

Lincoln Electric Holdings, Inc.

Second Quarter 2019 Earnings Call

July 23, 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.

Q2 2019 Highlights: Maintained strong margin performance and improved cash generation, cash conversion¹ and returns in a slowing economic environment

- » **Reported sales decreased 1.7% to \$777 million; Organic sales declined 3.5%**
- » **Adjusted Operating Income steady at \$106 million; Adjusted Operating Income Margin up 10 bps to 13.6%**
- » **Diluted EPS of \$1.36, Adjusted EPS increased 4.9% to \$1.28**
- » **ROIC up 300 basis points to 21.0%**
- » **Cash flow from operations increased 58% to \$126 million and cash conversion at 131%**
- » **Returned \$115 million to shareholders**

Slowing demand trends in the Quarter

» Organic sales weakened in Q2

- Volumes primarily impacted by expected weakness in Automation, U.S. Exports, European demand trends (integration activities & softening regional macros), and double-digit percent weakness in China
- Price narrowed following the anniversary of 2018 pricing actions
- Consumable organic sales declined low single-digit percent, equipment flat and automation declined double-digit percent

» Q2 2019 end sector performance¹

- Most direct channel end markets grew in Q2, led by Energy, Heavy Industries and General Fabrication
- Automotive/Transportation and Construction/Infrastructure declined

Income Statement – Q2 2019

\$ in Millions	Q2	% of	Q2	% of	YoY %
	2019	Sales	2018	Sales	Change
					<i>Fav/(Unfav)</i>
Net Sales	\$ 777.0		\$ 790.1		(1.7%)
Gross Profit	269.9	34.7%	270.1	34.2%	(0.1%)
SG&A	163.4	21.0%	163.9	20.8%	0.3%
Special item charges ^{1,2}	0.7	0.1%	12.3	1.6%	94.5%
Operating Income	105.2	13.5%	94.6	12.0%	11.2%
Adjusted Operating Income ¹	105.9	13.6%	107.0	13.5%	(1.0%)
Interest Expense, net ³	5.9	0.8%	4.8	0.6%	(22.6%)
Income Taxes ⁴	18.0	2.3%	25.4	3.2%	29.0%
Effective Tax Rate ⁴	17.4%		27.0%		960 bps
Net Income	\$ 85.5	11.0%	\$ 68.9	8.7%	24.1%
Special Items ⁵	(4.6)	0.6%	11.5	1.5%	(139.7%)
Adjusted Net Income ¹	\$ 80.9	10.4%	\$ 80.4	10.2%	0.6%
Diluted EPS	\$ 1.36		\$ 1.04		30.8%
Adjusted Diluted EPS ¹	\$ 1.28		\$ 1.22		4.9%

Sales Mix ⁶	
Volume	(5.2%)
Price	1.7%
Acquisitions	3.4%
FX	(1.7%)
TOTAL	(1.7%)

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

² Special items include Rationalization and asset impairment charges of \$1.3 million, \$1.0 million Acquisition transaction and integration costs, \$1.4 million in Amortization of step up in value of acquired inventories, and a \$3.0 million gain on Asset disposals in 2019. 2018 includes \$11.5 million of Rationalization and asset impairment charges and Acquisition transaction and integration costs of \$0.8 million.

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

⁴ Q2 tax rate excluding special items was 22.0% in 2019 and 24.6% in 2018.

⁵ Special items include the charges noted in footnote 2 and a \$4.8 million tax effect of Special items in 2019 and \$0.8 million in 2018. Please refer to the appendix for further details.

⁶ Figures may not sum due to rounding.

Americas Welding Segment

(\$ in Millions)	Q2 2019	Q2 2018	% YoY Change		Sales Mix ¹
Net Sales	\$ 476.6	\$ 462.5	3.0%	↑	Volume (3.6%)
Adjusted EBIT	\$ 84.9	\$ 88.2	(3.8%)	↓	Price 2.5%
Adjusted EBIT Margin²	16.6%	17.9%	(130) bps	↓	Acq/Div 4.7%
					FX (0.5%)
					Total 3.0%

Volumes reflect weaker automation, U.S. exports and a challenging prior year comparison. Margin declined as positive price/cost was primarily offset by lower volumes and higher wage and growth investment costs.

