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# Lincoln Electric Holdings, Inc.

Q2 2014 Earnings Conference Call • July 28, 2014



# Safe Harbor & Reg-G



## **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](http://www.sec.gov) or on [www.lincolnelectric.com](http://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 schedules for the reconciliation of non-GAAP financial measures to the related GAAP financial measures.*

# Q2 2014 Highlights

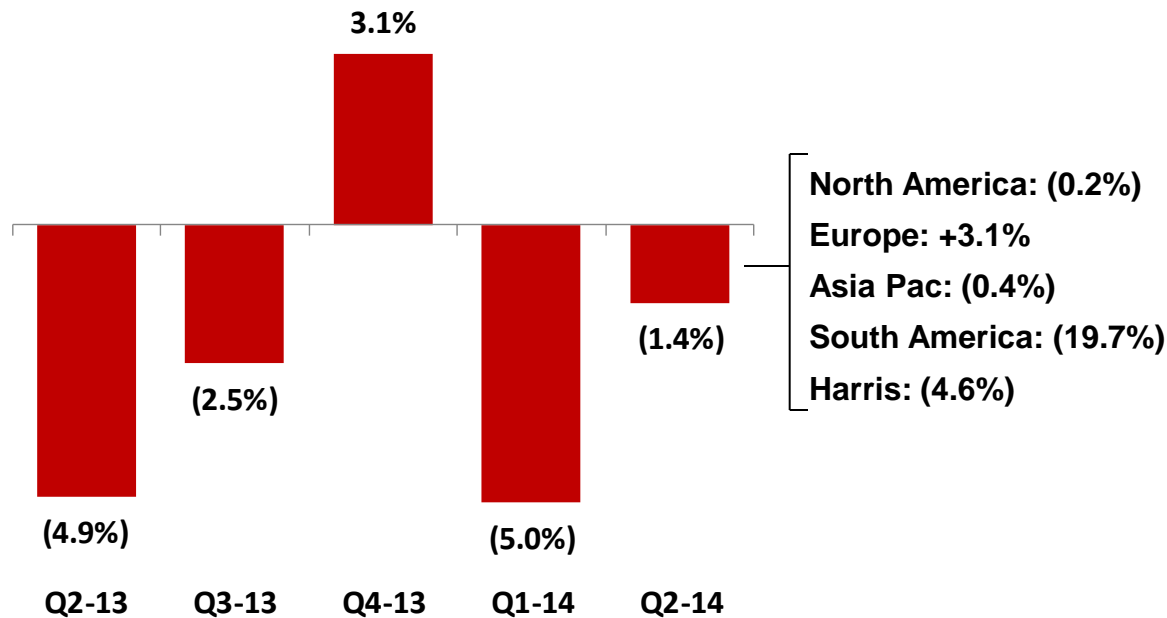
Solid execution expands margins and returns



- **Reported sales steady; +2% excluding foreign exchange**
- **Domestic demand in North America and Europe stronger; exports weak**
- **Reported operating income margin of 15.4% (up 110 basis points); Record Q2 adjusted operating income margin of 16.0% (up 120 basis points)**
- **Reported EPS up 10% to \$0.96; adjusted EPS up 11% to \$1.01**
- **ROIC at 18.9%**
- **18% increase in cash returned to shareholders at \$87 million (shares & dividends)**

# End Markets Improving, But Remain Uneven

## Change in Net Sales From Volume (Q2-2013 to Q2-2014)



Q2-14 volume trends improved through the quarter

- **Areas of Sector Strength:**
  - Energy sector (most)
  - Transportation
- **Flat/Limited Growth:**
  - General Fabrication
  - Structural
  - Construction equipment
  - Maintenance & Repair
  - Pipe mill/pipeline
- **Continued Weakness**
  - Ship building
  - Mining

# Ongoing Initiatives Driving Profitable Growth



## ▶ Sales and Margin Growth from Targeted Applications:

- **Automation:** Integrating recent acquisitions (Robolution GmbH and Burlington Automation)
- **Alloys:** Announced licensing of NanoSteel Company IP for weld overlay and thermal spray
- Continuing to enhance mix profile (products, geographies and customers)

