

Lincoln Electric Holdings, Inc.

Fourth Quarter & Full Year 2019 Earnings Call

February 13, 2020

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Safe Harbor and Regulation G Disclosures

Forward-Looking Statements:

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

Non-GAAP Measures:

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

Full Year 2019 Highlights: Solid returns, record cash generation, and strong cash conversion¹ as industrial demand decelerated through the year

- » **Reported sales decreased 0.8% to \$3.0 billion; Organic sales declined 3.5%**
- » **Adjusted Operating Income declined 4.3% to \$387.9 million; Adjusted Operating Income Margin down 50 bps to 12.9%**
- » **Diluted EPS of \$4.68, Adjusted EPS decreased 2.5% to \$4.70**
- » **ROIC of 19.9%**
- » **Cash flow from operations increased 22.5% to \$403 million and achieved 113% cash conversion¹**
- » **Returned \$411 million to shareholders**

Challenging Demand Trends in the Fourth Quarter

- » **Q4 Organic sales decelerated YoY as industrial production weakened**
 - North America and Europe challenged; Asia Pacific improved; South America continued to grow
 - Price declined primarily on the removal of surcharges in Americas Welding
 - Consumable and automation organic sales declined high single-digit percent, equipment (non-automation) relatively steady
- » **Q4 2019 global end sector performance¹**
 - General Fabrication increased modestly
 - Automotive/Transportation, Energy, Heavy Industries and Construction/Infrastructure declined

¹End sector performance reflects direct channel organic sales trends and excludes automation.

Actions to Mitigate the Cycle

» **Maintaining 2019 Cost Reduction Actions**

- Reduced work hours, overtime and contractor use
- Reduced discretionary spending
- Suspended new hiring

» **Implementing Additional Measures in 2020**

- Freezing senior management wages
- Expect \$15 to \$18 million of annualized cost savings starting in Q2-2020, but anticipate substantially all benefits to be realized in H2-2020
- Evaluating contingency actions if conditions warrant

Income Statement – Q4 2019

\$ in Millions	Q4	% of	Q4	% of	YoY %
	2019	Sales	2018	Sales	Change <i>Fav/(Unfav)</i>
Net Sales	\$ 736.3		\$ 743.8		(1.0%)
Gross Profit	240.9	32.7%	250.3	33.7%	(3.7%)
SG&A	149.4	20.3%	154.4	20.8%	(3.3%)
Special item charges ^{1,2}	8.9	1.2%	1.8	0.2%	(401.5%)
Operating Income	82.7	11.2%	94.9	12.8%	(12.9%)
Adjusted Operating Income ¹	91.6	12.4%	96.7	13.0%	(5.3%)
Interest Expense, net ³	5.8	0.8%	4.3	0.6%	(33.4%)
Income Taxes ⁴	16.6	2.3%	7.7	1.0%	(116.0%)
Effective Tax Rate ⁴	20.6%		8.1%		1,250 bps
Net Income	\$ 63.7	8.7%	\$ 86.8	11.7%	(26.6%)
Special Items ⁵	7.3	1.0%	(3.3)	0.4%	(320.5%)
Adjusted Net Income ¹	\$ 71.0	9.6%	\$ 83.5	11.2%	(15.0%)
Diluted EPS	\$ 1.03		\$ 1.35		(23.7%)
Adjusted Diluted EPS ¹	\$ 1.15		\$ 1.29		(10.9%)

Sales Mix ⁶	
Volume	(5.7%)
Price	(0.8%)
Acquisitions	5.9%
FX	(0.3%)
TOTAL	(1.0%)

¹ Please review the appendix for reconciliation of non-GAAP measures.

² Special items include Rationalization and asset impairment charges of \$8.9 million in 2019. 2018 includes \$0.9 million of Rationalization and asset impairment charges and \$0.8 million of Acquisition transaction and integration costs.

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

⁴ Q4 tax rate excluding special items was 20.4% in 2019 and 14.7% in 2018.

⁵ Special items include the charges noted in footnote 2 and a \$1.6 million tax effect of Special items in 2019. 2018 includes a \$1.3 million pension settlement charge and a \$6.8 million tax effect of Special items, including a \$4.4 million credit related to the U.S. Tax Act. Please refer to the appendix for further details.

⁶ Figures may not sum due to rounding.

