REFINITIV STREETEVENTS

EDITED TRANSCRIPT

LECO.OQ - Q1 2021 Lincoln Electric Holdings Inc Earnings Call

EVENT DATE/TIME: APRIL 27, 2021 / 2:00PM GMT

OVERVIEW:

Co. reported 1Q21 reported operating income of $103.9m and diluted EPS of $1.23.

CORPORATE PARTICIPANTS

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

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

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

CONFERENCE CALL PARTICIPANTS

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

Christopher M. Dankert Longbow Research LLC - Research Analyst

Dillon Gerard Cumming Morgan Stanley, Research Division - Research Associate

Joseph Michael Grabowski Robert W. Baird & Co. Incorporated, Research Division - Senior Research Associate

Nathan Hardie Jones Stifel, Nicolaus & Company, Incorporated, Research Division - MD

Robert Cameron Wertheimer Melius Research LLC - Founding Partner, Director of Research & Research Analyst

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

Saree Emily Boroditsky Jefferies LLC, Research Division - Equity Analyst

PRESENTATION

Operator

Greetings, and welcome to the Lincoln Electric 2021 First 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

Thank you, Stephanie, and good morning, everyone. Welcome to Lincoln Electric's First quarter 2021 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 @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 first quarter financial performance in more detail. And following our prepared remarks, we're 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 measures 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. I'm pleased to report that the first quarter results exceeded our expectations as demand accelerated through the quarter, reinforcing solid recovery momentum. We globally operated as an essential business and remained focused on safety and servicing our customers while still navigating a challenging COVID environment. Our team's execution yielded very strong results. Turning to Slide

4. We returned to growth in the first quarter. Sales increased 7.8%, led by a 6.4% growth in organic sales, exceeding our assumption of flat to slightly positive performance. Diligent price management and operational initiatives generated an approximate 24% increase in adjusted operating income. Our adjusted operating income margin improved 180 basis points to 14.4% with a 37.8% incremental margin, very strong performance.

Adjusted earnings per share increased 37% to $1.37, a record first quarter performance. Return on invested capital remained strong at 18.9%, and cash flow from operations and free cash flow performed above prior year levels. We returned approximately $60 million to shareholders with $28 million in share repurchases and paid out $31 million in dividends.

Looking at the first quarter demand on Slide 5, organic sales increased 6.4% with 2.7% volume growth. Demand improved through the quarter, with heightened acceleration in margins in several areas of the business. In the quarter, all reportable segments, geographic regions and main product families achieved improved performance sequentially. Equipment demand continued to outperform the other product categories on the strength of our solutions, and we're pleased to see automation sales return to prior year levels as customers increased capital spending. 80% of our first quarter revenue was exposed to growing end markets, led by mid-teens percent organic sales growth in automotive and heavy industries. Where mining, agriculture and construction equipment demand increased above expectations.

Energy remains slightly challenged. We're entering the second quarter with strong momentum and record order and backlog levels for equipment. Customer sentiment continues to be positive, yet cautious as the economy rebounds faster than anticipated. This positions us well to capitalize on growth in this early part of the cycle. Given this strength and the incremental pricing actions we have taken to mitigate persistent raw material inflation, we're updating our full year top line organic sales assumptions to now be in the low to mid-teens percent range. This range does not include any future pricing actions, which may be warranted. We're also assuming standard seasonality in the business with second quarter sales slightly higher than first quarter results. We're also increasing our incremental adjusted operating income margin assumption to now be in the high 20% range to reflect higher volume levels and operating leverage. This incremental range also factors in expected LIFO charges that we expect to be consistent with the first quarter rate through the balance of the year.

Acquisitions are a key growth driver at Lincoln Electric, and we closed our acquisition of Zeman Structural Steel Automation business on April 1. We're excited to have the Zeman team join our automated cutting portfolio as their solution is complementary and downstream to our Python X automated 3D plasma cutting solution. The 2 products now provide customers with unparalleled productivity and quality in fabricating I-Beams for structural steel and infrastructure projects. The Zeman business expands our automation sales by approximately 10%, with margins at the Lincoln consolidated average. We expect the acquisition to be accretive to earnings on an adjusted basis by $0.03 to $0.05 this year.

While it's still a dynamic market, we're very encouraged by the near-term momentum. We also remain confident with our long-term higher standard 2025 strategy growth initiatives that capitalize on secular trends driving automation and related large capital investments, as well as other catalysts such as renewable energy and infrastructure investments where we conservatively estimate 15% to 20% of our revenue is exposed to these 2 areas today. So we are excited to be back in growth mode and look forward to driving towards our 2025 higher standard strategy goals. And now I'll pass the call to Gabe to cover the first quarter financials in more detail.

