



## Lincoln Electric Holdings, Inc.

Q2 2018 Earnings Conference Call  
July 23, 2018

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Chairman, President & Chief Executive Officer

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Executive Vice President & Chief Financial Officer

# 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](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 schedule for a reconciliation of non-GAAP financial measures to the related GAAP financial measures.

## **Q2 2018 Highlights:** Solid organic sales growth and organization focused on initiatives to mitigate inflation through price, mix and productivity

- **Reported sales increased 26.0% to \$790.1 million on 9.3% organic sales growth and 16.0% acquisition benefit**
- **Adjusted Operating Income increased 18.8% to \$107.0 million on sales growth**
- **Adjusted Operating Income Margin of 13.5%; Excluding the ALW acquisition at approximately 14.7%**
- **Diluted EPS of \$1.04, Adjusted EPS increased 25.8% to \$1.22**
- **Average Operating Working Capital Ratio of 16.5%; Excluding the ALW acquisition at approximately 15.2%**
- **ROIC increased 200 basis points to 18.0%**

# Positive Momentum in Industrial Demand

- **Organic sales continued to improve in Q2: up 9.3% vs. prior year**
  - All reportable segments achieved organic sales growth
  - Strongest growth in Americas (North America), in U.S. exports, Asia Pacific, and Harris Products Group
  - Consumables and equipment (including automation) organic growth up high-single digit percent
- **Q2 2018 End Sector Performance<sup>1</sup>:**
  - **Higher demand vs. PY:** Most end markets grew in Q2, led by double digit percent organic growth in Automotive, Heavy Industries and General Fabrication
  - **Lower demand vs. PY:** Portions of Energy and Shipbuilding

# ALW Integration Activities are Pacing Ahead of Plan

## Q2 2018 Key Actions

- Continued progress on facility consolidations in Europe
- Streamlining commercial and administrative functions to eliminate redundancy
- Recognizing procurement synergies
- IT system integration and processes underway
- Centralizing and standardizing commercial initiatives
- Initiated Oerlikon® product sales in North America

## Q2 Financial Impact

- Q2 Rationalization Charges: \$11.5M
- Adjusted EPS Contribution: \$0.05

**On Track to Meet \$30 million**  
annual run rate of pre-tax  
operational synergies to be realized  
by 4<sup>th</sup> Year

# Income Statement – Q2 2018

<b>\$ in Millions</b>	<b>Q2 2018</b>	<b>% of Sales</b>	<b>Q2 2017</b>	<b>% of Sales</b>	<b>YoY % Change Fav/(Unfav)</b>
<b>Net Sales</b>	<b>\$ 790.1</b>		<b>\$ 626.9</b>		26.0%
<b>Gross Profit</b>	<b>270.1</b>	34.2%	<b>216.3</b>	34.5%	24.9%
<b>SG&amp;A</b>	<b>163.9</b>	20.8%	<b>130.7</b>	20.9%	(25.4%)
Special item charges <sup>1,2</sup>	12.3	1.6%	4.5	0.7%	(174.1%)
<b>Operating Income</b>	<b>94.6</b>	12.0%	<b>85.6</b>	13.7%	10.6%
<b>Adjusted Operating Income<sup>1</sup></b>	<b>107.0</b>	13.5%	<b>90.1</b>	14.4%	18.8%
<b>Interest Expense, net<sup>3</sup></b>	<b>4.8</b>	0.6%	<b>5.1</b>	0.8%	4.8%
<b>Income Taxes<sup>4</sup></b>	<b>25.4</b>	3.2%	<b>22.6</b>	3.6%	(12.2%)
<b>Effective Tax Rate<sup>4</sup></b>	<b>27.0%</b>		<b>27.0%</b>		-
<b>Net Income</b>	<b>\$ 68.9</b>	8.7%	<b>\$ 61.4</b>	9.8%	12.2%
Special Items <sup>5</sup>	11.5	1.5%	3.5	0.6%	(230.5%)
<b>Adjusted Net Income<sup>1</sup></b>	<b>\$ 80.4</b>	10.2%	<b>\$ 64.8</b>	10.3%	24.0%
<b>Diluted EPS</b>	<b>\$ 1.04</b>		<b>\$ 0.92</b>		13.0%
<b>Adjusted Diluted EPS<sup>1</sup></b>	<b>\$ 1.22</b>		<b>\$ 0.97</b>		25.8%

<b>Sales Mix<sup>6</sup></b>	
<b>Volume</b>	<b>4.4%</b>
<b>Price</b>	<b>4.9%</b>
<b>Acquisitions</b>	<b>16.0%</b>
<b>FX</b>	<b>0.7%</b>
<b>TOTAL</b>	<b>26.0%</b>

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

<sup>2</sup> Special items include Rationalization and asset impairment charges of \$11.5 million in 2018 and Acquisition transaction and integration costs of \$0.8 million and \$4.5 million in 2018 and 2017, respectively.