## ▶ Commercial Excellence:

- Salesforce productivity tools, CRM software, and training
- Enhancing internet and e-commerce strategy

## ▶ Operational Excellence:

- Continuous improvement projects (lean and EH&S-focused)
- Investment in new electronics (printed circuit board) platform
- Global SAP roll out continues
- Prior European restructuring yielding improved performance

# Income Statement – Q2 2014

\$ in Millions	Q2	% of	Q2	% of	YoY %
	2014	Sales	2013	Sales	Change
					<i>Fav/(Unfav)</i>
Net Sales	\$ 728.5		\$ 727.4		0.2%
Gross Profit	250.3	34.4%	240.3	33.0%	4.1%
SG&A	137.2	18.8%	135.2	18.6%	(1.4%)
Rationalization & Asset Imp. (gains)	0.8	0.1%	0.9	0.1%	1.8%
Operating Income*	112.3	15.4%	104.3	14.3%	7.7%
Operating Income, as Adjusted* <sup>1</sup>	116.6	16.0%	107.7	14.8%	8.3%
Income Taxes	37.6	5.2%	34.0	4.7%	(10.5%)
Effective Tax Rate	32.7%		31.9%		(80) bps
Net Income	<u>\$ 77.3</u>	10.6%	<u>\$ 72.6</u>	10.0%	6.5%
Net Income, as Adjusted <sup>1</sup>	<u>\$ 81.5</u>	11.2%	<u>\$ 75.7</u>	10.4%	7.6%
Diluted EPS	\$ 0.96		\$ 0.87		10.3%
Diluted EPS, as Adjusted <sup>1</sup>	\$ 1.01		\$ 0.91		11.0%

Sales Mix	
Volume	(1.4%)
Price	2.3%
Acquisitions	1.2%
F/X	(1.9%)
<b>Total</b>	<b>0.2%</b>

<sup>1</sup>Please refer to the appendix for reconciliation of non-GAAP measures.

\*Q2 2014 operating profit includes a \$3.9 million gain from an insurance settlement.

Venezuela: Q2 2014 results include \$19.0 million in Net Sales, \$1.0 million in Operating Income, \$4.5 million in Adjusted Operating Income, \$0.1 million in Net Income, \$3.6 million in Adjusted Net Income, and \$0.04 in adjusted EPS from our Venezuelan operation, which operates in a highly inflationary environment.

# Welding Segment – North America

(\$ in Millions)	Q2 2014	Q2 2013	% YoY Change		Sales Mix*	
<b>Net Sales</b>	\$ 429.5	\$ 419.1	2.5%	↑	Volume	(0.2%)
<b>Adjusted EBIT<sup>1</sup></b>	\$ 91.2	\$ 82.8	10.2%	↑	Price	1.1%
<b>Adj EBIT Margin<sup>1</sup></b>	19.7%	18.2%	150 bps	↑	Acq/Div	2.0%
					Forex	(0.4%)
					<b>Total</b>	<b>2.5%</b>

**Volumes for domestic demand improving in Q2 and higher YoY. Margins higher on operational improvements and an insurance gain.**

\* Figures may not sum due to rounding

<sup>1</sup> Please refer to the appendix for reconciliation of non-GAAP measures

# Welding Segment – Europe

(\$ in Millions)	Q2 2014	Q2 2013	% YoY Change		Sales Mix*	
<b>Net Sales</b>	\$ 115.6	\$ 108.7	6.4%	↑	Volume	3.1%
<b>Adjusted EBIT<sup>1</sup></b>	\$ 14.9	\$ 9.5	56.3%	↑	Price	(0.2%)
<b>Adj EBIT Margin<sup>1</sup></b>	12.3%	8.4%	390 bps	↑	Acq/Div	-
					Forex	3.4%
					<b>Total</b>	<b>6.4%</b>

