

Lincoln Electric Holdings, Inc.

Third Quarter 2019 Earnings Call

October 30, 2019

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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.

Q3 2019 Highlights: Strong cash generation, cash conversion¹ and returns as Americas Welding impacted by broader slowing in Automation product lines and general manufacturing industries

- » **Reported sales decreased 0.9% to \$731 million; Organic sales declined 4.7%**
- » **Adjusted Operating Income declined 12% to \$92 million; Adjusted Operating Income Margin down 170 bps to 12.5%**
- » **Diluted EPS of \$1.17, Adjusted EPS decreased 10% to \$1.09**
- » **ROIC up 170 basis points to 21.0%**
- » **Cash flow from operations increased 21% to \$129 million and cash conversion¹ at 165%**
- » **Returned \$90 million to shareholders**

Slowing demand trends in the Quarter

- » **Organic sales weakened further in Q3**
 - Volumes primarily challenged by ongoing double-digit percent declines in Automation and Asia Pacific, as well as broader slowing in industrial production
 - Price declined primarily on the removal of surcharges in Americas Welding
 - Consumable organic sales declined mid single-digit percent (impacted by surcharge removal), equipment declined low single digit percent and automation declined double-digit percent
- » **Q3 2019 global end sector performance¹**
 - Energy and Heavy Industries increased
 - Automotive/Transportation, General Fabrication and Construction/Infrastructure declined

Actions to Mitigate the Cycle

» Cost Reduction Actions

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

» Investing for Long-Term Growth



Income Statement – Q3 2019

\$ in Millions	Q3	% of	Q3	% of	YoY %
	2019	Sales	2018	Sales	Change <i>Fav/(Unfav)</i>
Net Sales	\$ 730.8		\$ 737.1		(0.9%)
Gross Profit	238.4	32.6%	251.6	34.1%	(5.2%)
SG&A	148.3	20.3%	148.1	20.1%	(0.1%)
Special item charges ^{1,2}	3.1	0.4%	3.6	0.5%	13.9%
Operating Income	88.5	12.1%	100.8	13.7%	(12.1%)
Adjusted Operating Income ¹	91.6	12.5%	104.4	14.2%	(12.2%)
Interest Expense, net ³	6.4	0.9%	4.0	0.5%	(61.2%)
Income Taxes ⁴	19.3	2.6%	25.2	3.4%	23.3%
Effective Tax Rate ⁴	21.1%		26.3%		520 bps
Net Income	\$ 72.5	9.9%	\$ 70.5	9.6%	2.7%
Special Items ⁵	(4.8)	0.7%	8.9	1.2%	(153.6%)
Adjusted Net Income ¹	\$ 67.7	9.3%	\$ 79.4	10.8%	(14.7%)
Diluted EPS	\$ 1.17		\$ 1.07		9.3%
Adjusted Diluted EPS ¹	\$ 1.09		\$ 1.21		(9.9%)

Sales Mix ⁶	
Volume	(4.1%)
Price	(0.6%)
Acquisitions	5.4%
FX	(1.6%)
TOTAL	(0.9%)

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

² Special items include Rationalization and asset impairment charges of \$1.5 million and \$1.6 million in Amortization of step up in value of acquired inventories in 2019. 2018 includes \$2.6 million of Rationalization and asset impairment charges and \$1.0 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 Q3 tax rate excluding special items was 22.4% in 2019 and 23.3% in 2018.

⁵ Special items include the charges noted in footnote 2 and a \$7.6 million gain on change in control and a \$0.3 million tax effect of Special items in 2019. 2018 includes a \$4.2 million pension settlement charge and a \$1.0 million tax effect of Special items, including a \$2.3 million charge 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)	Q3 2019	Q3 2018	% YoY Change		Sales Mix ¹	
Net Sales	\$ 443.5	\$ 454.0	(2.3%)	↓	Volume	(4.5%)
Adjusted EBIT	\$ 74.1	\$ 89.3	(17.0%)	↓	Price	(1.2%)
Adjusted EBIT Margin²	15.6%	18.4%	(280) bps	↓	Acq/Div	3.8%
					FX	(0.4%)
					Total	(2.3%)