Americas Welding Segment

(\$ in Millions)	Q4 2019	Q4 2018	% YoY Change		Sales Mix ¹	
Net Sales	\$ 437.9	\$ 455.2	(3.8%)	↓	Volume	(6.5%)
Adjusted EBIT	\$ 75.0	\$ 85.9	(12.7%)	↓	Price	(1.7%)
Adjusted EBIT Margin²	16.1%	17.7%	(160) bps	↓	Acq/Div	4.3%
					FX	0.1%
					Total	(3.8%)

Volumes reflect broad deceleration in industrial production and lower capital spending for automation systems. Price reflects the removal of U.S. tariff surcharges. Margin declined as positive price/cost was offset by lower volumes, impact from acquisitions, higher wages, and growth investments.

¹ Figures may not sum due to rounding

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

International Welding Segment

(\$ in Millions)	Q4 2019	Q4 2018	% YoY Change		Sales Mix ¹	
Net Sales	\$ 218.6	\$ 219.5	(0.4%)	↓	Volume	(7.8%)
Adjusted EBIT	\$ 11.6	\$ 12.3	(5.9%)	↓	Price	(0.3%)
Adjusted EBIT Margin²	5.2%	5.5%	(30) bps	↓	Acq/Div	9.0%
					FX	(1.2%)
					Total	(0.4%)

Volume declines primarily reflect weakening industrial production trends in Europe. Improving mix and integration benefits substantially offset the unfavorable impact of lower volumes.

¹ Figures may not sum due to rounding

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

The Harris Products Group

(\$ in Millions)	Q4 2019	Q4 2018	% YoY Change		Sales Mix ¹
Net Sales	\$ 79.8	\$ 69.2	15.4%	↑	Volume 5.7%
Adjusted EBIT	\$ 10.7	\$ 8.5	25.3%	↑	Price 3.3%
Adjusted EBIT Margin²	13.1%	12.0%	110 bps	↑	Acq/Div 7.0%
					FX (0.6%)
					Total 15.4%

**Volumes reflect solid demand in the OEM channel and in retail.
Strong margin performance due to favorable mix, price/cost, and acquisitions.**

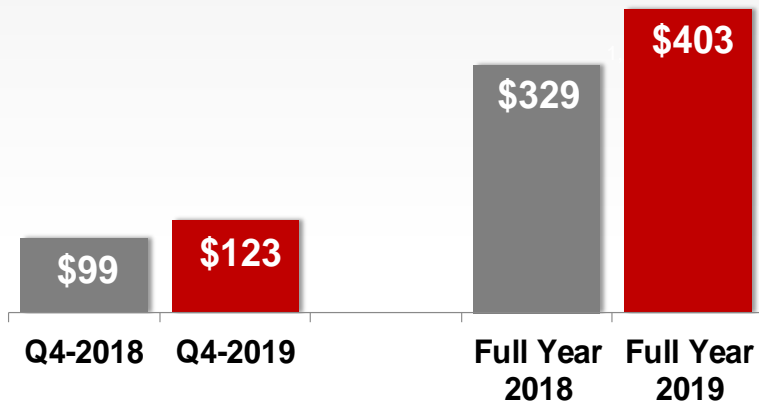
¹ Figures may not sum due to rounding

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

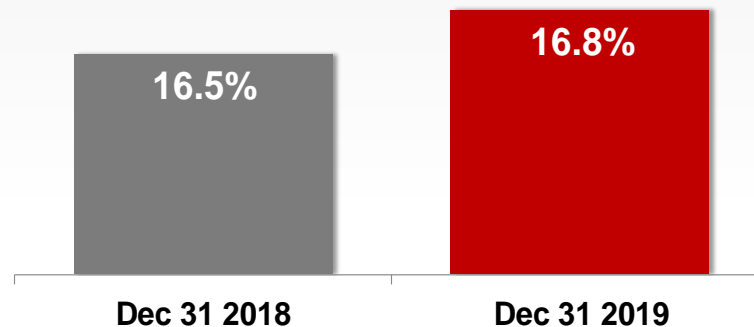
Cash Flow From Operations Metrics

Cash Flow from Operations

(\$ in Millions)



