

# Lincoln Electric Holdings, Inc.

Third Quarter 2021 Earnings Call

October 28, 2021

**Christopher L. Mapes**

Chairman, President & CEO

**Gabriel Bruno**

EVP & CFO



# 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.

**Q3 2021 Highlights:** Record sales on continued recovery and price management. Strong execution generates a 15.2% Adjusted operating income margin and record \$1.56 Adjusted EPS

- » **Reported sales increased 21% to record \$806 million; Organic sales increased 18%**
- » **Adjusted Operating Income Margin of 15.2% (+260 bps vs. prior year)**
- » **Diluted EPS of \$0.53, Adjusted EPS increased 41.8% to record \$1.56**
- » **ROIC increased 440 bps to 22.8%**
- » **Cash flow from operations increased 23% to \$110 million**
- » **Returned \$80 million to shareholders (dividends and share repurchases)**

# Solid Sales Momentum

- » **Q3 organic sales increase 18.3%, including 7.3% higher volumes**
  - All product areas and regions achieved volume growth
    - Consumables and equipment increased by approximately 20 percent
    - Automation increased high single digit percent
  - Price of +11% reflects year-to-date pricing actions issued to mitigate inflation
  
- » **Q3 global end sector performance<sup>1</sup>**
  - 100% of end market organic sales trends are now steady to growing versus prior year
    - Strongest growth from Heavy Industries and Construction/Infrastructure, followed by Automotive/Transportation and General Industries
    - Energy sector flat with prior year with growth in downstream applications

# Income Statement – Q3 2021

\$ in Millions	Q3 2021	% of Sales	Q3 2020	% of Sales	YoY % Change <i>Fav/(Unfav)</i>
Net Sales	\$ 806.5		\$ 668.9		20.6%
Gross Profit	268.2	33.3%	215.4	32.2%	24.5%
SG&A	149.1	18.5%	131.3	19.6%	(13.5)%
Special item charges <sup>1,2</sup>	7.2	0.9%	6.3	0.9%	44.3%
Operating Income	115.6	14.3%	77.8	11.6%	48.6%
Adjusted Operating Income <sup>1</sup>	122.7	15.2%	84.1	12.6%	46.0%
Interest Expense, net <sup>3</sup>	5.7	0.7%	5.6	0.8%	(2.9)%
Income Taxes <sup>4</sup>	6.7	0.8%	14.8	2.2%	55.0%
Effective Tax Rate <sup>4</sup>	17.3%		20.2%		290 bps
Net Income	\$ 31.8	3.9%	\$ 58.5	8.7%	(45.7)%
Special Items <sup>5</sup>	62.0	7.7%	7.5	1.1%	(722.8)%
Adjusted Net Income <sup>1</sup>	\$ 93.8	11.6%	\$ 66.0	9.9%	42.0%
Diluted EPS	\$ 0.53		\$ 0.97		(45.4)%
Adjusted Diluted EPS <sup>1</sup>	\$ 1.56		\$ 1.10		41.8%

Sales Mix <sup>6</sup>	
Volume	7.3%
Price	11.0%
Acquisitions	2.0%
FX	0.3%
<b>TOTAL</b>	<b>20.6%</b>

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

<sup>2</sup> Q3 Special items include Rationalization and asset impairment charges of \$3.5 million and \$3.7 million from the Amortization of step up in value of acquired inventories in 2021, as compared with Rationalization and asset impairment charges of \$6.3 million in 2020.

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

<sup>4</sup> Q3 tax rate excluding special items was 21.3% in 2021 and 20.2% in 2020.

<sup>5</sup> Q3 Special Items include the charges noted in footnote 2 and a \$73.6 million pension settlement charge and an \$18.7 million tax effect of Special items in 2021. This compares with a \$3.2 million pension settlement charge and a \$1.9 million tax effect of Special items in 2020.

