

Lincoln Electric Holdings, Inc.

First Quarter 2019 Earnings Call

April 22, 2019

Christopher L. Mapes
Chairman, President & CEO

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EVP & CFO



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.

Q1 2019 Highlights: Achieved earnings growth as price/cost, favorable mix and growth investments helped mitigate inflation.

- » **Reported sales increased 0.2% to \$759.2 million**
- » **Organic sales up 0.9% and 2.4% acquisition benefit partially offset by 3.2% unfavorable FX translation**
- » **Adjusted Operating Income increased 1.6% to \$98.8 million; Adjusted Operating Income Margin up 20 bps to 13.0%**
- » **Diluted EPS of \$1.12, Adjusted EPS increased 6.4% to \$1.17**
- » **ROIC up 450 basis points to 21.2%**
- » **Returned \$106 million to shareholders**

Momentum Moderates in the Quarter

- » **Organic sales growth narrowed in Q1: up 0.9% vs. prior year**
 - Americas Welding and The Harris Products Group achieved organic sales growth
 - Organic growth in all major geographies except Europe (EMEA) and China
 - Low single digit percent organic growth in consumables and automation; equipment down low single digit percent
 - Weak U.S. exports and slowing automation growth challenged sales growth

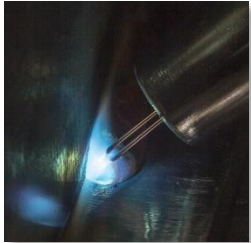
- » **Q1 2019 end sector performance¹:**
 - **Higher demand vs. PY:** Most direct channel end markets grew in Q1, led by double digit percent growth in Heavy Industries, Construction/Infrastructure, and Oil & Gas
 - **General Fabrication and Automotive/Transportation** relatively flat versus prior year (+1% to -1%)

Focused on Innovation and Growth Investments



New Ranger® 330MPX engine drive

- **More efficient:** 31% smaller; 25% lighter; 60% quieter vs. prior model
- Quick set up **simplifies the user's experience**
- CrossLinc® technology **enhances safety and productivity**



New HyperFill™ Process

- Patent-pending **dual wire MIG process** uses new accessories and software to **increase productivity and simplicity**
- Increases welding **productivity by 50+%**
- For general & heavy industry applications



New Harris® Aluminum Brazing Alloy

- Formulation delivers **higher performance** with a more consistent melt point
- **Higher quality results:** customers achieve 300 bps improvement in their first pass yields
- **Reduces** customers' **total costs by ~5%**

New Additive Manufacturing Service



- Developing **metal 3D printing and machining of large-scale** industrial, automotive and aerospace parts, tooling and prototypes
- Launching mid-2019
- Establishing additive service centers in targeted locations in U.S. with initial locations in Detroit, MI and Cleveland, OH

Income Statement – Q1 2019

\$ in Millions	Q1	% of	Q1	% of	YoY %
	2019	Sales	2018	Sales	Change
					<i>Fav/(Unfav)</i>
Net Sales	\$ 759.2		\$ 757.7		0.2%
Gross Profit	258.4	34.0%	256.6	33.9%	0.7%
SG&A	160.4	21.1%	161.2	21.3%	0.5%
Special item charges ^{1,2}	4.3	0.6%	12.1	1.6%	64.2%
Operating Income	94.5	12.4%	85.2	11.2%	10.9%
Adjusted Operating Income¹	98.8	13.0%	97.3	12.8%	1.6%
Interest Expense, net³	5.3	0.7%	4.4	0.6%	(19.9%)
Income Taxes⁴	21.5	2.8%	23.4	3.1%	8.2%
Effective Tax Rate⁴	23.1%		27.8%		470 bps
Net Income	\$ 71.5	9.4%	\$ 60.8	8.0%	17.5%
Special Items ⁵	3.5	0.5%	12.5	1.6%	(71.8%)
Adjusted Net Income¹	\$ 75.0	9.9%	\$ 73.3	9.7%	2.3%
Diluted EPS	\$ 1.12		\$ 0.92		21.7%
Adjusted Diluted EPS¹	\$ 1.17		\$ 1.10		6.4%

Sales Mix ⁶	
Volume	(3.6%)
Price	4.5%
Acquisitions	2.4%
FX	(3.2%)
TOTAL	0.2%

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

² Special items include Rationalization and asset impairment charges of \$3.5 million and \$0.8 million acquisition transaction and integration costs in 2019. 2018 includes \$10.2 million of Rationalization and asset impairment charges and Acquisition transaction and integration costs of \$1.9 million.