¹ Figures may not sum due to rounding

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

International Welding Segment

(\$ in Millions)	Q2 2019	Q2 2018	% YoY Change		Sales Mix ¹	
Net Sales	\$ 212.3	\$ 243.4	(12.8%)	↓	Volume	(9.7%)
Adjusted EBIT	\$ 15.2	\$ 16.3	(6.7%)	↓	Price	1.2%
Adjusted EBIT Margin²	7.0%	6.5%	50 bps	↑	Acq/Div	-
					FX	(4.3%)
					Total	(12.8%)

Volumes reflect European integration activities and softer European macros, as well as volume weakness in China. Price management, improving mix and synergies offset the volume impact on margin performance.

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)	Q2 2019	Q2 2018	% YoY Change		Sales Mix ¹
Net Sales	\$ 88.1	\$ 84.2	4.7%	↑	Volume (0.5%)
Adjusted EBIT	\$ 13.5	\$ 10.2	32.8%	↑	Price (0.8%)
Adjusted EBIT Margin²	15.0%	11.8%	320 bps	↑	Acq/Div 6.7%
					FX (0.8%)
					Total 4.7%

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

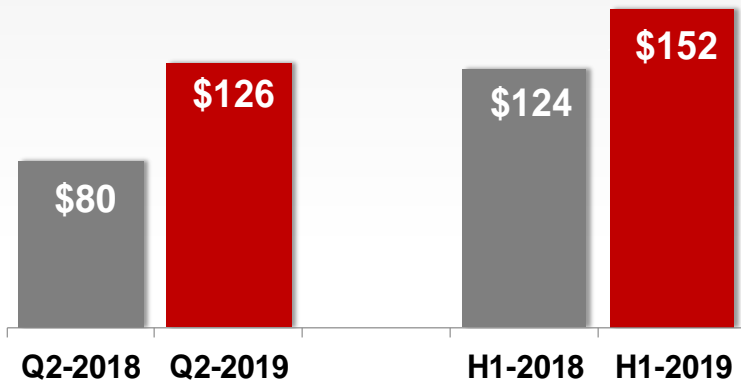
¹ Figures may not sum due to rounding

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

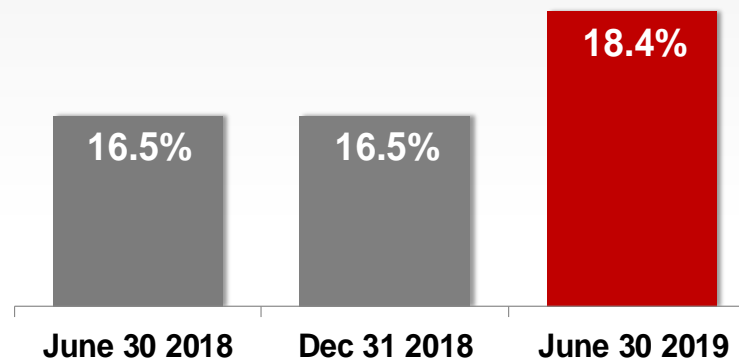
Cash Flow From Operations Metrics

Cash Flow from Operations

(\$ in Millions)