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

Thank you, Chris. Moving to Slide 7. Our consolidated first quarter sales increased 7.8% and to a 3.7% benefit from price, 2.7% higher volumes and a 1.4% favorable impact from foreign exchange. Our gross profit margin decreased 30 basis points to 33.5% as benefits from volumes and cost reduction actions were offset by higher raw material and freight costs, including a $3.9 million LIFO charge. Price/cost was slightly negative in the quarter, but we continue to expect price cost to be neutral on a full year basis. Our SG&A expense declined 2.7% or $4 million, reflecting savings from cost reduction actions, which was partially offset by approximately $2 million and higher incentive compensation and employee costs as well as approximately $3 million in unfavorable foreign exchange. SG&A as a percent of sales decreased 210 basis points to 19.2%. We expect 2021 SG&A expense to increase due to higher wage and incentive compensation.

Reported operating income increased 28.2% to $103.9 million or 13.7% of sales. Operating income results included $4.2 million of rationalization charges and $1.1 million of acquisition transaction costs. Excluding special items, adjusted operating income increased 23.5% to $109.2 million or 14.4% of sales, a 180 basis point increase versus the prior year. Adjusted operating income benefited from improved volumes and diligent price and cost management, which generated a 37.8% incremental margin. Our first quarter effective tax rate was 23.7% or 22.9% on an adjusted basis. Due to our mix of earnings and discrete items. This compares with 26.8% in the prior year period. We continue to expect our full year 2021 effective tax rate to be in the low to mid-20% range, subject to the mix of earnings and anticipated extent of discreet tax items.

First quarter diluted earnings per share increased 35.2% to $1.23 compared with $0.91 in the prior year. Excluding special items, adjusted diluted earnings per share increased 37% to $1.37.

Now moving to our reportable segments on Slide 8. Americas Welding segment's first quarter adjusted EBIT increased 8.4% to $76.6 million. The adjusted EBIT margin increased 80 basis points to 16.7% from benefits of cost reduction actions and lower discretionary spending. Americas Welding organic sales increased 1.3%, led by a 2.2% benefit from pricing actions implemented to mitigate inflation. This was partially offset by a 90 basis point decline in volumes, which exceeded our expectations as most regional end markets grew in the quarter, with the exception of Energy, which appears to be in their early stages of recovery.

Moving to Slide 9. The International Welding segment's adjusted EBIT increased 184.4% to $18.8 million. The adjusted EBIT margin increased 500 basis points to 8.3%, and on higher volumes and the benefits of operational improvement initiatives. Organic sales increased 8%, reflecting strong double-digit percent growth in Asia on accelerating regional demand and favorable prior year comparisons and a low single-digit percent increase in organic sales in Europe.

Automotive and heavy industry activity were the primary growth drivers in this segment. Moving to the Harris Products Group on Slide 10. First quarter adjusted EBIT increased 49.7% to $18.7 million. Adjusted EBIT margin increased 260 basis points to 16.9% due to higher volumes. Organic sales increased 28.1%, with 13.6% higher volumes primarily from the continued strength in the North American retail channel and in HVAC applications. As well as a 14.5% benefit from pricing actions taken to recover rising commodity costs such as silver and copper.

Moving to Slide 11. We generated $45 million in cash flow from operations which is seasonally lower in the first quarter. Working capital remains intentionally elevated to support the recovery and mitigate supply chain constraints. Moving to Slide 12. Given strong execution, solid returns and continued strength in cash flows, our capital allocation in the first quarter emphasized growth with $10 million in internal capital spending as well as the Zeman acquisition on April 1. We also returned approximately $59 million to shareholders through share repurchases in our dividend program.

Looking ahead, we 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 $720 million in the first quarter and recently expanded our revolver to $500 million for added capacity 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.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question from the line of Rob Wertheimer with Melius.

Robert Cameron Wertheimer - Melius Research LLC - Founding Partner, Director of Research & Research Analyst

Thanks for the clarification on the LIFO charge. It does seem like you were maybe up 20 or 30 bps on gross margin, excluding that. But I'm just curious, is there a significant hampering in COVID in the gross margin line? Do you expect to get a little bit more leverage on that throughout the year as volume increases?