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

⁴ Q1 tax rate excluding special items was 22.9% in 2019 and 24.5% in 2018.

⁵ Special items include the charges noted in footnote 2 and also include a \$0.8 million pre-tax pension settlement charge in 2018. The tax effect of Special items were \$0.8 million in 2019 and \$0.4 million in 2018.

⁶ Figures may not sum due to rounding.

Americas Welding Segment

(\$ in Millions)	Q1 2019	Q1 2018	% YoY Change		Sales Mix ¹	
Net Sales	\$ 457.7	\$ 434.8	5.3%	↑	Volume	(2.9%)
Adjusted EBIT	\$ 81.8	\$ 77.4	5.6%	↑	Price	6.3%
Adjusted EBIT Margin²	16.8%	16.8%	-		Acq/Div	2.9%
					FX	(1.1%)
					Total	5.3%

Volumes declined on weaker exports and automation, as well as a challenging prior year comparison. Margin steady as positive price/cost and favorable mix offset higher wage and growth investment costs.

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)	Q1 2019	Q1 2018	% YoY Change		Sales Mix ¹	
Net Sales	\$ 218.1	\$ 247.3	(11.8%)	↓	Volume	(7.2%)
Adjusted EBIT	\$ 13.3	\$ 15.0	(10.9%)	↓	Price	2.6%
Adjusted EBIT Margin²	6.0%	5.9%	10 bps	↑	Acq/Div	-
					FX	(7.2%)
					Total	(11.8%)

Volumes reflect integration activities and softer European demand. Price management, improving mix and synergies offset the volume impact on margin performance. Unfavorable FX impacted Adjusted EBIT margin by 10 bps.

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)	Q1 2019	Q1 2018	% YoY Change		Sales Mix ¹
Net Sales	\$ 83.4	\$ 75.6	10.3%	↑	Volume 3.9%
Adjusted EBIT	\$ 10.5	\$ 9.2	14.0%	↑	Price 0.6%
Adjusted EBIT Margin²	12.3%	11.9%	40 bps	↑	Acq/Div 7.6%
					FX (1.9%)
					Total 10.3%

Volumes reflect solid demand in the OEM channel despite a challenging prior year comparison. Margin higher on productivity and favorable mix.

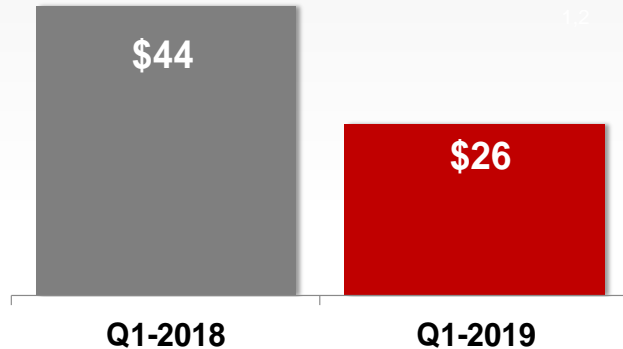
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² Adjusted EBIT Margin is calculated using Total Sales, which includes Inter-segment sales.