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

# Americas Welding Segment

(\$ in Millions)	Q3 2021	Q3 2020	% YoY Change		Sales Mix <sup>1</sup>
<b>Net Sales</b>	\$ 461.5	\$ 371.5	24.2	↑	<b>Volume</b> 11.4%
<b>Adjusted EBIT</b>	\$ 84.6	\$ 59.1	43.0%	↑	<b>Price</b> 11.8%
<b>Adjusted EBIT Margin<sup>2</sup></b>	16.9%	14.7%	+220 bps	↑	<b>Acq/Div</b> -
					<b>FX</b> 1.0%
					<b>Total</b> 24.2%

**Strong volume performance across all product categories, led by equipment.  
Margin higher on volumes and price management.**

<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)	Q3 2021	Q3 2020	% YoY Change		Sales Mix <sup>1</sup>	
<b>Net Sales</b>	\$ 227.2	\$ 196.9	15.3%	↑	<b>Volume</b>	3.8%
<b>Adjusted EBIT</b>	\$ 29.0	\$ 13.4	116.1%	↑	<b>Price</b>	10.8%
<b>Adjusted EBIT Margin<sup>2</sup></b>	12.4%	6.7%	+570 bps	↑	<b>Acq/Div</b>	1.7%
					<b>FX</b>	(0.9)%
					<b>Total</b>	<b>15.3%</b>

**Volumes increased on continued recovery – led by equipment.  
Margin higher on volumes, price management and benefits of cost reduction actions.**

<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)	Q3 2021	Q3 2020	% YoY Change		Sales Mix <sup>1</sup>
<b>Net Sales</b>	\$ 117.8	\$ 100.4	17.3%	↑	<b>Volume</b> (1.3)%
<b>Adjusted EBIT</b>	\$ 16.0	\$ 17.6	(9.1)%	↓	<b>Price</b> 8.6%
<b>Adjusted EBIT Margin<sup>2</sup></b>	13.3%	17.2%	(390) bps	↓	<b>Acq/Div</b> 9.8%
					<b>FX</b> 0.2%
					<b>Total</b> 17.3%

**Volumes lower on challenging prior year comparisons in the retail channel. Margin performance reflects lower volumes, mix and acquisition integration.**

<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.



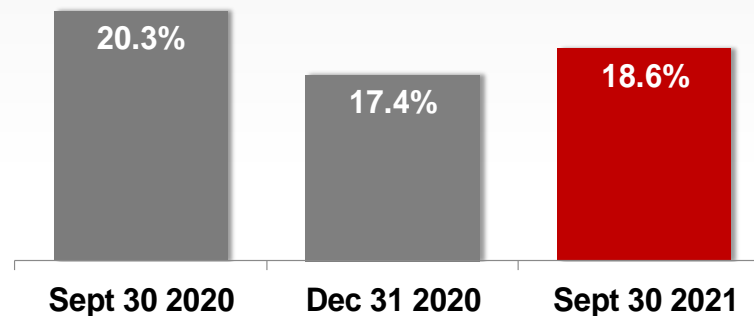
# Cash Flow From Operations Metrics

## Cash Flow from Operations

(\$ in Millions)



## Average Operating Working Capital to Net Sales Ratio

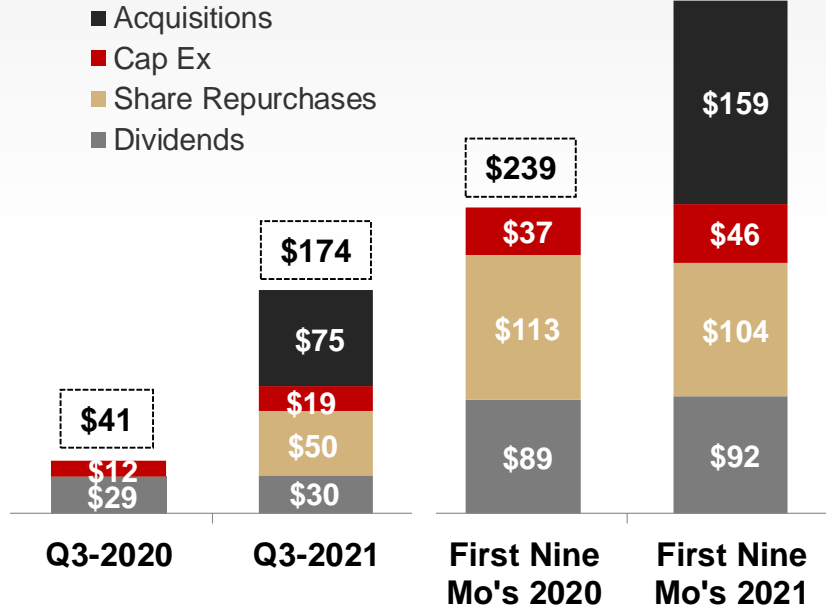


**Q3 Cash Flow From Operations increased 23% to \$110 million with 97% cash conversion<sup>1</sup>. Working Capital remains strategically elevated to service customers.**