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

Rob, I just want to make sure I heard your question, particularly, you mentioned LIFO, you mentioned gross profit, excluding LIFO, so as we talked, price/cost was slightly negative, and we continue to be positive in the progression of our profile -- gross profit with -- we expect a neutral impact on price costs throughout the year. So I think I covered your question, but I want make sure I covered all of that, Rob.

Robert Cameron Wertheimer - Melius Research LLC - Founding Partner, Director of Research & Research Analyst

Yes. Just any COVID disruption on the gross margin line? And should you expect to see that kind of rebound as you grow at the strong organic growth later in the year?

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

Yes, Rob, this is Chris. Look, I'm confident that globally, we've got still some drag associated with COVID. But when I think about the business, in it's entirety, I really don't think that's material because we're still probably having some benefits associated to travel and other things, which are still mitigated as we're beginning to ramp-up in these economies around the world. So there probably is a drag, but I'm certain that, that drag is probably offset by other activities that may be on the expense line. We're not participating in today. So I don't view it as material.

Operator

Your next question is from the line of Bryan Blair with Oppenheimer.

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

I was just hoping you could add some color on order cadence through the first quarter into early second, how that compares to normal seasonality. Obviously, year-on-year comps get quite easy over the near term. Just trying to get a sense of -- a better sense of -- and frame the underlying demand acceleration into the second quarter?

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

Yes. Look, that's a great question, Bryan. And this is Chris. And look, I would tell you that I have to put it in context it because there's so many inflationary and then the pricing actions that are needed to be able to recover those in the marketplace. You've obviously got some choppiness associated with potential order patterns. But I will tell you the acceleration in the order pattern and the breadth of the order pattern moving through the quarter was significant. We saw great momentum as we were exiting Q1 and March was very, very strong. And probably most importantly was the breadth of the strength. You saw that we said that 80% of those exposed revenues now are in positive momentum industry segments.

And it's really not in any one particular region. We're seeing that breadth across and very happy to see our automation business actually stabilize. And actually seeing it perform at that prior year level on a revenue basis. So the momentum was strong, exiting the quarter, and that's what gives us such confidence about really improving upon what we think the full year performance will be for the company at the top line.

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

That's great to hear. And any notable callouts by geography, sticking with the same topic. Recovery in Asia Pacific demand is obviously been solidly ahead of Americas and Europe for the last few quarters. Just curious if you're seeing any shift there entering the second quarter? Or that dynamic is expected to change during the quarter?

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

No, no real shift, obviously. You see the continued exceptional performance from our Harris business. And quite frankly, you see improvements that we're driving in that international business and quite frankly, the demand we were seeing in the European market. So we really like the performance of those operations. And again, the breadth of the improvement and, quite frankly, that volume and the strength of that momentum certainly will be a catalyst and us continuing to make the improvements that we're looking for in some of those markets.

Operator

Your next question is from the line of Nathan Jones with Stifel.

Nathan Hardie Jones - Stifel, Nicolaus & Company, Incorporated, Research Division - MD

I wanted to start on supply chain, hearing from a lot of companies out there that supply chains are tight in a lot of areas, product shortages, material shortages, those kinds of things. I know, Gabe, you mentioned having some elevated inventory, we're just protecting you a bit from that. Can you talk about where the pressure points are in your supply chain? Where if any way, you're seeing any shortages. And if that is inhibiting your ability to satisfy demand at all anyway?

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

Yes. Nathan, I would say that certainly, our decision that we've talked about, while we've been operating in the pandemic now over the last 14 months or so to, quite frankly, ensure that we were going to provide products and solutions to our customers and put the inventory on the shelf, has turned out to be a very good decision for the business because we did enter into 2021 with 3 or 4 days globally of additional inventory than historically what we've had.

I've also got to share with you that, quite frankly, our teams are just doing an amazing job of managing these supply chain issues within Lincoln Electric. And the flexibility that we built into some of our systems, the interchangeability of some of our components. It's those little pieces of work that then when you have these difficult times, provide you with a little bit more resiliency and the challenges are there. Quite frankly, if you're thinking about a piece of welding equipment or welding solutions, quite frankly, that's power electronics. That's chips. That's the things that we're all reading about and the challenges that some of our customers are having in being able to have the supply chain necessarily to meet some of their demand.

So we're managing those issues. As you saw in Q1, I think we managed them exceptionally well. And we believe those challenges will remain through most of the rest of the year, but our teams are continuing to address those challenges and believe we'll be able to meet and exceed our customers' expectations.

Nathan Hardie Jones - Stifel, Nicolaus & Company, Incorporated, Research Division - MD

Do you feel like that inventory has let you been able to gain share in the first quarter? Or do you think there will be opportunities for you to gain share using that inventory over the next 2, 3 quarters?

