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LECO - Q3 2014 Lincoln Electric Holdings Inc Earnings Call

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OVERVIEW:

Co. reported 3Q14 reported sales of $716m, common EPS of $0.57, and adjusted EPS of $0.94.

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CORPORATE PARTICIPANTS

Vincent Petrella *Lincoln Electric Holdings, Inc. - EVP, CFO, Treasurer*

Chris Mapes *Lincoln Electric Holdings, Inc. - Chairman, President, CEO*

CONFERENCE CALL PARTICIPANTS

Rob Wertheimer *Vertical Research Partners - Analyst*

Tom Hayes *Northcoast Research - Analyst*

Mark Douglass *Longbow Research - Analyst*

Joe Mondillo *Sidoti & Co. - Analyst*

Liam Burke *Wunderlich Securities, Inc. - Analyst*

Greg Halter *Great Lakes Review - Analyst*

Stanley Elliott *Stifel Nicolaus - Analyst*

Schon Williams *BB&T Capital Markets - Analyst*

Ken Newman *KeyBanc Capital Markets - Analyst*

PRESENTATION

Operator

Greetings and welcome to the Lincoln Electric 2014 third-quarter financial results conference call. At this time, all participants are in a listen-only mode, and this call is being recorded. It is now my pleasure to introduce your host, Vincent Petrella, Executive Vice President and Chief Financial Officer. Thank you sir, you may begin.

Vincent Petrella - *Lincoln Electric Holdings, Inc. - EVP, CFO, Treasurer*

Thank you, Nicole, and good morning to everyone. Welcome to the Lincoln Electric 2014 third-quarter conference call.

We released our financial results for the quarter earlier this morning, and you can find our release on the Lincoln Electric website at LincolnElectric.com, or by contacting our Investor Relations office at 216-383-2534.

Joining me on the call today is Chris Mapes, Lincoln's Chairman, President and Chief Executive Officer. Chris will begin the discussion this morning with an overview of the quarter, and I will then cover the numbers in more detail as well as our uses of cash. Following our prepared remarks, we will take your questions.

As part of our webcast today, we are using a slide presentation which can be accessed on our website under the Company and Investor Relations tabs. But before we start our discussion, please be reminded that certain statements made during this call and in our discussions may be forward-looking and actual results may differ from our expectations. Actual results may differ materially from such statements due to a variety of factors that could adversely affect the Company's operating results. Risks and uncertainties that may affect our results are provided in our press release and in our SEC filings on Forms 10-K and 10-Q.

Additionally, we also discuss financial measures that do not conform to US GAAP, and you may find important information on our use of these measures and their reconciliation to US GAAP in the financial tables that we have included in our earnings release.

With that, let me turn the call over to Chris.

Chris Mapes - *Lincoln Electric Holdings, Inc. - Chairman, President, CEO*

Thank you Vince and good morning everyone, and thank you for joining us on the call today.

Moving to Slide 3, we are pleased to report a strong third quarter with a number of high-quality underlying drivers. Our results continue to reinforce our confidence in our 20-20 vision and strategy which we continue to execute around the world. On the top line, third-quarter reported sales increased 3.5% to $716 million. Excluding the unfavorable impact of foreign exchange translation, sales increased approximately 6%.

The business achieved good momentum throughout the quarter, which builds on three out of four quarters now of positive growth. We saw a broad pickup in demand across our key segments in North America, Europe, and in our Harris Products Group. And also, more importantly, this expansion was across each of our major solution offerings, including consumables, equipment, and automation.

Reported operating income was impacted by a $29 million rationalization and asset impairment charge which is primarily associated with a non-cash asset impairment charge in our Asia-Pacific segment. This charge was taken as part of our planned divestiture of a facility in that segment and is part of an ongoing effort to align manufacturing capacity with the strategic repositioning of our business to focus this region on higher value-added products and solutions. This is one of several actions we have been taking in this region to drive our strategy. On an adjusted basis, which excludes this charge, we are pleased to report that we achieved a 4.7% operating income margin on a very challenging year-over-year comparison from the earnings volatility of our Venezuelan operations in 2013.

The high quality of our margin performance this year reflected the benefits of operating leverage, improved mix from both geographies and products, and our continued focus on productivity. Together, these gains successfully offset declines in our South American segment in the quarter and last year's tough comparison.

We reported earnings per common share of $0.57 in the third quarter. On an adjusted basis, EPS increased 9% to $0.94. And I would remind you that Venezuela had an unfavorable $0.01 loss headwind in the quarter versus an $0.11 gain last year. Our ability to improve the quality of these earnings is a significant achievement in the quarter.