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

<sup>4</sup> Q2 tax rate excluding special items was 24.6% in 2018 and 26.7% in 2017.

<sup>5</sup> After-tax special item include charges noted in footnote 2.

<sup>6</sup> Figures may not sum due to rounding.

# Americas Welding Segment

(\$ in Millions)	Q2 2018	Q2 2017	% YoY Change		Sales Mix <sup>1</sup>
<b>Net Sales</b>	\$ 462.5	\$ 405.1	14.2%	↑	<b>Volume</b> 7.7%
<b>Adjusted EBIT</b>	\$ 88.2	\$ 74.5	18.3%	↑	<b>Price</b> 5.4%
<b>Adjusted EBIT Margin<sup>2</sup></b>	17.9%	17.2%	+70 bps	↑	<b>Acq/Div</b> 1.0%
					<b>FX</b> 0.1%
					<b>Total</b> 14.2%

**Margins improved on higher volumes.**

<sup>1</sup> Figures may not sum due to rounding

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

# International Welding Segment

(\$ in Millions)	Q2 2018	Q2 2017	% YoY Change		Sales Mix <sup>1</sup>	
<b>Net Sales</b>	\$ 243.4	\$ 141.5	72.0%	↑	<b>Volume</b>	(4.5%)
					<b>Price</b>	5.5%
<b>Adjusted EBIT</b>	\$ 16.3	\$ 9.5	71.4%	↑	<b>Acq/Div</b>	68.1%
					<b>FX</b>	2.9%
<b>Adjusted EBIT Margin<sup>2</sup></b>	6.5%	6.5%	-		<b>Total</b>	<b>72.0%</b>

**Volumes reflect integration activities and soft European demand. Excluding the ALW acquisition, the Adjusted EBIT Margin increased 190 basis points compared with the prior year.**

<sup>1</sup> Figures may not sum due to rounding

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



# The Harris Products Group

(\$ in Millions)	Q2 2018	Q2 2017	% YoY Change		Sales Mix <sup>1</sup>	
<b>Net Sales</b>	\$ 84.2	\$ 80.2	4.9%	↑	<b>Volume</b>	3.5%
<b>Adjusted EBIT</b>	\$ 10.2	\$ 9.8	3.8%	↑	<b>Price</b>	1.5%
					<b>Acq/Div</b>	-
					<b>FX</b>	(0.1%)
<b>Adjusted EBIT Margin<sup>2</sup></b>	<b>11.8%</b>	<b>11.8%</b>	<b>-</b>		<b>Total</b>	<b>4.9%</b>

**Solid demand across Distribution, OEM and Retail channels despite a challenging prior year comparison. Margin performance reflects unfavorable mix and inflation.**

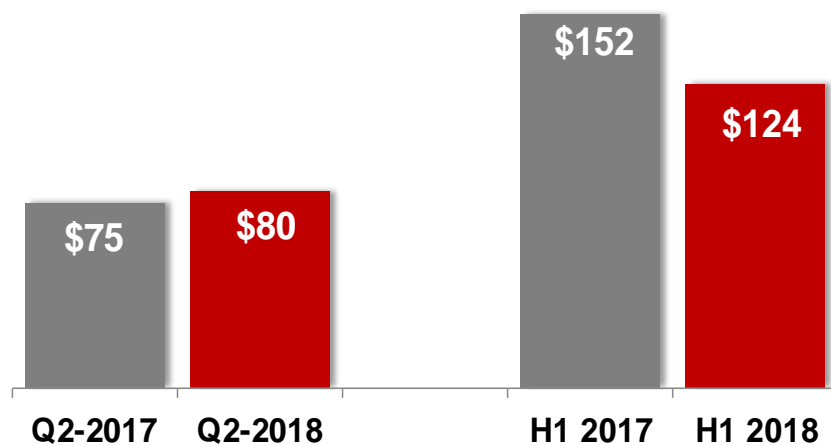
<sup>1</sup> Figures may not sum due to rounding

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

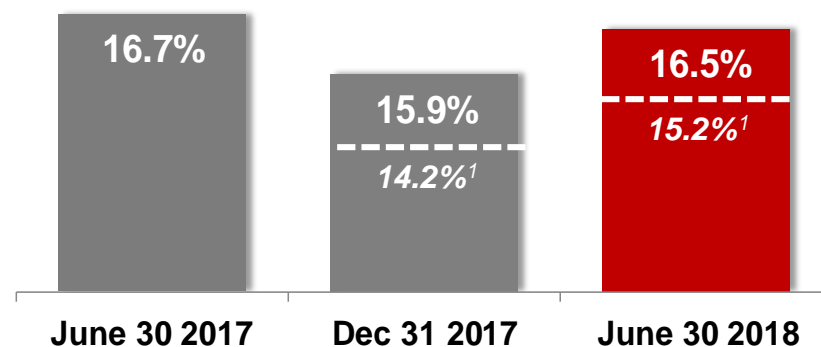
# Cash Flow from Operations Metrics

## Cash Flow from Operations

(\$ in Millions)