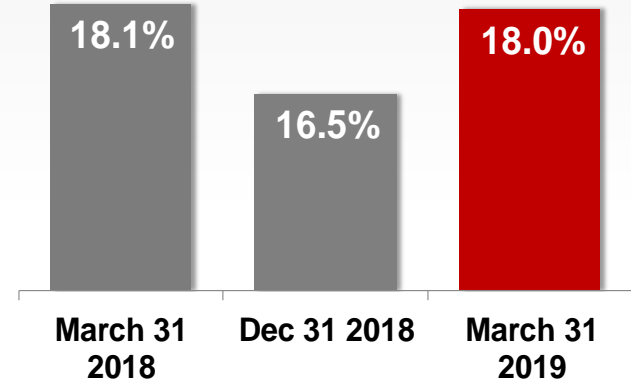
Cash Flow From Operations Metrics

Cash Flow from Operations

(\$ in Millions)



Average Operating Working Capital to Net Sales Ratio



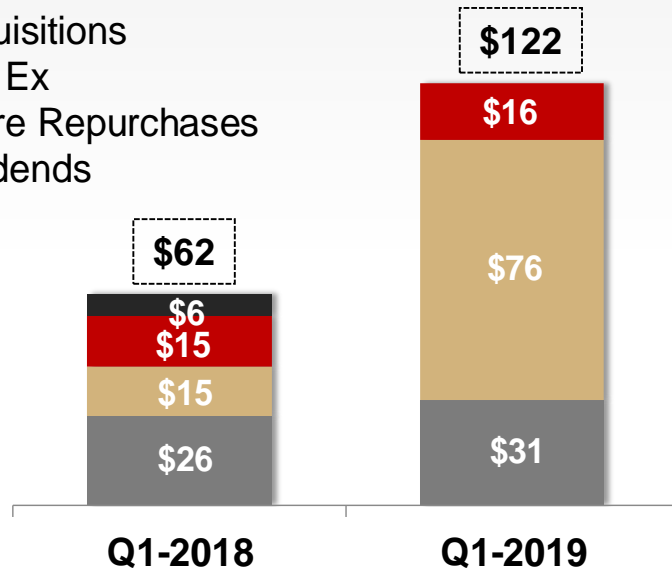
Cash flow from operations and working capital reflect seasonal uses of cash. Incurred an approximate \$13M discrete tax payment.

Capital Allocation

Capital Allocation¹

(\$ in Millions)

- Acquisitions
- Cap Ex
- Share Repurchases
- Dividends



Q1 2019 Highlights

- » **Capital Expenditures: \$16M**
- » **Dividend Payout Rate Increase: +21%**
- » **Net Debt² Position: \$439M**
- » **Return on Invested Capital: 21.2%**

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 March 31,	
	2019	2018
Operating income as reported	\$ 94,478	\$ 85,188
Special items (pre-tax):		
Rationalization and asset impairment charges ⁽²⁾	3,535	10,175
Acquisition transaction and integration costs ⁽³⁾	790	1,907
Adjusted operating income ⁽¹⁾	\$ 98,803	\$ 97,270
As a percent of total sales	13.0 %	12.8 %
Net income as reported	\$ 71,480	\$ 60,824
Special items:		
Rationalization and asset impairment charges ⁽²⁾	3,535	10,175
Acquisition transaction and integration costs ⁽³⁾	790	1,907
Pension settlement charges ⁽⁴⁾	—	758
Tax effect of Special items ⁽⁵⁾	(813)	(381)
Adjusted net income ⁽¹⁾	74,992	73,283
Non-controlling interests in subsidiaries' earnings (loss)	(14)	(4)
Interest expense, net	5,323	4,441
Income taxes as reported	21,452	23,378
Tax effect of Special items ⁽⁶⁾	813	381
Adjusted EBIT ⁽¹⁾	\$ 102,566	\$ 101,479
Effective tax rate as reported	23.1 %	27.8 %
Net special item tax impact	(0.2)%	(3.3)%
Adjusted effective tax rate ⁽¹⁾	22.9 %	24.5 %
Diluted earnings per share as reported	\$ 1.12	\$ 0.92
Special items per share	0.05	0.18
Adjusted diluted earnings per share ⁽¹⁾	\$ 1.17	\$ 1.10
Weighted average shares (diluted)	63,899	66,443