Returns on invested capital remain solid at 18.3% and we generated solid cash flow from operations, up 11% on a year-to-date basis, with good working capital efficiency. We returned a sizable $148 million to shareholders in the quarter, up 146% versus prior year. We did this through higher dividends and share repurchases, and as we noted in our press release on October 28, our board has further increased our dividend and raised this year's share repurchase target to $300 million. By year-end, we will have repurchased over $500 million of shares over the last three years, exhibiting continuing confidence in our operating model and our ability to execute on our strategy.

Moving onto Slide 4, our organic growth was solid in the quarter with approximately 2% volume growth driven largely by our North American, European and Harris Products Group segments. South America was the most challenged with a 40% decline in volumes as our Venezuelan business continued to contract due to limited operations in the country and from intermittent local supply disruptions in the quarter. Excluding Venezuela, our consolidated volume growth would have been 5% in the quarter, which shows nice momentum in the recovery across our end markets and positive volume growth across our consumables, equipment and automation solutions.

Overall, we are seeing improvement across a broader range of end sectors with the general fabrication and structural sectors showing ongoing improvement, which tend to be indicative of improving industrial reduction.

Looking in North America, volume performance increased 6% on good growth across consumables, equipment, and automation. Exports remained weak in the quarter but continued to narrow. Excluding exports, volumes increased 10% organically on solid domestic demand trends.

In Europe, volumes increased sharply by 12.5% with broad improvement across Europe, including Russia and most of the Middle East, again, largely driven by our new equipment offering, increases in our new alloy products and specialty consumables, as well as an increase in automation. Europe exhibited solid performance across the entire portfolio.

Moving to Slide 5, we continue to stay focused on profitable growth. In the quarter, we advanced our automation solutions with the bolt-on acquisition of Easom Automation, which generated approximately $30 million of sales in 2013. Easom expands our automation capabilities into the heavy fabrication sector with an offering of positioning equipment and engineering capabilities for the heavy equipment industrial manufacturer and extends our brand and solutions to more key customers. I am also excited to have this type of capability in the greater Detroit area to service the large automotive base in the region.

We also signed a licensing agreement with Helical Robotics to leverage our joint technologies to develop a trackless automated welding solution that we expect to commercialize late next year.

Our R&D and marketing teams continue to drive innovation with the launch of a number of products, many of which were showcased at the International Manufacturing Technology Show, or IMTS conference. And we will be highlighting those as well as other new launches at the upcoming FABTECH show in Atlanta in November.

Operationally, we continue to execute on initiatives to drive improved returns. We continue to be impressed with our business and the ability to integrate our acquisitions. I really account two major reasons for this success. First, we found that the individuals leading and managing these businesses have great skills and are a key reason for the success. Our ability to keep them engaged in leading these companies is a critical success factor.

Secondly, we continue to get better at the process. We've integrated over 10 acquisitions and greenfield operations in the last 36 months. It is a skill set that the organization has refined to give our management team great confidence in our ability to continue to acquire leading products and solutions.

As noted in our release, we plan to divest manufacturing capacity in our Asia-Pacific segment to better align our platform with our strategic repositioning in the region. As our plan finalizes, we will provide more detail in the future. I have great confidence in our strategy in Asia-Pacific and specifically China.

Our core strategy of driving improved results through the growth of value-added solutions is continuing to progress. In China, we saw increased sales in equipment and automation in the quarter, and I am confident that this will be a strategic region for us as we continue to execute on our 20-20 vision and strategy.

Before I pass the call to Vince to go into the numbers in more detail, I would like to reiterate that we are extremely pleased with the momentum seen in the business and believe that we are well-positioned with a strong pipeline for ongoing organic growth as we finish the year. And now I will pass the call to Vince.

Vincent Petrella - *Lincoln Electric Holdings, Inc. - EVP, CFO, Treasurer*

Thank you Chris. Walking through the income statement highlights on Slide 6, our consolidated sales were up 3.5% compared with the third quarter of 2013. Volume increased sales by 1.9% and pricing was up 2.5%. Excluding Venezuela, our organic sales increased 5.8%.

Third-quarter gross profit margins increased 20 basis points to 33.8% compared with 33.6% in the comparable prior-year period. LIFO charges in the quarter totaled $1.5 million compared with LIFO credits of $600,000 in the prior-year same quarter. The improved gross margins were primarily caused by a better sales mix and operational improvements.

SG&A expense for the third quarter increased 10 basis points. The increase in SG&A is primarily due to incremental SG&A from acquisitions and higher bonus expenses related to increased earnings.