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

Well, we've traditionally said that we really don't think about share transactionally within a quarter. We believe that shares actually taken from the market. And quite frankly, that we believe our solutions certainly provide us with that opportunity. But it has placed us in a good position to service our customers. That's what's the most important thing for us at Lincoln Electric. And we do believe that long term, that positioning can allow us to be the supplier of choice with some of those customers. And I like the positioning, but I'm probably not willing to say that necessarily, I believe that I can point towards a shift in share as you've presented the question.

Operator

Our next question is from the line of Mig Dobre of R.W. Baird.

Joseph Michael Grabowski - Robert W. Baird & Co. Incorporated, Research Division - Senior Research Associate

It's Joe Grabowski on for Mig this morning. So I wanted to start out by asking about the auto transport end market. Wondering if your business has been impacted by any of the production disruptions in the automotive end market? And how do you see that business progressing sequentially through the year?

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

Yes. So we see the challenges that we're reading about in the marketplace with supply chain challenges around power electronics and chips in talking to our teams internally. We did have some areas of the business where, quite frankly, we saw some delays in some shipments, and we saw some assembly plants that were shut down, and we could see some element of that. But quite frankly, it was kind of mitigated by the strong strength that we had in that segment when we looked at the growth in the auto transport. And we saw really strong growth in Q1.

So as much as we saw a couple of mitigating factors. We did see really strong growth in the quarter, and we're expecting continued momentum from that group. Obviously, I believe the supply chain challenges are going to stay in the marketplace through the rest of the year. I don't believe this electronic supply chain challenges will be eliminated, but we've been managing them well and are expecting continued momentum in that auto transport group as we're moving through the rest of the year.

Joseph Michael Grabowski - Robert W. Baird & Co. Incorporated, Research Division - Senior Research Associate

Good. Good. And my follow-up question is around automation. It was relatively steady in the quarter. I think you might have mentioned record backlogs in the prepared remarks. I'm not sure if that was specific for automation. But are you still expecting automation deliveries to rebound in the second half?

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

Yes, we are. And I'll tell you, the record backlog was across the equipment portfolio for us, but great to see our automation business stabilize, meet prior year expectations on a revenue basis, saw some improvement in the operating performance in the business and we're expecting that capital spending will continue to accelerate. So our discussions that we've had about continued improvement in the automation business as we're moving through 2021. Certainly, our first quarter gives me great confidence in our ability to execute on that.

Operator

Your next question is from the line of Chris Dankert of Longbow Research.

Christopher M. Dankert - Longbow Research LLC - Research Analyst

Look, I know you guys don't provide guidance on the quarter, but given some of the comp store, maybe you could level as a bit, just any comments on second quarter sales growth versus typical seasonality here?

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

Not really. I mean, we provide the recognition that we do have some seasonality associated with it. As we said, we really like the momentum as we're moving from Q1 to Q2, but we just don't provide that level of detail. On the Q2 performance.

Christopher M. Dankert - Longbow Research LLC - Research Analyst

Yes, fair enough. Fair enough. Forgive me, if I missed it, but looking at the new organic sales guide assumption for the year. Any comments on what portion of that is pricing versus volume at this point?

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

Yes. As you can imagine, only being here in the first quarter, it's hard to be exacting with that. But I'd say a good rule of thumb is that about half of that is on the volume side, and about half of that would be on the pricing side associated with it. That's probably a good guide at at this point in the year.

Operator

Your next question is from the line of Saree Boroditsky with Jefferies.

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

Congratulations on the strong quarter. I know we've talked about capital deployment in the past, but was cash effectively earning negative rates, does this change how you're thinking about your balance sheet and when you think about increasing leverage to buy back shares? And then just an update on what you're seeing in the M&A market?

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

Saree, thanks for that question. We continue to be focused on growth, right? So when you look at the acquisition we just completed, we'll look at continued our primary agenda of looking at internal investments and acquisitions and keep a pretty balanced view in how we look at share repurchases opportunistically as well as returning cash to shareholders broadly. So we're focused on that kind of profile and our capital allocation strategy.