Volumes reflect broad weakening in industrial production and automation product lines. 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)	Q3 2019	Q3 2018	% YoY Change		Sales Mix ¹	
Net Sales	\$ 205.4	\$ 209.6	(2.0%)	↓	Volume	(6.2%)
Adjusted EBIT	\$ 10.2	\$ 10.7	(5.0%)	↓	Price	0.3%
Adjusted EBIT Margin²	4.9%	5.0%	(10) bps	↓	Acq/Div	8.3%
					FX	(4.4%)
					Total	(2.0%)

Volume declines primarily reflect weakness in Asia Pacific and narrowed on easier prior year comparisons in Europe. Price management, improving mix and synergies 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)	Q3 2019	Q3 2018	% YoY Change		Sales Mix ¹
Net Sales	\$ 81.9	\$ 73.5	11.5%	↑	Volume 4.7%
Adjusted EBIT	\$ 11.0	\$ 8.7	27.2%	↑	Price 1.0%
Adjusted EBIT Margin²	13.2%	11.6%	160 bps	↑	Acq/Div 6.5%
					FX (0.7%)
					Total 11.5%

Volumes reflect solid demand in the OEM channel offset by weakness in retail. Strong margin performance due to favorable mix and acquisitions.

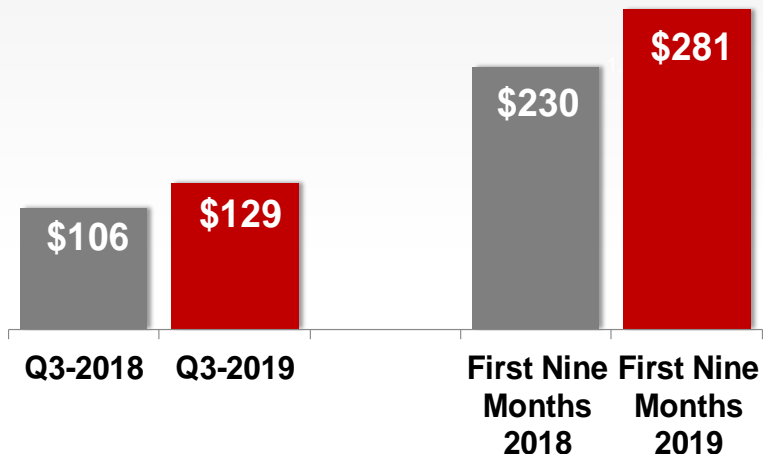
¹ Figures may not sum due to rounding

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

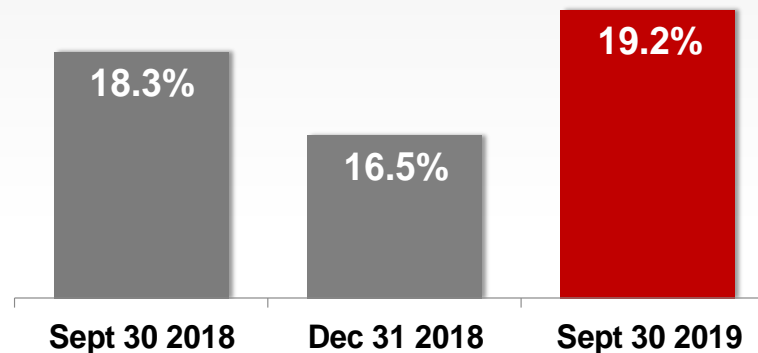
Cash Flow From Operations Metrics

Cash Flow from Operations

(\$ in Millions)