**Volumes continue to strengthen across Europe.  
Margins expand on operating leverage and mix.**

\* Amounts may not sum due to rounding

<sup>1</sup> Please refer to the appendix for reconciliation of non-GAAP measures



# Welding Segment – Asia Pacific



(\$ in Millions)	Q2 2014	Q2 2013	% YoY Change		Sales Mix*	
<b>Net Sales</b>	\$ 67.0	\$ 69.2	(3.2%)	↓	Volume	(0.4%)
<b>Adjusted EBIT<sup>1</sup></b>	\$ 0.4	\$ 0.7	(44.1%)	↓	Price	0.5%
<b>Adj EBIT Margin<sup>1</sup></b>	0.5%	0.9%	(40) Bps	↓	Acq/Div	-
					Forex	(3.4%)
					<b>Total</b>	<b>(3.2%)</b>

**Volume performance stabilizing while margins challenged by volume and mix.**

\* Amounts may not sum due to rounding

<sup>1</sup> Please refer to the appendix for reconciliation of non-GAAP measures

# Welding Segment – South America



(\$ in Millions)	Q2 2014	Q2 2013	% YoY Change		Sales Mix*	
<b>Net Sales<sup>2</sup></b>	\$ 39.1	\$ 44.5	(12.3)%	↓	Volume	(19.7%)
					Price	37.5%
<b>Adjusted EBIT<sup>1,2</sup></b>	\$ 5.0	\$ 11.1	(54.9)%	↓	Acq/Div	-
					Forex	(30.1%)
<b>Adj EBIT Margin<sup>1</sup></b>	12.8%	24.8%	(1,200) bps	↓	<b>Total</b>	<b>(12.3%)</b>

**Lower volumes and margin due to Venezuela operation.**

\* Amounts may not sum due to rounding

<sup>1</sup> Please refer to the appendix for reconciliation of non-GAAP measures

<sup>2</sup> Q2-2014 results include \$19.0 million in Net Sales and \$4.4 million in Adjusted EBIT from our Venezuelan operation. The Company incurred a \$3.5 million charge to Cost of good sold in the second quarter related to the currency remeasurement to SICAD I at 3/31/2014.

# Venezuela – Key Actions and Risks in 2014



## Key Updates:

### **1. South America segment results now reflect the SICAD I rate in Venezuela\* (implemented 3/31/2014)**

- Bolivar-denominated monetary assets and liabilities at \$24 million (\$16M in cash and equivalents as of 6/30/2014)

### **2. Charges taken to reflect use of SICAD I:**

- Q2 2014 charge to COGs: \$3.5 million for inventory valuation adjustment
- Q1 2014 after-tax charge to SG&A: \$17.7 million for balance sheet item adjustments

### **3. Venezuela operations limited to selling only locally-sourced and locally-produced products and by government mandated pricing controls**

### **4. Performance may be further impacted by key risk factors**

## 2014 Risk Factors to Lincoln Electric Venezuela Earnings:

### **1. Any further devaluations and/or use of an alternate exchange rate(s)**

### **2. Potential disruptions to operations and distribution**

### **3. Local raw material sourcing and supply**

# The Harris Products Group



(\$ in Millions)	Q2 2014	Q2 2013	% YoY Change		Sales Mix*	
<b>Net Sales</b>	\$ 77.4	\$ 86.0	(9.9%)	↓	Volume	(4.6%)
					Price	(5.3%)
<b>Adjusted EBIT<sup>1</sup></b>	\$ 7.2	\$ 7.3	(2.2%)	↓	Acq/Div	-
					Forex	-
<b>Adj EBIT Margin<sup>1</sup></b>	9.0%	8.3%	70 bps	↑	<b>Total</b>	<b>(9.9%)</b>

**Volume weakness on soft equipment results, while lower price reflects declining raw material prices.  
Margin holding well on mix and cost management.**