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 EBIT, Adjusted net income, 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.
- 4) Related to lump sum pension payments.
- 5) Includes the net tax impact of Special items recorded during the respective periods.
- 6) 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 March 31,	
	2019	2018
Net income as reported	\$ 297,722	\$ 252,483
Rationalization and asset impairment charges	18,645	16,765
Pension settlement charges	5,928	8,908
Acquisition transaction and integration costs	3,381	13,294
Amortization of step up in value of acquired inventories	—	4,578
Bargain purchase gain	—	(49,650)
Tax effect of Special items ⁽³⁾	(7,328)	21,036
Adjusted net income ⁽¹⁾	\$ 318,348	\$ 267,414
Plus: Interest expense, net of tax of \$6,211 and \$5,997 in 2019 and 2018, respectively	18,666	18,022
Less: Interest income, net of tax of \$1,605 and \$1,369 in 2019 and 2018, respectively	4,825	4,114
Adjusted net income before tax-effected interest	\$ 332,189	\$ 281,322
Invested Capital	March 31, 2019	March 31, 2018
Short-term debt	110	1,981
Long-term debt, less current portion	705,725	700,869
Total debt	705,835	702,850
Total equity	864,665	980,672
Invested capital	\$ 1,570,500	\$ 1,683,522
Return on invested capital ⁽¹⁾⁽²⁾	21.2%	16.7%



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 net charges of \$31,116 related to the U.S. Tax Act in the twelve months ended March 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 March 31, 2019

(In thousands)

(Unaudited)

	Americas Welding	International Welding	The Harris Products Group	Corporate / Eliminations	Consolidated
Three months ended March 31, 2019					
Net sales	\$ 457,719	\$ 218,086	\$ 83,369	\$ —	\$ 759,174
Inter-segment sales	29,388	4,209	1,867	(35,464)	—
Total	<u>\$ 487,107</u>	<u>\$ 222,295</u>	<u>\$ 85,236</u>	<u>\$ (35,464)</u>	<u>\$ 759,174</u>
Net income					\$ 71,480
As a percent of total sales					9.4%
EBIT ⁽¹⁾	\$ 80,416	\$ 11,138	\$ 10,519	\$ (3,832)	\$ 98,241
As a percent of total sales	16.5%	5.0%	12.3%		12.9%
Special items charges ⁽³⁾	1,336	2,199	—	790	4,325
Adjusted EBIT ⁽²⁾	\$ 81,752	\$ 13,337	\$ 10,519	\$ (3,042)	\$ 102,566
As a percent of total sales	16.8%	6.0%	12.3%		13.5%
Three months ended March 31, 2018					
Net sales	\$ 434,772	\$ 247,320	\$ 75,604	\$ —	\$ 757,696
Inter-segment sales	26,586	4,509	1,907	(33,002)	—
Total	<u>\$ 461,358</u>	<u>\$ 251,829</u>	<u>\$ 77,511</u>	<u>\$ (33,002)</u>	<u>\$ 757,696</u>
Net income					\$ 60,824
As a percent of total sales					8.0%
EBIT ⁽¹⁾	\$ 76,681	\$ 4,798	\$ 9,225	\$ (2,065)	\$ 88,639
As a percent of total sales	16.6%	1.9%	11.9%		11.7%
Special items charges ⁽⁴⁾	758	10,175	—	1,907	12,840
Adjusted EBIT ⁽²⁾	\$ 77,439	\$ 14,973	\$ 9,225	\$ (158)	\$ 101,479
As a percent of total sales	16.8%	5.9%	11.9%		13.4%

Non-GAAP Financial Measures (continued)

Footnotes for EBIT and Adjusted EBIT Reconciliation – Three Months Ended March 31, 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 \$1,336 in Americas Welding and \$2,199 in International Welding and acquisition transaction and integration costs of \$790 in Corporate/Eliminations related to the acquisition of Air Liquide Welding.
- 4) Special items in 2018 reflect pension settlement charges of \$758 in Americas Welding, Rationalization and asset impairment charges of \$10,175 in International Welding and acquisition transaction and integration costs of \$1,907 in Corporate/Eliminations related to the acquisition of Air Liquide Welding.