Average Operating Working Capital to Net Sales Ratio



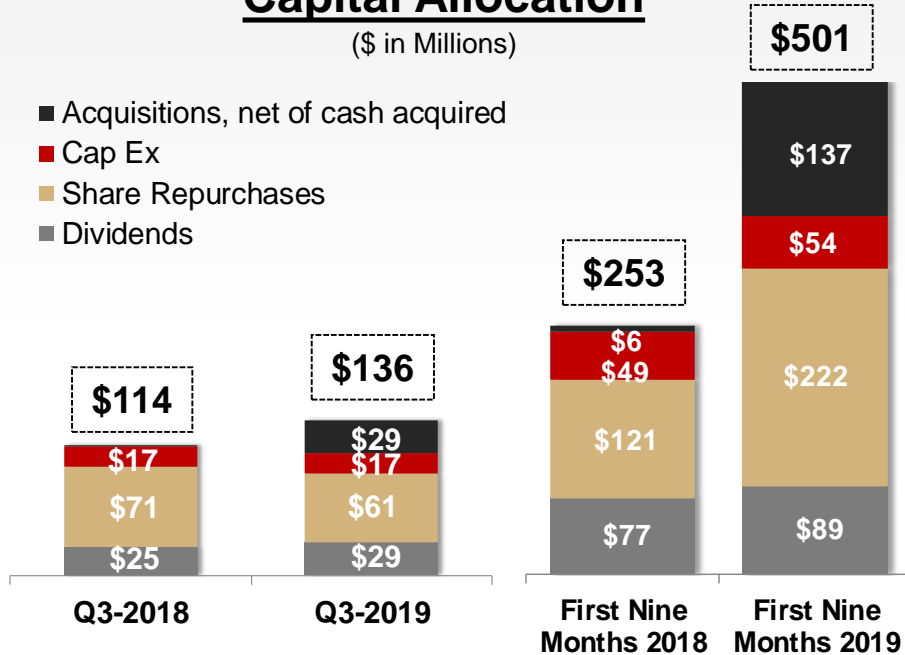
Solid Q3 cash flow from operations on favorable changes in working capital and lower tax payments - resulting in 165% cash conversion¹. Working capital ratio reflects lower sales.

Capital Allocation

Capital Allocation¹

(\$ in Millions)

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



Q3 2019 Highlights

- » Capital Expenditures: \$17M
- » Dividend Payout Rate Increase: +21%
- » Net Debt² Position: \$571M
- » Return on Invested Capital: 21.0%

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 September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Operating income as reported	\$ 88,544	\$ 100,787	\$ 288,208	\$ 280,609
Special items (pre-tax):				
Rationalization and asset impairment charges ⁽²⁾	1,495	2,636	6,337	24,353
Acquisition transaction and integration costs ⁽³⁾	—	970	1,804	3,665
Amortization of step up in value of acquired inventories ⁽⁴⁾	1,609	—	3,008	—
Gains on asset disposals ⁽⁵⁾	—	—	(3,045)	—
Adjusted operating income ⁽¹⁾	\$ 91,648	\$ 104,393	\$ 296,312	\$ 308,627
As a percent of total sales	12.5 %	14.2 %	13.1 %	13.5 %
Net income as reported	\$ 72,461	\$ 70,539	\$ 229,393	\$ 200,227
Special items:				
Rationalization and asset impairment charges ⁽²⁾	1,495	2,636	6,337	24,353
Acquisition transaction and integration costs ⁽³⁾	—	970	1,804	3,665
Pension settlement charges ⁽⁶⁾	—	4,232	—	4,990
Amortization of step up in value of acquired inventories ⁽⁴⁾	1,609	—	3,008	—
Gains on asset disposals ⁽⁵⁾	—	—	(3,554)	—
Gain on change in control ⁽⁷⁾	(7,601)	—	(7,601)	—
Tax effect of Special items ⁽⁸⁾	(255)	1,033	(5,819)	(132)
Adjusted net income ⁽¹⁾	67,709	79,410	223,568	233,103
Non-controlling interests in subsidiaries' loss	(4)	(4)	(26)	(13)
Interest expense, net	6,400	3,969	17,621	13,222
Income taxes as reported	19,340	25,209	58,832	73,991
Tax effect of Special items ⁽⁸⁾	255	(1,033)	5,819	132
Adjusted EBIT ⁽¹⁾	\$ 93,700	\$ 107,551	\$ 305,814	\$ 320,435
Effective tax rate as reported	21.1 %	26.3 %	20.4 %	27.0 %
Net special item tax impact	1.3 %	(3.0%)	2.0 %	(2.9%)
Adjusted effective tax rate ⁽¹⁾	22.4 %	23.3 %	22.4 %	24.1 %
Diluted earnings per share as reported	\$ 1.17	\$ 1.07	\$ 3.64	\$ 3.03
Special items per share	(0.08)	0.14	(0.09)	0.50
Adjusted diluted earnings per share ⁽¹⁾	\$ 1.09	\$ 1.21	\$ 3.55	\$ 3.53
Weighted average shares (diluted)	62,061	65,652	62,972	66,055