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

And, Saree, I'd just add that, look, the M&A pipeline is very strong right now. Again, we just completed that acquisition in Europe. I really, really like that acquisition. It's a perfect fit into our structural steel portfolio. It's an area of the marketplace that we've already shown great success with automated solutions. And I also believe that at least in the North American market, where there's some discussions around potential changes in the tax structure around capital gains, that there may be some private enterprises and, quite frankly, in the fragmented automation space. We see a lot of players like that, that might be evaluating whether they want to determine they want to exit before the end of the year. So a strong pipeline. We certainly got the capital to be able to execute on acquisitions, and we know it's a critical piece of our long-term strategy to continue to build in those solutions to the Lincoln electric portfolio.

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

And then Harris posted another really strong quarter, and you called out each back in retail as some key drivers of that. I guess easier comps in the second quarter, but then it gets much more challenging. So how do you think about growth in those particular markets in the back half of the year?

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

Well, look, I was just at our Harris business and really excited at the work that the team is doing there. And quite frankly, the success we've had in the retail space continues. And we believe that we can continue to provide products and solutions into that marketplace to generate growth. So what we're seeing is strong momentum in Harris. It's been a great product category for us. We'd love to be able to identify some acquisitions that we could bring into that portfolio also, a couple of years ago, we brought that sider business into there, the acquisition that we had from an industrial company here in the U.S., and that's gone very well. So great execution by the team. And we realize we've got stronger comps in the back half of the year, but driving strategies and growth strategies to be able to continue to show improvement in the business.

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

And I see one more in Americas, could you just break out how exports performed and what drove that performance?

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

Yes. So Saree, exports were flat year-over-year.

Operator

(Operator Instructions) And your next question is from the line of Dillon Cumming with Morgan Stanley.

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

So wanted to kind of ask the margin question another way. I guess I got to hear your out guiding incrementals in the high 20% range, but keeping in mind you just to kind of close to 40%. Incremental margin in the quarter. I guess, what should we think about this kind of changing to balance of year because I would think you're kind of getting the highest degree of volume leverage over the next few quarters. So that's just kind of a question of temporary cost going back, wage inflation. I just wanted to better understand the dynamics there?

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

Yes. Dillon, I would say, look, the dynamics, you're right. We will see some of those costs beginning to migrate back into the business as we're moving through the rest of the year. But when I think about our incremental margin profile, we've always said that this business should be able to perform at the higher end of our range in those high 20% range is when we get volume on the business. And the change between our last discussion and now is that we're seeing stronger momentum in volume on the business. So we believe those margins will perform better.

Certainly, Q1 was an exceptional performance relative to the incremental margins. We also should see some favorability in mix because as our international business continues to make the improvements we're seeking. We've said all along that we should have improved incremental margin from that business as we place some volume upon it. So I really think those are the drivers relative to us wanting to signal that we believe we'll be operating at even a higher performance level than what we had expected for the year, certainly Q1 outstanding result for the business.

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

'Okay. Got it. That's very clear. And then maybe just to wrap it up, you may comment, Chris, the saying that renewable energy and infrastructure investments. Kind of close to 15% to 20% of revenue at this point. Maybe this is an entirely apples to apples that last year, you're kind of calling that exposure closer to 7% on the renewable side. So maybe you kind of broaden the definition investment, just kind of wanted to understand what kind of growth rates you're seeing from that part of the portfolio?

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

Well, I think potentially, there could be a disconnect there between the renewables discussion and the broad industry exposure. We're trying to provide guidance to everyone on what we would see on the infrastructure side as there's so much discussion around infrastructure here in the U.S. marketplace. Obviously, with infrastructure, not only exposure, but then it comes down to how those dollars are actually brought in. So when I look at infrastructure and renewables, then we're really looking at that 15 to 20% range relative to exposed markets for Lincoln Electric.

Operator

And your last question will come from the line of Steve Barger of KeyBanc Capital Markets.

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

As I look back in my model, peak operating margin was 15% in 2015. If organic growth comes through the way you expect this year, is that achievable in '21?

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

Yes, Steve, when we look at the business at this point. And obviously, it's -- we're at the end of Q1, but at those volume levels, I think that is an achievable target for us to be talking about for the business. We need to execute as we're moving through the rest of the year, we need to see that volume. But I certainly see that as an achievable target.

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

And as you think -- I know you don't give guidance, but just thinking about going forward, if you put up mid-teen organic growth with a high 20% incremental, what what can we expect for a longer term, let's say, just if we get a really strong cycle, and we're talking about mid- to high single-digit growth, what kind of incremental can you put up against that comp?

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

Yes. I believe that if we add those types of volumes, Steve, we'd be putting in those high 20's again, I think when we start to see that type of growth, the ability to drive leverage across the portfolio, the restructuring and the improvements we've made in the core business over the last couple of years. I just believe that we would be targeting then those high 20% incrementals on that volume leverage.