# Capital Allocation

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

(\$ in Millions)



## Q3 2021 Highlights

- » Capital Expenditures: \$18.7M
- » Acquisition: \$74.9M
- » Dividend Rate Increase: +4.1%
- » Return on Invested Capital: 22.8%

## Capital Allocation Outlook

- » 2021 prioritized uses of cash:
  - » Growth investments (organic and M&A)
  - » Dividend
  - » Share repurchases



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

## Contact:

Amanda Butler

Vice President, Investor Relations & Communications

✉ [Amanda\\_Butler@lincolnelectric.com](mailto:Amanda_Butler@lincolnelectric.com)

📞 216.383.2534

# Non-GAAP Information

Adjusted operating income, Adjusted net income, Adjusted EBIT, Adjusted effective tax rate, Adjusted diluted earnings per share, Organic sales, Cash conversion, Return on invested capital and Earnings before interest, taxes, depreciation and amortization ("EBITDA") 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.

# 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		Nine Months Ended	
	September 30,		September 30,	
	2021	2020	2021	2020
Operating income as reported	\$ 115,570	\$ 77,793	\$ 341,320	\$ 198,631
Special items (pre-tax):				
Rationalization and asset impairment charges <sup>(2)</sup>	3,484	6,257	8,277	36,016
Acquisition transaction costs <sup>(3)</sup>	—	—	1,923	—
Amortization of step up in value of acquired inventories <sup>(4)</sup>	3,690	—	5,531	806
Adjusted operating income <sup>(1)</sup>	<u>\$ 122,744</u>	<u>\$ 84,050</u>	<u>\$ 357,051</u>	<u>\$ 235,453</u>
As a percent of total sales	15.2 %	12.6 %	14.9 %	12.0 %
Net income as reported	\$ 31,757	\$ 58,479	\$ 202,039	\$ 141,037
Special items:				
Rationalization and asset impairment charges <sup>(2)</sup>	3,484	6,257	8,277	36,016
Acquisition transaction costs <sup>(3)</sup>	—	—	1,923	—
Pension settlement charges <sup>(5)</sup>	73,562	3,188	80,098	6,522
Amortization of step up in value of acquired inventories <sup>(4)</sup>	3,690	—	5,531	806
Tax effect of Special items <sup>(6)</sup>	<u>(18,743)</u>	<u>(1,911)</u>	<u>(20,737)</u>	<u>(9,463)</u>
Adjusted net income <sup>(1)</sup>	93,750	66,013	277,131	174,918
Non-controlling interests in subsidiaries' income (loss)	—	27	131	37
Interest expense, net	5,714	5,552	16,736	16,891
Income taxes as reported	6,658	14,797	51,259	41,834
Tax effect of Special items <sup>(6)</sup>	18,743	1,911	20,737	9,463
Adjusted EBIT <sup>(1)</sup>	<u>\$ 124,865</u>	<u>\$ 88,300</u>	<u>\$ 365,994</u>	<u>\$ 243,143</u>
Effective tax rate as reported	17.3 %	20.2 %	20.2 %	22.9 %
Net special item tax impact	4.0 %	— %	0.4 %	(0.2) %
Adjusted effective tax rate <sup>(1)</sup>	<u>21.3 %</u>	<u>20.2 %</u>	<u>20.6 %</u>	<u>22.7 %</u>
Diluted earnings per share as reported	\$ 0.53	\$ 0.97	\$ 3.36	\$ 2.34
Special items per share	1.03	0.13	1.25	0.57
Adjusted diluted earnings per share <sup>(1)</sup>	<u>\$ 1.56</u>	<u>\$ 1.10</u>	<u>\$ 4.61</u>	<u>\$ 2.91</u>
Weighted average shares (diluted)	60,055	60,018	60,168	60,202



# 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. Refer to Non-GAAP Information section.
- 2) Primarily related to severance, gains or losses on the disposal of assets and asset impairments of long-lived assets.
- 3) Related to acquisitions and are included in Selling, general & administrative expenses.
- 4) Related to acquisitions and are included in Cost of goods sold.
- 5) Settlement charges related to lump sum pension payments associated with the termination of a pension plan and are included in Other income (expense).
- 6) Includes the net tax impact of Special items recorded during the respective periods.  
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) and Total Debt / EBITDA

(In thousands, except per share amounts)

(Unaudited)