Average Operating Working Capital to Net Sales Ratio



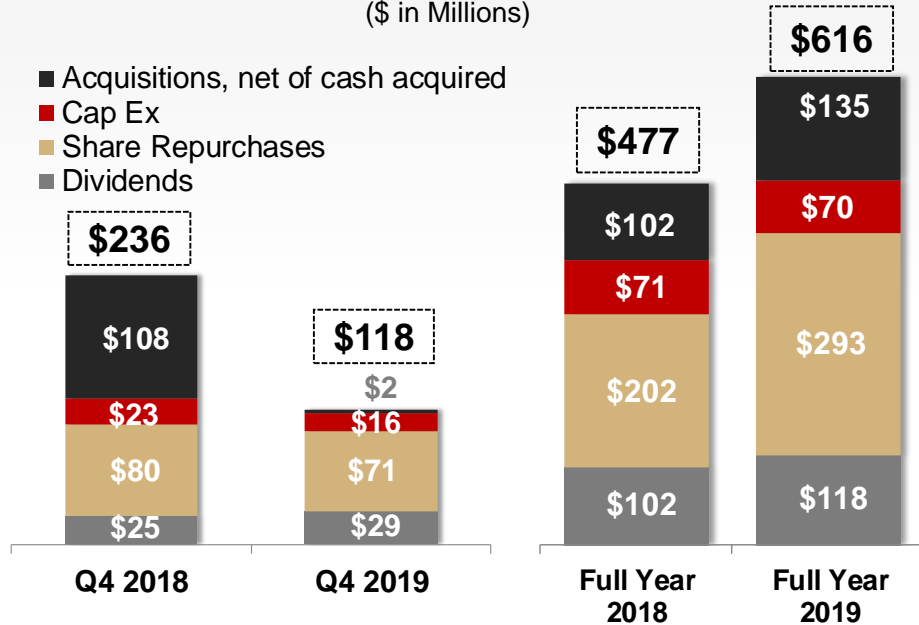
**Solid Q4 cash flow from operations on favorable changes in working capital and lower tax payments - resulting in 150% cash conversion¹.
Working capital ratio reflects lower sales.**

Capital Allocation

Capital Allocation¹

(\$ in Millions)

- Acquisitions, net of cash acquired
- Cap Ex
- Share Repurchases
- Dividends



Q4 2019 Highlights

- » Capital Expenditures: \$16M
- » Dividend Payout Rate Increase: +21%
- » Net Debt² Position: \$548M
- » Return on Invested Capital: 19.9%

¹ Figures may not sum due to rounding

² Net Debt is defined as Total debt less Cash and cash equivalents

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Non-GAAP Financial Measures

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

(In thousands, except per share amounts)
(Unaudited)

	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2019	2018	2019	2018
Operating income as reported	\$ 82,702	\$ 94,930	\$ 370,910	\$ 375,539
Special items (pre-tax):				
Rationalization and asset impairment charges ⁽²⁾	8,851	932	15,188	25,285
Acquisition transaction and integration costs ⁽³⁾	—	833	1,804	4,498
Amortization of step up in value of acquired inventories ⁽⁴⁾	—	—	3,008	—
Gains on asset disposals ⁽⁵⁾	—	—	(3,045)	—
Adjusted operating income ⁽¹⁾	\$ 91,553	\$ 96,695	\$ 387,865	\$ 405,322
As a percent of total sales	12.4 %	13.0%	12.9%	13.4 %
Net income as reported	\$ 63,716	\$ 86,839	\$ 293,109	\$ 287,066
Special items:				
Rationalization and asset impairment charges ⁽²⁾	8,851	932	15,188	25,285
Acquisition transaction and integration costs ⁽³⁾	—	833	1,804	4,498
Pension settlement charges ⁽⁶⁾	—	1,696	—	6,686
Amortization of step up in value of acquired inventories ⁽⁴⁾	—	—	3,008	—
Gains on asset disposals ⁽⁵⁾	—	—	(3,554)	—
Gain on change in control ⁽⁷⁾	—	—	(7,601)	—
Tax effect of Special items ⁽⁸⁾	(1,567)	(6,764)	(7,386)	(6,896)
Adjusted net income ⁽¹⁾	71,000	83,536	294,568	316,639
Non-controlling interests in subsidiaries' loss	—	(60)	(26)	(73)
Interest expense, net	5,794	4,343	23,415	17,565
Income taxes as reported	16,578	7,676	75,410	81,667
Tax effect of Special items ⁽⁸⁾	1,567	6,764	7,386	6,896
Adjusted EBIT ⁽¹⁾	\$ 94,939	\$ 102,259	\$ 400,753	\$ 422,694
Effective tax rate as reported	20.6 %	8.1%	20.5%	22.2 %
Net special item tax impact	(0.2%)	6.6%	1.4%	(0.3%)
Adjusted effective tax rate ⁽¹⁾	20.4 %	14.7%	21.9%	21.9 %
Diluted earnings per share as reported	\$ 1.03	\$ 1.35	\$ 4.68	\$ 4.37
Special items per share	0.12	(0.06)	0.02	0.45
Adjusted diluted earnings per share ⁽¹⁾	\$ 1.15	\$ 1.29	\$ 4.70	\$ 4.82
Weighted average shares (diluted)	61,710	64,559	62,658	65,682