Operating income as a percentage of sales decreased 320 basis points for the quarter. The quarter did include rationalization and asset impairment charges of $29.1 million, again primarily related to the asset impairments in our Asia-Pacific segment. Adjusted operating income before rationalization and asset impairment charges was 14.7% of sales in the quarter. Excluding rationalization and asset impairment charges as well as our Venezuelan results, our operating profit margins would've been 15.2% in 2014.

The effective income tax rate in the third quarter increased to 42.4% from 34.3% in the prior-year same quarter. The increase was primarily due to the asset impairment charges with no associated tax benefits. On a normalized basis, we would expect our effective tax rate to approximate in the low 30% range.

Diluted earnings per share decreased 29% for the third quarter compared with the prior year. Excluding special items, adjusted diluted earnings per share increased approximately 9% over 2013's third quarter. Now, if we were to exclude special items as well as the results from our Venezuelan operations in both years, diluted earnings per share increased 27%.

On a reportable segment basis and excluding special items, North America welding improved adjusted EBIT margins by 90 basis points in the third quarter. Higher sales volumes drove this increase.

Europe welding's adjusted EBIT margin increased 600 basis points in the quarter. The improvement was primarily attributable to the 12.5% increase in year-over-year volumes. We experienced broad-based improvements in volumes across our European segment, including Russia and the Middle East.

The Asia-Pacific segment recorded an EBIT loss of 50 basis points in the quarter. Sales in Asia-Pacific were down 11% due to volume, but pricing did improve 1.5%. The volume decreases were primarily caused by the continuing softness in both the China and Australian markets.

South America welding adjusted EBIT was a small loss in the quarter compared with EBIT earnings of $16 million in the prior-year same quarter. The preponderance of the prior year's earnings came from our Venezuelan operations. The high relative earnings achieved in the prior year were caused by the highly inflationary environment of Venezuela. During the current year's third quarter, our Venezuelan operations experienced manufacturing disruptions due to the availability of raw materials. We do expect these manufacturing disruptions to continue into our fourth quarter of 2014.

The Harris Products Group's second-quarter EBIT margins increased by 200 basis points. Volumes improved 7.4% over the prior year. The decline in pricing is due to lower metals prices on a year-over-year basis, but the overall improvement in margins is a result of the strong operational leverage in the Harris business.

We generated $149 million of operating cash flows in the quarter. The nine-month cash flow total of $268 million achieved record levels. Our working capital management improved over the prior year's achievement.

During the quarter, we spent $130 million repurchasing shares. In addition, we paid a dividend of $18 million representing an 11% year-over-year increase in payout. We also announced a 26% dividend rate increase for the December dividend declaration. On a year-to-date basis, we have spent $249 million on share repurchases and we have paid $55 million in cash dividends. As Chris noted, we also announced a new share repurchase target of $300 million for 2014, increasing the previous target by $50 million. We now anticipate that 2015 share repurchase activity will continue at levels at least approximating 2014 rates.

We ended the quarter with a net cash position of $191 million on the balance sheet. Additionally, in the quarter, we received a favorable judgment as part of an appeals process in the Tax Court of Canada relating to a prior-year tax dispute. As a result, we expect a cash refund of approximately $80 million to be refunded to us in the first quarter of 2015. Our balance sheet position will give us the flexibility to continue to invest in the business for the long run and prudently return cash to shareholders.

Now, looking to the fourth quarter of 2014, I would like to remind our investors that Venezuelan operations contributed $0.22 per share in earnings in the fourth quarter of 2013. We expect our Venezuelan operating results in the fourth quarter of 2014 to approximate our third-quarter 2014 experience. In addition, the fourth quarter of 2013 included $3.7 million of LIFO credits, and $3.5 million of foreign exchange gains, which we do not expect to reoccur in the 2014 fourth quarter. Accordingly, we expect fourth-quarter 2014 consolidated earnings per share to follow a more traditional seasonal earnings pattern resulting in a lower sequential EPS result.

With that, I would like to open the call for questions. Nicole?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Rob Wertheimer, Vertical Research.

Rob Wertheimer - *Vertical Research Partners - Analyst*

Good morning everybody. Just a quick question, and I'm sorry if I missed anything in the intro. It was a very busy morning. But could you maybe address the strength in Europe and whether there is an opportunity -- I know it's not been long duration, I know it's an easy comp and all that, but the opportunity for pricing and/or just the gap between organic and pricing, and really if there is underlying strength or just a lot of volatility?