Average Operating Working Capital to Net Sales Ratio



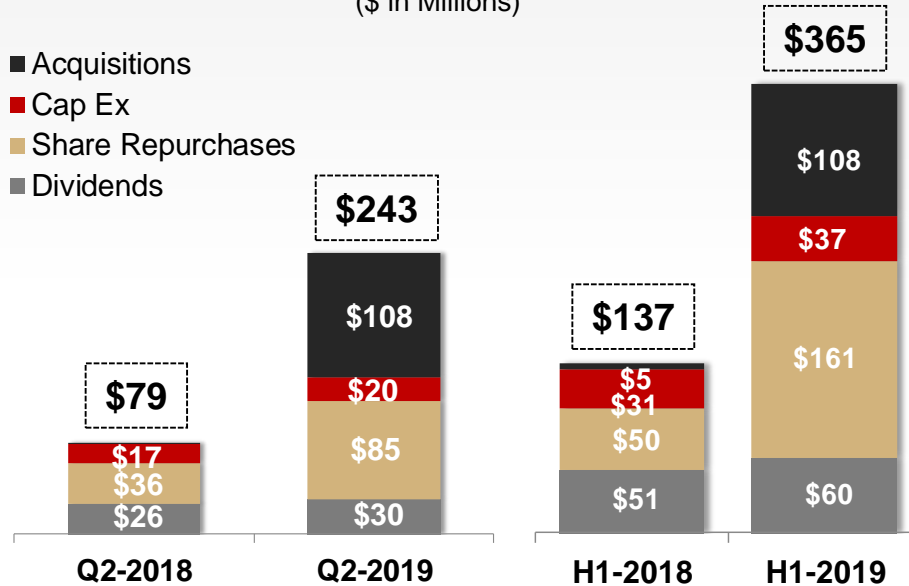
Solid Q2 cash flow from operations on higher earnings and a tax receivable - resulting in 131% cash conversion¹. Working capital reflects higher inventory and receivables.

Capital Allocation

Capital Allocation¹

(\$ in Millions)

- Acquisitions
- Cap Ex
- Share Repurchases
- Dividends



Q2 2019 Highlights

- » Capital Expenditures: \$20M
- » Dividend Payout Rate Increase: +21%
- » Net Debt² Position: \$551M
- » 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 June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Operating income as reported	\$ 105,186	\$ 94,634	\$ 199,664	\$ 179,822
Special items (pre-tax):				
Rationalization and asset impairment charges ⁽²⁾	1,307	11,542	4,842	21,717
Acquisition transaction and integration costs ⁽³⁾	1,014	788	1,804	2,695
Amortization of step up in value of acquired inventories ⁽⁴⁾	1,399	—	1,399	—
Gains on asset disposals ⁽⁵⁾	(3,045)	—	(3,045)	—
Adjusted operating income ⁽¹⁾	\$ 105,861	\$ 106,964	\$ 204,664	\$ 204,234
As a percent of total sales	13.6 %	13.5 %	13.3 %	13.2 %
Net income as reported	\$ 85,452	\$ 68,864	\$ 156,932	\$ 129,688
Special items:				
Rationalization and asset impairment charges ⁽²⁾	1,307	11,542	4,842	21,717
Acquisition transaction and integration costs ⁽³⁾	1,014	788	1,804	2,695
Pension settlement charges ⁽⁶⁾	—	—	—	758
Amortization of step up in value of acquired inventories ⁽⁴⁾	1,399	—	1,399	—
Gains on asset disposals ⁽⁵⁾	(3,554)	—	(3,554)	—
Tax effect of Special items ⁽⁷⁾	(4,751)	(784)	(5,564)	(1,165)
Adjusted net income ⁽¹⁾	80,867	80,410	155,859	153,693
Non-controlling interests in subsidiaries' loss	(8)	(5)	(22)	(9)
Interest expense, net	5,898	4,812	11,221	9,253
Income taxes as reported	18,040	25,404	39,492	48,782
Tax effect of Special items ⁽⁷⁾	4,751	784	5,564	1,165
Adjusted EBIT ⁽¹⁾	\$ 109,548	\$ 111,405	\$ 212,114	\$ 212,884
Effective tax rate as reported	17.4 %	27.0 %	20.1 %	27.3 %
Net special item tax impact	4.6%	(2.4%)	2.3 %	(2.8 %)
Adjusted effective tax rate ⁽¹⁾	22.0 %	24.6 %	22.4 %	24.5 %
Diluted earnings per share as reported	\$ 1.36	\$ 1.04	\$ 2.47	\$ 1.96
Special items per share	(0.08)	0.18	(0.01)	0.36
Adjusted diluted earnings per share ⁽¹⁾	\$ 1.28	\$ 1.22	\$ 2.46	\$ 2.32
Weighted average shares (diluted)	62,970	66,121	63,419	66,257



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 acquisition of Baker Industries, Inc. 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) 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 three and six months ended June 30, 2019.