Non-GAAP Financial Measures (continued)

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

- 1) Adjusted operating income, Adjusted net income, Adjusted EBIT, Adjusted effective tax rate and Adjusted diluted earnings per share are non-GAAP financial measures. Management uses non-GAAP measures to assess the Company's operating performance by excluding certain disclosed special items that management believes are not representative of the Company's core business. Management believes that excluding these special items enables them to make better period-over-period comparisons and benchmark the Company's operational performance against other companies in its industry more meaningfully. Furthermore, management believes that non-GAAP financial measures provide investors with meaningful information that provides a more complete understanding of Company operating results and enables investors to analyze financial and business trends more thoroughly. Non-GAAP financial measures should not be viewed in isolation, are not a substitute for GAAP measures and have limitations including, but not limited to, their usefulness as comparative measures as other companies may define their non-GAAP measures differently.
- 2) Primarily related to severance, asset impairments and gains or losses on the disposal of assets.
- 3) Related to the acquisition of Air Liquide Welding and are included in Selling, general & administrative expenses.
- 4) Related to the acquisitions of Baker Industries, Inc. and Kaynak Tekniği Sanayi ve Ticaret A.Ş. ("Askaynak") and are included in Cost of goods sold.
- 5) Primarily included in Cost of goods sold.
- 6) Related to lump sum pension payments and are included in Other income (expense).
- 7) Related to the acquisition of Askaynak and is included in Other income (expense).
- 8) Includes the net tax impact of Special items recorded during the respective periods, including tax benefits of \$4,852 for the settlement of a tax item as well as tax deductions associated with an investment in a subsidiary in the twelve months ended December 31, 2019. The prior year includes an adjustment to taxes on unremitted foreign earnings related to the U.S. Tax Act of \$4,424 and \$399 in the three and twelve months ended December 31, 2018, respectively. The tax effect of Special items impacting pre-tax income was calculated as the pre-tax amount multiplied by the applicable tax rate. The applicable tax rates reflect the taxable jurisdiction and nature of each Special item.

Non-GAAP Financial Measures

Return on Invested Capital (ROIC)

(In thousands, except per share amounts)

(Unaudited)

Return on Invested Capital	Twelve Months Ended December 31,	
	2019	2018
Net income as reported	\$ 293,109	\$ 287,066
Rationalization and asset impairment charges	15,188	25,285
Acquisition transaction and integration costs	1,804	4,498
Pension settlement charges	—	6,686
Amortization of step up in value of acquired inventories	3,008	—
Gains on asset disposals	(3,554)	—
Gain on change in control	(7,601)	—
Tax effect of Special items ⁽³⁾	(7,386)	(6,896)
Adjusted net income ⁽¹⁾	\$ 294,568	\$ 316,639
Plus: Interest expense, net of tax of \$6,477 and \$6,117 in 2019 and 2018, respectively	19,465	18,386
Less: Interest income, net of tax of \$631 and \$1,732 in 2019 and 2018, respectively	1,896	5,206
Adjusted net income before tax-effected interest	\$ 312,137	\$ 329,819
Invested Capital	December 31, 2019	December 31, 2018
Short-term debt	\$ 34,969	\$ 111
Long-term debt, less current portion	712,302	702,549
Total debt	747,271	702,660
Total equity	819,077	887,592
Invested capital	\$ 1,566,348	\$ 1,590,252
Return on invested capital ⁽¹⁾⁽²⁾	19.9%	20.7%

Non-GAAP Financial Measures (continued)