Chris Mapes - *Lincoln Electric Holdings, Inc. - Chairman, President, CEO*

I would tell you first, I'm very happy and impressed with the performance that we had in our European business. Really our European business has made some improvements in its performance in three of the last four quarters that we've seen. We've made some structural improvements in that business from some asset rationalizations that were made in late 2012 and 2013. We are seeing the benefits of that. We're also driving some new products and solutions into that marketplace that the market is receiving very well. We mentioned a few calls ago a new equipment offering that we were driving into that marketplace. So I am very comfortable that our performance is much stronger than what the market for these products is growing in that particular region. There is no question that there are still some concerns over longer-term volatility in that marketplace, whether we'd be talking about the geopolitical issues that are impacting Russia and part of Western Europe because of those activities. But we believe strongly that our European business has made some significant improvements in its long-term performance and feel like we will be able to continue to provide some organic growth in that business, at least as we see the marketplace there over the next two or three quarters.

Rob Wertheimer - *Vertical Research Partners - Analyst*

That's excellent. So, you're gaining share and you're improving your operations. Is there a chance for pricing to be a little bit more neutral and therefore contribute even more to margin?

Chris Mapes - *Lincoln Electric Holdings, Inc. - Chairman, President, CEO*

Maybe, but I think that's difficult to say. As you are well aware, with these products moving into that region, you've got a multitude of different products approaching different markets that are -- some of them more stronger than others. What I can assure you is we are certainly trying to drive increased performance management tools into our pricing discipline and ensuring that we are returning that value back to our business in Europe as we drive solutions into that marketplace.

Rob Wertheimer - *Vertical Research Partners - Analyst*

Excellent. Thank you for the response.

Operator

Tom Hayes, Northcoast Research.

Tom Hayes - *Northcoast Research - Analyst*

Thank you. Good morning gentlemen. Just wondering, Chris, you mentioned you're going to come back later with some additional color on the China strategy, but I was just wondering if there's anything you could provide now as far as the write-off. Will we see more write-offs? And was that a consumable facility that you guys are working on there?

Vincent Petrella - *Lincoln Electric Holdings, Inc. - EVP, CFO, Treasurer*

It is a consumable facility. We have we believe to be excess capacity in the region in the consumable area, largely in the area of lower margin or commodity-based products. So we are looking to tighten up our fixed cost structure and look to improve our margin and mix opportunities moving forward.

Chris Mapes - *Lincoln Electric Holdings, Inc. - Chairman, President, CEO*

This is Chris. Look. I think one of the things I would tell you is we recognize that China is a strategic market for us over the long-term. And we're going to continue to push and position our products and solutions in a way that we can drive economic value for our business and our shareholders long-term. And this is looking at that business and saying that we've got -- we don't have a match between our current manufacturing capacity capabilities and where we intend to drive products within that marketplace. This is one step.

We have been making other steps over the last several quarters, whether that's in identifying our human resource capabilities or the products that we have in that marketplace, but we knew that this step was the right next step for us. And once we have worked on the execution on the divestiture of that asset, then we will be back and provide you clarity relative to the impact on that upon the business and how we feel we're going to be able to continue to improve upon the business as we move on forward.

As I said in my prepared remarks, there are elements of that business that are moving favorably, although over a much smaller base. We are seeing improvements in our equipment offering and our automation offerings in that market. So, we see signs of our ability to execute on that solution strategy there longer-term, and we are just going to continue to invest in that strategy as we think about that region and that market.

Tom Hayes - *Northcoast Research - Analyst*

Great, thanks. And then a follow-up. I just wondered if you could provide any thoughts on your expectations for the energy-related projects, especially in light of the drop-off in oil prices. Do you expect that to delay or have any impact on any of the energy-related projects you guys are working on?

Chris Mapes - *Lincoln Electric Holdings, Inc. - Chairman, President, CEO*

I think there is a long-term correlation to those data points, but I don't believe there is a short-term correlation to those data points, so I'm not expecting anything near term. If we were in a long-term run of oil or energy prices that were at this level or at a lower level, then that might impact long-term capital investment. But the way we think about the business today, we see this as a short-term movement and not seeing any short-term shifts in those particular markets.

Tom Hayes - *Northcoast Research - Analyst*

Thank you. I'll get back in queue.

Operator

Mark Douglass, Longbow Research.

Mark Douglass - *Longbow Research - Analyst*

Good morning everyone. Chris, can you discuss the US a little bit more? I assume on your slide deck you talked about structural non-res improving. There's a lot of that US. And do you see -- what's your view of the recovery of non-res construction in the US?