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,	
	2019	2018
Net income as reported	\$ 314,310	\$ 259,995
Rationalization and asset impairment charges	8,410	28,307
Pension settlement charges	5,928	8,908
Acquisition transaction and integration costs	3,607	9,584
Amortization of step up in value of acquired inventories	1,399	4,578
Gains on asset disposals	(3,554)	—
Bargain purchase gain	—	(49,650)
Tax effect of Special items ⁽³⁾	(11,295)	21,256
Adjusted net income ⁽¹⁾	\$ 318,805	\$ 282,978
Plus: Interest expense, net of tax of \$6,178 and \$6,077 in 2019 and 2018, respectively	18,569	18,265
Less: Interest income, net of tax of \$1,302 and \$1,509 in 2019 and 2018, respectively	3,912	4,537
Adjusted net income before tax-effected interest	\$ 333,462	\$ 296,706
Invested Capital	June 30, 2019	June 30, 2018
Short-term debt	\$ 30,110	\$ 1,889
Long-term debt, less current portion	710,458	700,194
Total debt	740,568	702,083
Total equity	846,058	943,508
Invested capital	\$ 1,586,626	\$ 1,645,591
Return on invested capital ⁽¹⁾⁽²⁾	21.0%	18.0%



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 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 June 30, 2019 and net charges of \$31,116 related to the U.S. Tax Act 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, 2019

(In thousands)
(Unaudited)

	Americas Welding	International Welding	The Harris Products Group	Corporate / Eliminations	Consolidated
Three months ended June 30, 2019					
Net sales	\$ 476,607	\$ 212,306	\$ 88,095	\$ —	\$ 777,008
Inter-segment sales	34,811	4,188	2,113	(41,112)	—
Total	\$ 511,418	\$ 216,494	\$ 90,208	\$ (41,112)	\$ 777,008
Net income					\$ 85,452
As a percent of total sales					11.0%
EBIT ⁽¹⁾	\$ 83,072	\$ 17,805	\$ 13,488	\$ (4,983)	\$ 109,382
As a percent of total sales	16.2%	8.2%	15.0%		14.1%
Special items charges (gains) ⁽³⁾	1,779	(2,627)	—	1,014	166
Adjusted EBIT ⁽²⁾	\$ 84,851	\$ 15,178	\$ 13,488	\$ (3,969)	\$ 109,548
As a percent of total sales	16.6%	7.0%	15.0%		14.1%
Three months ended June 30, 2018					
Net sales	\$ 462,515	\$ 243,373	\$ 84,164	\$ —	\$ 790,052
Inter-segment sales	31,240	5,497	2,003	(38,740)	—
Total	\$ 493,755	\$ 248,870	\$ 86,167	\$ (38,740)	\$ 790,052
Net income					\$ 68,864
As a percent of total sales					8.7%
EBIT ⁽¹⁾	\$ 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) ⁽⁴⁾	—	11,542	—	788	12,330
Adjusted EBIT ⁽²⁾	\$ 88,158	\$ 16,276	\$ 10,157	\$ (3,186)	\$ 111,405
As a percent of total sales	17.9%	6.5%	11.8%		14.1%

Non-GAAP Financial Measures (continued)

Footnotes for EBIT and Adjusted EBIT Reconciliation – Three Months Ended June 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 \$380 in Americas Welding and \$927 in International Welding, amortization of step up in value of acquired inventories of \$1,399 in Americas Welding, gains on disposals of assets of \$3,554 in International Welding and acquisition transaction and integration costs of \$1,014 in Corporate/Eliminations related to the acquisition of Air Liquide Welding.
- 4) Special items in 2018 reflect rationalization and asset impairment charges of \$11,542 in International Welding. Special items in 2018 also reflect acquisition transaction and integration costs of \$788 in Corporate/Eliminations related to the acquisition of Air Liquide Welding.