Footnotes for Non-GAAP Financial Measure: Return on Invested Capital (ROIC)

- 1) Adjusted net income and Return on invested capital are non-GAAP financial measures. Management uses non-GAAP measures to assess the Company's operating performance by excluding certain disclosed special items that management believes are not representative of the Company's core business. Management believes that excluding these special items enables them to make better period-over-period comparisons and benchmark the Company's operational performance against other companies in its industry more meaningfully. Furthermore, management believes that non-GAAP financial measures provide investors with meaningful information that provides a more complete understanding of Company operating results and enables investors to analyze financial and business trends more thoroughly. Non-GAAP financial measures should not be viewed in isolation, are not a substitute for GAAP measures and have limitations including, but not limited to, their usefulness as comparative measures as other companies may define their non-GAAP measures differently.
- 2) Return on invested capital is defined as rolling 12 months of Adjusted net income before tax-effected interest income and expense divided by Invested capital.
- 3) Includes the net tax impact of Special items recorded during the respective periods, including tax benefits of \$4,852 for the settlement of a tax item as well as tax deductions associated with an investment in a subsidiary in the twelve months ended December 31, 2019 and net charges of \$399 related to the U.S. Tax Act in the twelve months ended December 31, 2018.
The tax effect of Special items impacting pre-tax income was calculated as the pre-tax amount multiplied by the applicable tax rate.
The applicable tax rates reflect the taxable jurisdiction and nature of each Special item.

Segment EBIT

EBIT and Adjusted EBIT Reconciliation – Three Months Ended December 13, 2019

(In thousands)

(Unaudited)

	Americas Welding	International Welding	The Harris Products Group	Corporate / Eliminations	Consolidated
Three months ended December 31, 2019					
Net sales	\$ 437,899	\$ 218,606	\$ 79,802	\$ —	\$ 736,307
Inter-segment sales	28,042	4,853	1,650	(34,545)	—
Total	\$ 465,941	\$ 223,459	\$ 81,452	\$ (34,545)	\$ 736,307
Net income					\$ 63,716
As a percent of total sales					8.7%
EBIT ⁽¹⁾	\$ 75,006	\$ 4,501	\$ 8,886	\$ (2,305)	\$ 86,088
As a percent of total sales	16.1%	2.0%	10.9%		11.7%
Special items charges (gains) ⁽³⁾	—	7,081	1,770	—	8,851
Adjusted EBIT ⁽²⁾	\$ 75,006	\$ 11,582	\$ 10,656	\$ (2,305)	\$ 94,939
As a percent of total sales	16.1%	5.2%	13.1%		12.9%
Three months ended December 31, 2018					
Net sales	\$ 455,217	\$ 219,456	\$ 69,154	\$ —	\$ 743,827
Inter-segment sales	29,265	4,907	1,522	(35,694)	—
Total	\$ 484,482	\$ 224,363	\$ 70,676	\$ (35,694)	\$ 743,827
Net income					\$ 86,839
As a percent of total sales					11.7%
EBIT ⁽¹⁾	\$ 84,198	\$ 11,371	\$ 8,506	\$ (5,277)	\$ 98,798
As a percent of total sales	17.4%	5.1%	12.0%		13.3%
Special items charges (gains) ⁽⁴⁾	1,696	932	—	833	3,461
Adjusted EBIT ⁽²⁾	\$ 85,894	\$ 12,303	\$ 8,506	\$ (4,444)	\$ 102,259
As a percent of total sales	17.7%	5.5%	12.0%		13.7%

Non-GAAP Financial Measures (continued)

Footnotes for EBIT and Adjusted EBIT Reconciliation – Three Months Ended September 30, 2019

- 1) EBIT is defined as Operating income plus Other income (expense).
- 2) The primary profit measure used by management to assess segment performance is Adjusted EBIT. EBIT for each operating segment is adjusted for special items to derive Adjusted EBIT.
- 3) Special items in 2019 reflect Rationalization and asset impairment charges of \$7,081 in International Welding and \$1,770 in The Harris Products Group.
- 4) Special items in 2018 reflect pension settlement charges of \$1,696 in Americas Welding, Rationalization and asset impairment charges of \$932 in International Welding and acquisition transaction and integration costs of \$833 in Corporate/Eliminations related to the acquisition of Air Liquide Welding.