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 nine months ended September 30, 2019. The prior year includes an adjustment to taxes on unremitted foreign earnings related to the U.S. Tax Act of \$2,323 and \$4,823 in the three and nine months ended September 30, 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 September 30,	
	2019	2018
Net income as reported	\$ 316,232	\$ 224,408
Rationalization and asset impairment charges	7,269	30,943
Acquisition transaction and integration costs	2,637	7,281
Pension settlement charges	1,696	7,857
Amortization of step up in value of acquired inventories	3,008	2,264
Gains on asset disposals	(3,554)	—
Bargain purchase adjustment	—	1,935
Gain on change in control	(7,601)	—
Tax effect of Special items ⁽³⁾	(12,583)	25,925
Adjusted net income ⁽¹⁾	\$ 307,104	\$ 300,613
Plus: Interest expense, net of tax of \$6,410 and \$6,087 in 2019 and 2018, respectively	19,265	18,295
Less: Interest income, net of tax of \$926 and \$1,676 in 2019 and 2018, respectively	2,785	5,036
Adjusted net income before tax-effected interest	<u>\$ 323,584</u>	<u>\$ 313,872</u>
Invested Capital	September 30, 2019	September 30, 2018
Short-term debt	\$ 13,293	\$ 794
Long-term debt, less current portion	713,884	698,468
Total debt	727,177	699,262
Total equity	813,808	927,868
Invested capital	<u>\$ 1,540,985</u>	<u>\$ 1,627,130</u>
Return on invested capital ⁽¹⁾⁽²⁾	21.0%	19.3%

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 September 30, 2019 and net charges of \$33,439 related to the U.S. Tax Act in the twelve months ended September 30, 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 September 30, 2019

(In thousands)

(Unaudited)

	Americas Welding	International Welding	The Harris Products Group	Corporate / Eliminations	Consolidated
Three months ended September 30, 2019					
Net sales	\$ 443,521	\$ 205,378	\$ 81,884	\$ —	\$ 730,783
Inter-segment sales	31,101	4,441	1,857	(37,399)	—
Total	<u>\$ 474,622</u>	<u>\$ 209,819</u>	<u>\$ 83,741</u>	<u>\$ (37,399)</u>	<u>\$ 730,783</u>
Net income					\$ 72,461
As a percent of total sales					9.9%
EBIT ⁽¹⁾	\$ 74,110	\$ 14,681	\$ 11,038	\$ (1,632)	\$ 98,197
As a percent of total sales	15.6%	7.0%	13.2%		13.4%
Special items charges (gains) ⁽³⁾	—	(4,497)	—	—	(4,497)
Adjusted EBIT ⁽²⁾	\$ 74,110	\$ 10,184	\$ 11,038	\$ (1,632)	\$ 93,700
As a percent of total sales	15.6%	4.9%	13.2%		12.8%
Three months ended September 30, 2018					
Net sales	\$ 454,010	\$ 209,622	\$ 73,467	\$ —	\$ 737,099
Inter-segment sales	31,845	3,663	1,537	(37,045)	—
Total	<u>\$ 485,855</u>	<u>\$ 213,285</u>	<u>\$ 75,004</u>	<u>\$ (37,045)</u>	<u>\$ 737,099</u>
Net income					\$ 70,539
As a percent of total sales					9.6%
EBIT ⁽¹⁾	\$ 85,021	\$ 8,085	\$ 8,676	\$ (2,069)	\$ 99,713
As a percent of total sales	17.5%	3.8%	11.6%		13.5%
Special items charges (gains) ⁽⁴⁾	4,232	2,636	—	970	7,838
Adjusted EBIT ⁽²⁾	\$ 89,253	\$ 10,721	\$ 8,676	\$ (1,099)	\$ 107,551
As a percent of total sales	18.4%	5.0%	11.6%		14.6%

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 \$1,495, amortization of step up in value of acquired inventories of \$1,609 and a gain on change in control of \$7,601 related to the acquisition of Askaynak in International Welding.
- 4) Special items in 2018 reflect pension settlement charges of \$4,232 in Americas Welding, rationalization and asset impairment charges of \$2,636 in International Welding and acquisition transaction and integration costs of \$970 in Corporate/Eliminations related to the acquisition of Air Liquide Welding.