Chris Mapes - *Lincoln Electric Holdings, Inc. - Chairman, President, CEO*

Yes, you know, we have talked about non-res off and on where as we've seen some improvements over the last few quarters we have seen the strength especially in the automotive side and the energy side of the markets but that non-res construction had been more placid, had been more flattish. Probably in the third quarters, the first quarter where globally we can start to say we've seen more commercial structural activity start to pick up, maybe in the very early portion of that cycle, but I would tell you, Mark, that we don't see that as just a North American catalyst. I saw a little bit of an increase in that particular segment on a global basis, but we certainly saw some indications from our customers and from the marketplace in the third quarter that we believe that structural, commercial structural activity is picking up here in North America.

Mark Douglass - *Longbow Research - Analyst*

Good. And then more on North America, US certainly. Can you describe a little bit more about what the puts and takes are on driving North American strength? And it's pretty good 10%, excluding exports, right? I guess it's surprising to me considering ag equipment is starting to roll over. So just some of the more (multiple speakers)

Chris Mapes - *Lincoln Electric Holdings, Inc. - Chairman, President, CEO*

I think that's one of the strengths of our portfolio, and I feel strongly about that. We rarely are going to have globally or in any one region where every one of those segments is operating at a level that we would like to see. And certainly mining is still down and we are starting to the ag becoming a little more challenged.

But we are also seeing real strength in a host of other core markets, including energy, including the starting improvement in commercial construction. We are starting to see improvement in general fabrication, and I think we also have the breadth of our solutions and continued improvement in some of our capital goods businesses, our automation businesses, strength in some new technologies and solutions, and the aggregation of that is really allowing us to continue to see growth in some of the broader markets here in the US and North America even though mining is still relatively flattish off of low numbers, and ag certainly is beginning to show some signs of sluggishness.

Mark Douglass - *Longbow Research - Analyst*

Thanks for taking my questions.

Operator

Joe Mondillo, Sidoti.

Joe Mondillo - *Sidoti & Co. - Analyst*

The first question, regarding the Harris Group, the volume was -- jumped pretty big in the quarter. I was wondering if you could just provide a little more color on what drove that and if that's sustainable, do you think?

Vincent Petrella - *Lincoln Electric Holdings, Inc. - EVP, CFO, Treasurer*

It was on both sides of the business, equipment and consumables, but a stronger result on the equipment side. There was, we think, some beneficial impact from the recovery of an equipment recall issue in the second quarter that benefited the third quarter, but we see order patterns continue to be up in both consumables and equipment in the Harris segment.

Joe Mondillo - *Sidoti & Co. - Analyst*

Okay. And is that just -- could you just provide a little more info on what drives that business per say, in terms of an markets or geographies?

Vincent Petrella - *Lincoln Electric Holdings, Inc. - EVP, CFO, Treasurer*

The equipment side is very broad-based, much of the same end markets that we see on the welding side of our business. The consumables business is largely driven by HVAC, air-conditioning, res construction, and replacement cycles. So, to the extent that the builds are increasing and the replacement cycle for HVAC and air conditioning are improving, that will be a read-through on our consumable business.

Joe Mondillo - *Sidoti & Co. - Analyst*

Okay. Is that mostly North America, or is that very broad-based?

Vincent Petrella - *Lincoln Electric Holdings, Inc. - EVP, CFO, Treasurer*

The majority of the business is North America on the consumable side, although we have a sizable position in South America through our Brazilian business.

Joe Mondillo - *Sidoti & Co. - Analyst*

Okay.

Chris Mapes - *Lincoln Electric Holdings, Inc. - Chairman, President, CEO*

I would also add that our Harris business, much like other areas of our portfolio, has identified four or five new products that have been launched into that business in the last six to nine months, and some of those new products are gaining some strength, certainly are providing a catalyst of the consumables growth that we see within that business.

Joe Mondillo - *Sidoti & Co. - Analyst*

All right. Thank you. Second question, a follow-up question. I was wondering if you could provide more of a higher level update on your automation capabilities, and sort of strategy there. You continue to make these acquisitions related to automation, so I was wondering if you could just update us on sort of what your product offering is at this point in time and what kind of end markets you are hitting, both on a sector basis as well as on a geography basis?

Vincent Petrella - *Lincoln Electric Holdings, Inc. - EVP, CFO, Treasurer*

I'll start by saying that the Easom acquisition added a deeper and broader capability to our automation suite of solutions geared towards heavy fabricating solutions. So, we now have added a significant amount of capabilities in North America through automation business acquisitions and transportation and automotive and appliance, and now you see a business that has a deeper capability in heavy fabrication.