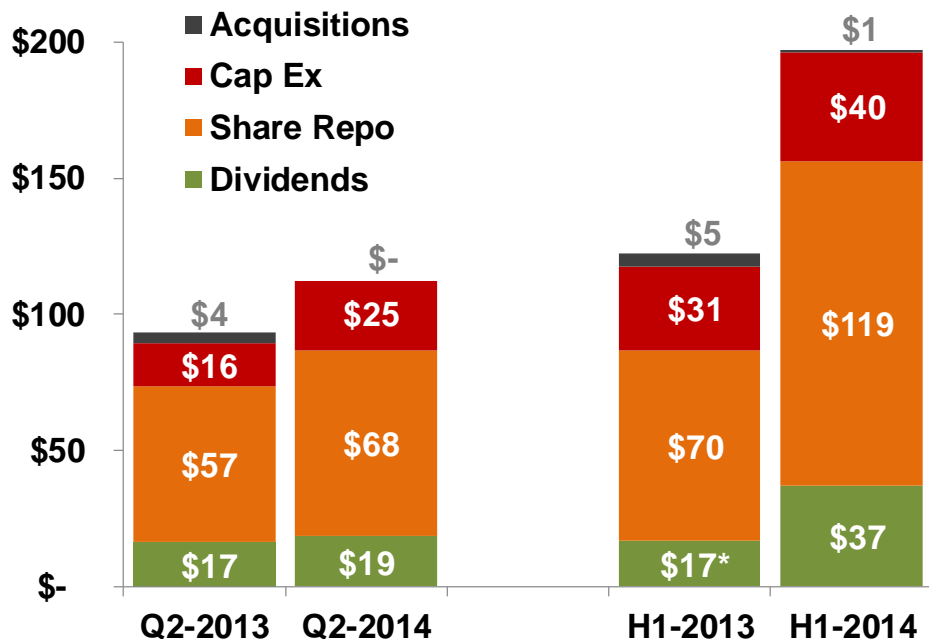
\* Amounts may not sum due to rounding

<sup>1</sup> Please refer to the appendix for reconciliation of non-GAAP measures

# Capital Allocation



## Capital Allocation



## Q2-2014 Results

- ▶ **Dividends:** +12% to \$19M
- ▶ **Share Repurchases:** +20% to \$68M
- ▶ **Capital Expenditures:** +60% to \$25M
- ▶ **Net Cash Balance:** \$204M at 6/30/14
- ▶ **Return on Invested Capital:** 18.9%

**Cash returned to shareholders +18% in Q2 vs. PY on higher share repurchases and dividend rate**



**LINCOLN**®  
**ELECTRIC**  
***THE WELDING EXPERTS***®

# Non-GAAP Financial Measures

## Non-GAAP Financial Measures: Reconciliation of Operating Income, Net Income and Earnings to Non-GAAP Adjusted Operating Income, Adjusted Net Income and Adjusted Earnings

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

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
Operating income as reported	\$ 112,275	\$ 104,272	\$ 192,713	\$ 192,902
Special items (pre-tax):				
Rationalization and asset impairment charges (1)	836	851	819	1,902
Venezuela foreign exchange losses (2)	3,468	2,538	21,133	12,198
Adjusted operating income (3)	<u>\$ 116,579</u>	<u>\$ 107,661</u>	<u>\$ 214,665</u>	<u>\$ 207,002</u>
Net income as reported	\$ 77,332	\$ 72,606	\$ 133,785	\$ 139,412
Special items (after-tax):				
Rationalization and asset impairment charges (1)	698	579	691	1,252
Venezuela foreign exchange losses (2)	3,468	2,538	21,133	12,198
Adjusted net income (3)	<u>\$ 81,498</u>	<u>\$ 75,723</u>	<u>\$ 155,609</u>	<u>\$ 152,862</u>
Diluted earnings per share as reported	\$ 0.96	\$ 0.87	\$ 1.65	\$ 1.67
Special items	0.05	0.04	0.27	0.16
Adjusted diluted earnings per share (3)	<u>\$ 1.01</u>	<u>\$ 0.91</u>	<u>\$ 1.92</u>	<u>\$ 1.83</u>
Weighted average shares (diluted)	80,773	83,411	81,194	83,606

(1) The three and six months ended June 30, 2014 and 2013 include net charges associated with severance and other related costs from the consolidation of manufacturing operations partially offset by gains related to the sale of assets at rationalized operations.