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

Okay. And I know it's hard to predict the cycle beyond a near-term window. But when you think about longer-term trends, do you expect stronger growth from the Americas or the international in coming years? Because obviously, that's going to affect mix.

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

Yes. I'm not sure that I'm confident in saying at this point, Steve. I mean, there's things about our Americas business from a growth perspective. I really like. We've got some of our SBUs that are operating very effectively. We're making improvements in accessories. We've got some areas of the business that are showing some nice growth catalysts, but it's obviously a much larger business. So we've got to be able to find real growth to be able to drive that. And yes, I will also tell you that, especially in our international business. And when I look at some growth markets like India and the improvements we've made in Europe, I believe that we can grow outside the markets in those areas very confidently. I'm seeing those businesses start to make real improvement. So I really see both of them as growth opportunities. I'm not sure that I've targeted one or the other for a higher ratio of growth.

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

Understood. And since I'm last, I'll squeeze one more in. Part of the higher standard 25 strategy is to enhance software solutions for IoT and AI. Can you just talk about where you are in those initiatives? Are the commercial efforts fully formed? And how are they being accepted by the market?

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

Absolutely. I'm glad you asked the question because it's one of those things that we've been investing in for a long period of time. And quite frankly, we've got a platform that's already designed. We've got solutions that we're building off of that platform. And as you would expect. We have some users who, quite frankly, are very adopted and already utilizing the technologies and then we have some that are looking at the technologies, but whether it's IoT that we'd be providing in technologies like checkpoint or other ways to assist our customers and advancing their welding solutions, whether it's machine learning that we'd be utilizing in our automation processes, whether it's even the initial work that we're doing on the additive side, which utilizes a lot of technologies to drive innovation. We're continuing to invest in those and see that as a critical differentiator for Lincoln Electric over the longer term.

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

And I know every company has their own version of this kind of strategy, but you pointed out in your comment there that it's a differentiator. Are you -- can you provide any detail on how this is truly differentiated versus other competitors in the marketplace?

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

Well, I'll tell you, Steve, I think one easy way for you to get your arms around it as you're thinking about Lincoln Electric, is that many of those technologies are centric to the equipment portfolio. What have you seen in the Lincoln Electric equipment portfolio over the last several quarters? And what would we talk about today as it relates to momentum around equipment. For those technologies are embedded in many cases. And quite frankly, that's where we're winning in the marketplace. So there are certainly are host of innovations with our consumable products, that would be the hyperfill technology and the software that's required to drive that. I could go on and on about also other areas of innovation, but specifically, when you're talking about those IoT innovative areas, those are really a catalyst of our equipment portfolio, and that is growing exceptionally well.

Operator

And we do have one additional question in queue, the line of the Saree Boroditsky with Jefferies.

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

Just wanted to ask on the 15% margin comment. It seems that International and Harris are structurally higher since 2015, and so maybe you could give us some color on when North America can come back to prior peak levels? And what is the right margin target for Lincoln as we are potentially in the early stage of industrial recovery plus upside from infrastructure investments?

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

Well, Saree, I would tell you that. Thanks for the comment relative to the Harris business and international business, you're right. We've seen some structural improvements there, and we're still looking for further improvements on the international side of the business. I would tell you that I think the largest catalyst to make improvements in our Americas segment is the operational improvements that we're looking for in our automation business. As we talked about, that automation business has been a slight drag for us. We like the fact that we believe it's troughed. We love the fact that, quite frankly, it was at prior year levels as we were at Q1. And now we need to continue to grow that business and get those margins back up the level that we're looking for from that particular strategy.

So I see that as the biggest catalyst for us as it relates to making improvements in the Americas business, we certainly have a host of other growth strategies within Americas. And mentioned earlier that we have a host of SBUs that we're trying to drive enhancement and revenue growth in those specific targeted areas. Those targeted areas tend to be areas that are more favorable margin mix for us as it relates to the portfolio, and then I'll have to go back to equipment. And our success and equipment over the last few quarters. And what we're seeing, I believe, is still an opportunity for us as we're moving forward, a lot of those IoT applications and other service offerings that we have are really at the very early stages and it creates an opportunity for Lincoln Electric to continue to drive growth in that portion of the category.

Operator

And this concludes our Q&A session. Now I turn the call back over to Gabe Bruno for any closing remarks.

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

Thank you, Stephanie. 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 again.

Operator

Thank you. This does conclude today's conference call. You may now disconnect.