## Average Operating Working Capital to Net Sales Ratio



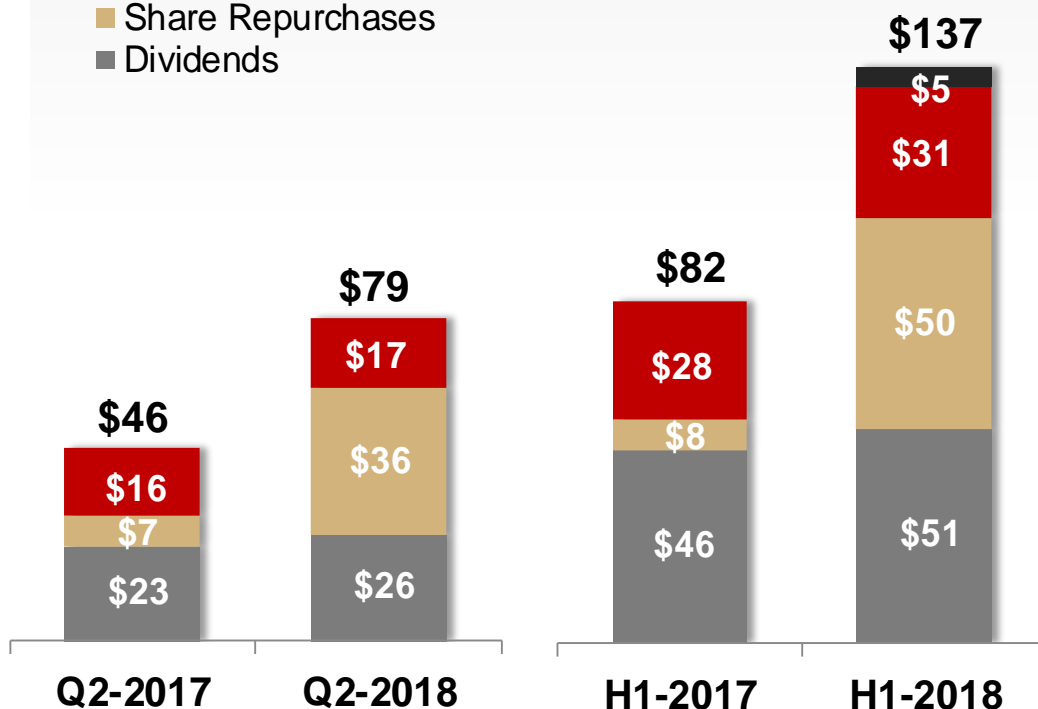
**Working capital results reflect higher sales levels, seasonal uses of cash and the ALW acquisition.**

# Capital Allocation

(\$ in Millions)

## Capital Allocation<sup>1</sup>

- Acquisitions
- Cap Ex
- Share Repurchases
- Dividends



## Q2 2018 Highlights

- ▶ Capital Expenditures: \$17M
- ▶ Dividend Payout Rate Increase: +11%
- ▶ Return on Invested Capital: 18.0%



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# Non-GAAP Financial Measures

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Operating income as reported	\$ 94,634	\$ 85,573	\$ 179,822	\$ 164,980
Special items (pre-tax):				
Rationalization and asset impairment charges <sup>(2)</sup>	11,542	—	21,717	—
Acquisition transaction and integration costs <sup>(3)</sup>	788	4,498	2,695	8,113
Adjusted operating income <sup>(1)</sup>	\$ 106,964	\$ 90,071	\$ 204,234	\$ 173,093
As a percent of total sales	13.5%	14.4%	13.2%	14.3%
Net income as reported	\$ 68,864	\$ 61,352	\$ 129,688	\$ 117,196
Special items:				
Rationalization and asset impairment charges <sup>(2)</sup>	11,542	—	21,717	—
Acquisition transaction and integration costs <sup>(3)</sup>	788	4,498	2,695	8,113
Pension settlement charges <sup>(4)</sup>	—	—	758	—
Tax effect of Special items <sup>(5)</sup>	(784)	(1,004)	(1,165)	(1,885)
Adjusted net income <sup>(1)</sup>	80,410	64,846	153,693	123,424
Non-controlling interests in subsidiaries' earnings (loss)	(5)	(21)	(9)	(17)
Interest expense, net	4,812	5,052	9,253	10,389
Income taxes as reported	25,404	22,635	48,782	44,687
Tax effect of Special items <sup>(5)</sup>	784	1,004	1,165	1,885
Adjusted EBIT <sup>(1)</sup>	\$ 111,405	\$ 93,516	\$ 212,884	\$ 180,368
Diluted earnings per share as reported	\$ 1.04	\$ 0.92	\$ 1.96	\$ 1.76
Special items per share	0.18	0.05	0.36	0.09
Adjusted diluted earnings per share <sup>(1)</sup>	\$ 1.22	\$ 0.97	\$ 2.32	\$ 1.85
Weighted average shares (diluted)	66,121	66,743	66,257	66,666

# Non-GAAP Financial Measures (continued)

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

(1) Adjusted operating income, Adjusted EBIT, Adjusted net income 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 and asset impairments.