(2) The three and six months ended June 30, 2014 represents the impact of the Venezuelan remeasurement loss related to the adoption of a new foreign exchange mechanism in the first quarter. The three and six months ended June 30, 2013 represents the impact of the devaluation of the Venezuelan currency.

(3) Adjusted operating income, Adjusted net income and Adjusted diluted earnings per share are non-GAAP financial measures that management believes are important to investors to evaluate and compare the Company's financial performance from period to period. Management uses this information in assessing and evaluating the Company's underlying operating performance. 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.

# Non-GAAP Financial Measures

## Non-GAAP Financial Measures: EBIT and Adjusted EBIT – Three Months Ended June 30, 2014

(In thousands)  
(Unaudited)

	North America Welding	Europe Welding	Asia Pacific Welding	South America Welding	The Harris Products Group	Corporate / Eliminations	Consolidated
<b>Three months ended June 30, 2014</b>							
Net sales	\$ 429,490	\$ 115,574	\$ 66,997	\$ 39,051	\$ 77,419		\$ 728,531
Inter-segment sales	33,360	5,494	3,600	35	2,262	(44,751)	—
Total	\$ 462,850	\$ 121,068	\$ 70,597	\$ 39,086	\$ 79,681	\$ (44,751)	\$ 728,531
EBIT <sup>(1)</sup>	\$ 91,216	\$ 13,934	\$ 473	\$ 1,527	\$ 7,178	\$ 600	\$ 114,928
As a percent of total sales	19.7%	11.5%	0.7%	3.9%	9.0%		15.8%
Special items (gain) charge <sup>(2)</sup>	\$ (21)	\$ 965	\$ (108)	\$ 3,468	\$ —	\$ —	\$ 4,304
EBIT, as adjusted <sup>(4)</sup>	\$ 91,195	\$ 14,899	\$ 365	\$ 4,995	\$ 7,178	\$ 600	\$ 119,232
As a percent of total sales	19.7%	12.3%	0.5%	12.8%	9.0%		16.4%
<b>Three months ended June 30, 2013</b>							
Net sales	\$ 419,069	\$ 108,661	\$ 69,239	\$ 44,503	\$ 85,960	\$ —	\$ 727,432
Inter-segment sales	35,529	4,330	4,374	51	2,674	(46,958)	—
Total	\$ 454,598	\$ 112,991	\$ 73,613	\$ 44,554	\$ 88,634	\$ (46,958)	\$ 727,432
EBIT <sup>(1)</sup>	\$ 82,511	\$ 9,457	\$ 143	\$ 8,527	\$ 7,343	\$ (1,538)	\$ 106,443
As a percent of total sales	18.2%	8.4%	0.2%	19.1%	8.3%		14.6%
Special items (gain) charge <sup>(3)</sup>	\$ 266	\$ 75	\$ 510	\$ 2,538	\$ —	\$ —	\$ 3,389
EBIT, as adjusted <sup>(4)</sup>	\$ 82,777	\$ 9,532	\$ 653	\$ 11,065	\$ 7,343	\$ (1,538)	\$ 109,832
As a percent of total sales	18.2%	8.4%	0.9%	24.8%	8.3%		15.1%

(1) EBIT is defined as Operating income plus Equity earnings in affiliates and Other income.

(2) Special items in the three and six months ended June 30, 2014 include net charges primarily related to severance and other related costs from the consolidation of manufacturing operations partially offset by gains related to the sale of assets at rationalized operations and the impact of the Venezuelan remeasurement losses related to the adoption of a new foreign exchange mechanism in the first quarter.

(3) Special items in the three and six months ended June 30, 2013 include net rationalization and asset impairment charges and the impact of the devaluation of the Venezuelan currency.

(4) The primary profit measure used by management to assess segment performance is EBIT, as adjusted. EBIT for each operating segment is adjusted for special items to derive EBIT, as adjusted.