We have also have, for about a year now, a greenfield operation that was started up in Brazil that we are building out capabilities to expand in the Brazilian and South American market. We did announce the acquisition of an automation business in Germany as a significant beachhead in the most attractive manufacturing and automotive environment on the continent. So our strategy is basically twofold. We continue to look for geographical opportunities to bring automation solutions to our customers around the world, and then look for those applications that we may need to build upon in the automation space to be a full suite, a broad product offering in welding and cutting automation.

Joe Mondillo - *Sidoti & Co. - Analyst*

And so in terms of additional end markets that you see as an opportunity, are there anything you can highlight? And from my perspective, it seems like sort of a general manufacturing could certainly use this type of equipment, but it seems like it's more honed in more towards automated transportation, you're now getting into heavy fab. So is there many more sectors that you see that could sort of branch off with this capabilities?

Vincent Petrella - *Lincoln Electric Holdings, Inc. - EVP, CFO, Treasurer*

I will tell you that our core business that we've had in Lincoln for some number of years now has that broad manufacturing capability, as do these additional businesses that we are adding. So, we've always been participating in the broad fabrication and manufacturing and metal joining segments. We've just continued to expand that circle into more specialized applications that we think are greater value adds for our solutions.

Joe Mondillo - *Sidoti & Co. - Analyst*

Okay. Thanks for taking my questions.

Chris Mapes - *Lincoln Electric Holdings, Inc. - Chairman, President, CEO*

We see this as a long-run catalyst. It has a lot to do with the re-shoring of manufacturing back into the US business. You have a skills gap issue with the shortage of qualified welders and you have manufacturers that are looking to drive productivity and minimize labor costs. And that is really what's being driven in a multitude of industries and segments, and that's what I like about Easom. Easom provides us another level of capability from what our current offering was into portions of that marketplace. But when I think about our automation business, I see that across a multitude of segments that we will be able to participate in, not only here in North America but globally.

Vincent Petrella - *Lincoln Electric Holdings, Inc. - EVP, CFO, Treasurer*

I will finally add, in terms of another segment, we have added and have had existing capabilities in the energy markets, including pipeline capabilities. And through a recent acquisition as well as legacy capabilities, energy is a market that we believe we can take advantage of our applications expertise.

Operator

Liam Burke, Wunderlich Securities.

Liam Burke - *Wunderlich Securities, Inc. - Analyst*

Thank you. Good morning Chris. Good morning Vince. Chris, you mentioned the system -- or exports were down in North America, but you mentioned that the systems business in China was better. Are there other areas of exports that are improving?

Chris Mapes - *Lincoln Electric Holdings, Inc. - Chairman, President, CEO*

I would tell you there are a couple of other areas of exports. My first comment would be that although the exports were still down out of North America, that is narrowing from a trend line perspective from earlier in the year. We have seen some improvements in some of our exports out of Europe. We have some specialty consumable products, especially some of those products that are in the offshore marketplace that we have seen some improvements on a year-over-year basis, but those improvements would be more product-based relative to a couple of applications. I wouldn't say that I am pointing towards any other necessary exports globally that are significantly different that I would call out.

Liam Burke - *Wunderlich Securities, Inc. - Analyst*

Okay. And I know that you had talked about eliminating unprofitable product mix in China, understanding this is an ongoing activity. Have you pretty much gone through the initial push in rationalizing the product line there?

Chris Mapes - *Lincoln Electric Holdings, Inc. - Chairman, President, CEO*

I would tell you that a lot of work has been done. I wouldn't tell you that I believe it's been completed. This is the value of recognizing that this is a strategic market for us and wanting to ensure that we are building the kind of capabilities there that can meet our expectations of our strategy of driving value-added solutions into that marketplace. So, I would tell you an enormous amount of work has been done. The announcement we made today is another step in that direction of getting those assets and capabilities in the shape that we want them to be to drive that strategy. But there certainly will be other activities I'm certain that we will be investing in and other activities we may need to take relative to the product portfolio as we continue to execute on the strategy in that region.

Liam Burke - *Wunderlich Securities, Inc. - Analyst*

Great. Thanks Chris.

Operator

Greg Halter, Great Lakes Review.

Greg Halter - *Great Lakes Review - Analyst*

Thank you and good morning. I was wondering if you could discuss what you're seeing on the M&A front. Obviously you're generating a lot of cash and you're using that cash on dividends and the share repurchase, but I just wondered if you could comment on M&A area besides what you've completed here so far?

Vincent Petrella - *Lincoln Electric Holdings, Inc. - EVP, CFO, Treasurer*

As you know, we continue to be very active in searching for, identifying and sourcing attractive acquisitions. There are opportunities in the pipeline that we continue to work through, and we are optimistic that we will continue to demonstrate a track record of adding bolt-on acquisitions on a regular and consistent basis that add value for our shareholders. So, we have not changed at all our view of the opportunities there are and we will continue to work them hard to try to find those that are appropriate and of course at the right price.