(3) Related to the acquisition of Air Liquide Welding.

(4) Related to a lump sum pension payment.

(5) Includes the net tax impact of Special items recorded during the respective periods, including an adjustment to taxes on unremitted foreign earnings related to the U.S. Tax Act of \$2,500 in the six months ended June 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.

# Non-GAAP Financial Measures

## Return on Invested Capital (ROIC)

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

Return on Invested Capital	Twelve Months Ended June 30,	
	2018	2017
Net income as reported	\$ 259,995	\$ 230,640
Rationalization and asset impairment charges	28,307	—
Pension settlement charges	8,908	—
Acquisition transaction and integration costs	9,584	8,113
Amortization of step up in value of acquired inventories	4,578	—
Bargain purchase gain	(49,650)	—
Tax effect of Special items <sup>(3)</sup>	21,256	(1,885)
Adjusted net income <sup>(1)</sup>	\$ 282,978	\$ 236,868
Plus: Interest expense, net of tax of \$6,077 and \$8,988 in 2018 and 2017, respectively	18,265	14,489
Less: Interest income, net of tax of \$1,509 and \$1,244 in 2018 and 2017, respectively	4,537	2,005
Adjusted net income before tax effected interest	\$ 296,706	\$ 249,352
<b>Invested Capital</b>	<b>June 30, 2018</b>	<b>June 30, 2017</b>
Short-term debt	\$ 1,889	\$ 1,953
Long-term debt, less current portion	700,194	704,732
Total debt	702,083	706,685
Total equity	943,508	851,776
Invested capital	\$ 1,645,591	\$ 1,558,461
Return on invested capital <sup>(1)(2)</sup>	18.0%	16.0%

# 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 the net impact of the U.S. Tax Act of \$31,116 in the twelve months ended June 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 June 30, 2018

(In thousands)

(Unaudited)

	Americas Welding	International Welding	The Harris Products Group	Corporate / Eliminations	Consolidated
<b>Three months ended June 30, 2018</b>					
Net sales	\$ 462,515	\$ 243,373	\$ 84,164	\$ —	\$ 790,052
Inter-segment sales	31,240	5,497	2,003	(38,740)	—
Total	<u>\$ 493,755</u>	<u>\$ 248,870</u>	<u>\$ 86,167</u>	<u>\$ (38,740)</u>	<u>\$ 790,052</u>
Net income					\$ 68,864
As a percent of total sales					8.7%
EBIT <sup>(1)</sup>	\$ 88,158	\$ 4,734	\$ 10,157	\$ (3,974)	\$ 99,075
As a percent of total sales	17.9%	1.9%	11.8%		12.5%
Special items charges (gains) <sup>(3)</sup>	—	11,542	—	788	12,330
Adjusted EBIT <sup>(2)</sup>	\$ 88,158	\$ 16,276	\$ 10,157	\$ (3,186)	\$ 111,405
As a percent of total sales	17.9%	6.5%	11.8%		14.1%
<b>Three months ended June 30, 2017</b>					
Net sales	\$ 405,147	\$ 141,498	\$ 80,213	\$ —	\$ 626,858
Inter-segment sales	27,374	5,478	2,399	(35,251)	—
Total	<u>\$ 432,521</u>	<u>\$ 146,976</u>	<u>\$ 82,612</u>	<u>\$ (35,251)</u>	<u>\$ 626,858</u>
Net income					\$ 61,352
As a percent of total sales					9.8%
EBIT <sup>(1)</sup>	\$ 74,498	\$ 9,496	\$ 9,787	\$ (4,763)	\$ 89,018
As a percent of total sales	17.2%	6.5%	11.8%		14.2%
Special items charges (gains) <sup>(3)</sup>	—	—	—	4,498	4,498
Adjusted EBIT <sup>(2)</sup>	\$ 74,498	\$ 9,496	\$ 9,787	\$ (265)	\$ 93,516
As a percent of total sales	17.2%	6.5%	11.8%		14.9%

(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 2018 reflect rationalization and asset impairment charges of \$11,542 in International Welding. Special items in 2018 and 2017 also reflect acquisition transaction and integration costs of \$788 and \$4,498, respectively, in Corporate / Eliminations related to the acquisition of Air Liquide Welding.