintain that mid-teens type of operating profit margin. We did get a nice contribution from the mix from our acquisitions that we've folded into the business. And so our expectations are that there's a new level of operating profit expectations for this business.

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

Yes. Great performance by that team, I would add. And a portion of that product mix favorability is from investments we've been making in that business in the last couple of years, focused on the HVAC marketplace. Some of those components, obviously, would have a higher demand model in the first half of the year than in the back half of the year as it relates to the Harris business. But certainly, great performance by that team in the first half of the year. And as Vince said, we expect them to continue to be a solid performer for us.

Operator

And our next question comes from Steve Barger with KeyBanc Capital.

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

You talked about being focused on fill rates. Do you get the sense of the distribution channel or customers that go direct are wanting to hold less inventory at this point? I'm just trying to get a sense for how cautious are end users are getting.

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

Yes. Steve, my comments really centered around our supply chain execution as we were integrating in Europe in 2018. So I can't tell you that I feel like there's been any change in our direct customers from an inventory management perspective. I do think that you' probably, in certain markets, see more automotive-type customers, probably take the summer shutdowns that they may or may not have taken last year. But my comments earlier relative to fill rates were specific to the European marketplace. And our expectation that we ensure our customers are confident that we're going to be able to serve their needs in that market.

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

Okay.

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

And Steve, I would add to that, that from a product line perspective, what we've seen over a long period of time is in the macro inflationary environments there might, on the edges, on the fringes, have your customers carry a little bit more inventory in anticipation of rising pricing and then a falling or deflationary environment like we're seeing a flattish or falling environment. I think the tendency is to lighten up and take advantage of future falling costs and prices. So I think we're more on the side of a flatter deflationary environment, which might lead again on the fringes to a little bit less inventory being held.

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

Got it. And similar question on receivables. Are you seeing a slowdown in payments from some of the more challenged end markets? People trying to push terms on you?

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

No. We really haven't seen any significant and broad widespread receivables deterioration or aging.

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

Okay. And then just one last one. Just given that the trends that we're seeing, how aggressive are you getting on reducing hours or shifts to balance production with demand at this point? I guess the question is, are you thinking that the slowdown that you've seen so far will be persistent? Or is this just a reaction to the recent uncertainty and it reverses in the next few quarters?

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

You know, we don't -- here in our operations in the U.S. in our large manufacturing facility here in Cleveland, we're not doing anything major to address any of the hours as we traditionally might have, Steve. I will tell you that we had some scheduled preventative maintenance and did take a short shutdown for our equipment business associated with that. But as it relates to the strategy that we utilize to reduce the hours as we're trying to manage our demand profile, our teams have done that very well, and we really don't have any major initiatives in that respect going on to today.

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

So just to verify, that mean -- it sounds like you're treating this more as a soft patch versus an end to a cycle?

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

Yes. Look, I would say, exactly. And the reason for that is that, look, still seeing many of our segments continuing to expand. As we said, softness in automotive, softness in construction infrastructure. It goes back to my comment earlier, Steve, about still investing in those SBUs and those other product areas where we believe we can drive growth into the business. So we still -- we certainly see this as a slow window. But quite frankly, we still believe that this is not, from my perspective, signals that we would normally see and we'd be talking about end of cycles.

Operator

(Operator Instructions) We do have a question from Walter Liptak with Seaport Global.

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

Just one quick follow-up. With the changes in the outlook for the second half, were there any changes during -- within the second quarter related to bonus accruals or any kind of incentive comp?

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

Well, as you know, Walt, the incentive compensation programs are largely formulaic-driven on the performance against operating plan. And so we did have lower bonus charges in the second quarter. Those were roughly just under $5 million. And so I would expect, as we continue to run at the same sort of pace against our operating plan, we should see similar types of reductions in accruals in the second half of the year. But I would just emphasize, it's simply the math of how well the enterprise is performing against its plan drives what those accruals might be at the end of any given period.

Operator

Thank you. This concludes our question-and-answer session. I would like to turn the call back over to Vincent Petrella for closing remarks.

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

And thank you. Thank you, everyone, for joining us on the call today. Appreciate your continued interest in Lincoln Electric. Certainly, do look forward to discussing the progression of our activities at the end of our third quarter. So have a nice day. Thank you very much.

Operator

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