Greg Halter - *Great Lakes Review - Analyst*

All right. Thank you. And on the share repurchase, do you have the number of shares that were acquired either year-to-date or in the quarter?

Vincent Petrella - *Lincoln Electric Holdings, Inc. - EVP, CFO, Treasurer*

The quarter was about 1.9 million shares that we acquired.

Greg Halter - *Great Lakes Review - Analyst*

All right. Thank you.

Operator

Stanley Elliott, Stifel.

Stanley Elliott - *Stifel Nicolaus - Analyst*

Good morning. Thank you guys for taking the question. A quick question on the automation side, I thought that was interesting commentary about that business improving in China. Were these more multinationals or were these local companies within country?

Chris Mapes - *Lincoln Electric Holdings, Inc. - Chairman, President, CEO*

We have a very small business there, but we have had a position in that marketplace for a considerable period of time. I would tell you that there is a mix of those customers, although some of those -- of the base of that mix, most of those tend to be multinationals that probably we have a global relationship with that we are bringing solutions to the marketplace. But again, I would caution that that's a pretty small base in that market.

Stanley Elliott - *Stifel Nicolaus - Analyst*

And then talking about the balance sheet into next year, you have the money coming in from Canada. Is that included on the balance sheet numbers that you have now? But I guess more importantly, what are your thoughts on adding leverage as you are looking to kind of continue to accelerate your share repurchase and also likely accelerate the dividend payments and see what you have there?

Vincent Petrella - *Lincoln Electric Holdings, Inc. - EVP, CFO, Treasurer*

The $80 million from Canada is not in our cash balance yet. It's in another asset category. We need to collect that before we could record it as cash. But we expect that to happen again in the first quarter of next year.

As far as leverage is concerned, I fully expect us to add leverage in 2015. If you look at our existing free cash flows and you estimate that perhaps they might approximate around $250 million after CapEx and dividends, we will be purchasing more shares in the marketplace than the remaining free cash flow available. And if we add any acquisitions to that, I think that will add to our debt requirements in 2015. So, we fully expect that we will be carrying a debt load in 2015 because of greater allocation and more aggressive return of cash to shareholders.

Stanley Elliott - *Stifel Nicolaus - Analyst*

Would this be more on like a revolver type basis, or term notes, or is this kind of to be determined?

Vincent Petrella - *Lincoln Electric Holdings, Inc. - EVP, CFO, Treasurer*

It's likely we'll take the opportunity to put our first layer of longer-term debt on the balance sheet. We do have an ample revolver in place that we could fund short-term needs from time to time, but I think we will keep that available, and it's likely we will put some longer-term debt on the balance sheet.

Stanley Elliott - *Stifel Nicolaus - Analyst*

Great guys. Thank you very much and congratulations.

Operator

Schon Williams, BB&T Capital.

Schon Williams - *BB&T Capital Markets - Analyst*

(technical difficulty) could start with my favorite subject, South America. I guess maybe can you talk a little bit about the trends in the quarter? Obviously, you mentioned some of the disruptions there. It does not sound like that is a near-term issue. Should we assume that continues into the indefinite future? And at what point does Venezuela become such a liability that it becomes time to close that facility? Is that a region that you have to be in in order to maintain market share? I just want to make sure I understand what the thinking is of management and the board there.

Vincent Petrella - *Lincoln Electric Holdings, Inc. - EVP, CFO, Treasurer*

First, we have had disruptions to our manufacturing activities in Venezuela because of shortages in critical raw materials. We do believe those disruptions will continue to affect our business into the fourth quarter of 2014.

Our philosophy around Venezuela is we are going to limit any further hard currency capital entering the country. We are going to continue to operate the business with this existing currency resources and capabilities. We do not foresee, at this time, an advantage in shutting down that business until and if it does run out of ability to manage itself locally. We recognize that Venezuela from a longer-term perspective can and should and will be an attractive market. It is the largest oil reserves in the world, and it's going to have to be an important energy market in the future. So, we're going to continue to manage this issue very carefully. We're going to limit our exposure from a capital perspective moving forward, and we do not have any plans in the foreseeable future to exit our Venezuelan business from a manufacturing or a selling standpoint.

Schon Williams - *BB&T Capital Markets - Analyst*

And just so I am clear, why would the supply disruptions, why would that not carry into 2015 and beyond? And why would the situation in Venezuela be getting better after Q4 of this year?

Vincent Petrella - *Lincoln Electric Holdings, Inc. - EVP, CFO, Treasurer*

I'm not saying it's going to get better. I just can only see into the fourth quarter in terms of what's going on there. It's certainly a possibility, and maybe even likely that we will have the same kind of issues in 2015, but I am not prepared to predict what's happening in 2015 at this point in time.

Schon Williams - *BB&T Capital Markets - Analyst*

Okay. That's helpful. Then just one follow-up there. Can you just talk about what you're seeing in other markets in that region? Maybe there's been some concern about weakness in Brazil. What are you seeing there and kind of other countries within that region?

Chris Mapes - *Lincoln Electric Holdings, Inc. - Chairman, President, CEO*

This is Chris. The challenges in Brazil, the Brazilian economy, I think we've seen a lot of that publicly. Certainly, they just completed an election process down there, and I think there had been a pause in pieces of the economy until that process had been completed. But that market right now currently is a little challenged. But we like the overall dynamics around that market long-term, and believe that's a critical space for us to be in and certainly like the greenfield that we placed there from an automation perspective and have our Harris business with assets there as well as our core welding business with assets there.

Our Columbia business and a couple of the other smaller markets in that region are actually performing well. They are just smaller businesses for us and really can't mitigate the overall challenges for the segment when Brazil is challenged from a demand perspective, and as we have discussed, some of the issues impacting Venezuela.

Schon Williams - *BB&T Capital Markets - Analyst*

Thanks guys. I'll get back in queue.

Operator

(Operator Instructions). Mark Douglass, Longbow Research.

Mark Douglass - *Longbow Research - Analyst*

Just a quick follow-up. What was the final share count at the quarter's end?

Vincent Petrella - *Lincoln Electric Holdings, Inc. - EVP, CFO, Treasurer*

We had 77.680 million shares outstanding.

Mark Douglass - *Longbow Research - Analyst*

Okay. And then what were the exports in the quarter this year and last year?

Vincent Petrella - *Lincoln Electric Holdings, Inc. - EVP, CFO, Treasurer*

Our exports were $51 million this year and $59 million in the prior year out of the US.

Mark Douglass - *Longbow Research - Analyst*

Okay, thank you.

Operator

Greg Halter, Great Lakes Review.

Greg Halter - *Great Lakes Review - Analyst*

Has the relationship you had developed with IPG Photonics a couple years ago met your expectations?

Chris Mapes - *Lincoln Electric Holdings, Inc. - Chairman, President, CEO*

We have a very good relationship with them as part of our automation offering of products around the world. We implement automation solutions with their technology, and it's been a good relationship, and we provide that service and capability to the marketplace.

Greg Halter - *Great Lakes Review - Analyst*

All right, thank you and see you from the other side.

Operator

Steve Barger, KeyBanc Capital Markets.

Ken Newman - *KeyBanc Capital Markets - Analyst*

Good morning everyone. This is Ken Newman on for Steve this morning. I just wanted to circle back on the comments you had about debt commitments that you could take on for a potential share repurchase. Could you give us some comments as to how big the long-term debt commitment you would be willing to assume and what you see the cost of debt for that?

Vincent Petrella - *Lincoln Electric Holdings, Inc. - EVP, CFO, Treasurer*

I don't know that I'll predict where we might be next year in terms of our debt load, but certainly the Company has a significant amount of borrowing capacity. We have no net debt. We have net cash on the balance sheet today. We have covenants under our existing revolving credit agreement that would allow us to take our debt to EBITDA up to 3.5 times, 3.5 times EBITDA. So, with EBITDA running greater than $450 million on an annualized I believe trailing 12-month basis, there's a lot of capacity there. So, we're going to add some debt in a very prudent and measured way next year as we continue to deploy cash towards increasing dividends, higher share buyback activity, and acquisition activity.

So, as far as rates are concerned, it depends on what the tenor is obviously of that, but with treasuries and spreads at almost all-time lows, you can probably look at debt in the 10- to 15-year type of range at 3% to 3.5%.

Ken Newman - *KeyBanc Capital Markets - Analyst*

Perfect. Thanks for the color.

Operator

(Operator Instructions). I'm showing no further questions at this time.

Vincent Petrella - *Lincoln Electric Holdings, Inc. - EVP, CFO, Treasurer*

Thank you Nicole, and thanks, everyone, for joining the call today and for your continued interest in Lincoln Electric. Again, we believe our third-quarter results demonstrate a very strong and solid execution in driving our operations for more profitable growth. And we look forward to talking to you about our fourth quarter next fiscal year in 2015. Thank you again.

Operator

That concludes today's teleconference. You may now disconnect your lines at this time. Thank you for your participation.