Return on Invested Capital	Twelve Months Ended September 30,	
	2021	2020
Net income as reported	\$ 267,117	\$ 204,753
Rationalization and asset impairment charges	17,729	44,867
Acquisition transaction costs	1,923	—
Pension settlement charges	81,695	6,522
Amortization of step up in value of acquired inventories	5,531	806
Tax effect of Special items <sup>(2)</sup>	(21,868)	(11,030)
Adjusted net income <sup>(1)</sup>	\$ 352,127	\$ 245,918
Plus: Interest expense, net of tax of \$5,893 and \$6,177 in 2021 and 2020, respectively	17,520	18,564
Less: Interest income, net of tax of \$402 and \$513 in 2021 and 2020, respectively	1,193	1,543
Adjusted net income before tax-effected interest	\$ 368,454	\$ 262,939

Invested Capital	September 30, 2021	September 30, 2020
Short-term debt	\$ 41,404	\$ 1,147
Long-term debt, less current portion	717,787	715,687
Total debt	759,191	716,834
Total equity	857,893	710,744
Invested capital	\$ 1,617,084	\$ 1,427,578

Return on invested capital <sup>(1)</sup> 22.8 % 18.4 %

Total Debt / EBITDA	Twelve Months Ended September 30,	
	2021	2020
Net income as reported	\$ 267,117	\$ 204,753
Income taxes	67,321	58,412
Interest expense, net	21,818	22,685
Depreciation and amortization	80,484	81,653
EBITDA <sup>(1)</sup>	\$ 436,740	\$ 367,503

	September 30, 2021	September 30, 2020
Total debt	\$ 759,191	\$ 716,834
Total debt / EBITDA	1.74	1.95

- Adjusted net income, Return on invested capital and EBITDA are non-GAAP financial measures. Refer to Non-GAAP Information section.
- Includes the net tax impact of Special items recorded during the respective periods. The tax effect of Special items impacting pre-tax income was calculated as the pre-tax amount multiplied by the applicable tax rate. The applicable tax rates reflect the taxable jurisdiction and nature of each Special item.

# Segment EBIT

## EBIT and Adjusted EBIT Reconciliation – Three Months Ended September 30, 2021

(In thousands)

(Unaudited)

	Americas Welding	International Welding	The Harris Products Group	Corporate / Eliminations	Consolidated
<b>Three months ended September 30, 2021</b>					
Net sales	\$ 461,508	\$ 227,165	\$ 117,781	\$ —	\$ 806,454
Inter-segment sales	37,480	7,078	1,945	(46,503)	—
Total sales	<u>\$ 498,988</u>	<u>\$ 234,243</u>	<u>\$ 119,726</u>	<u>\$ (46,503)</u>	<u>\$ 806,454</u>
Net income					\$ 31,757
As a percent of total sales					3.9 %
EBIT <sup>(1)</sup>	\$ 10,983	\$ 22,417	\$ 15,433	\$ (4,704)	\$ 44,129
As a percent of total sales	2.2 %	9.6 %	12.9 %		5.5 %
Special items charges (gains) <sup>(3)</sup>	73,574	6,615	547	—	80,736
Adjusted EBIT <sup>(2)</sup>	<u>\$ 84,557</u>	<u>\$ 29,032</u>	<u>\$ 15,980</u>	<u>\$ (4,704)</u>	<u>\$ 124,865</u>
As a percent of total sales	16.9 %	12.4 %	13.3 %		15.5 %
<b>Three months ended September 30, 2020</b>					
Net sales	\$ 371,535	\$ 196,937	\$ 100,416	\$ —	\$ 668,888
Inter-segment sales	29,368	4,898	1,898	(36,164)	—
Total sales	<u>\$ 400,903</u>	<u>\$ 201,835</u>	<u>\$ 102,314</u>	<u>\$ (36,164)</u>	<u>\$ 668,888</u>
Net income					\$ 58,479
As a percent of total sales					8.7 %
EBIT <sup>(1)</sup>	\$ 52,076	\$ 11,031	\$ 17,587	\$ (1,839)	\$ 78,855
As a percent of total sales	13.0 %	5.5 %	17.2 %		11.8 %
Special items charges (gains) <sup>(4)</sup>	7,044	2,401	—	—	9,445
Adjusted EBIT <sup>(2)</sup>	<u>\$ 59,120</u>	<u>\$ 13,432</u>	<u>\$ 17,587</u>	<u>\$ (1,839)</u>	<u>\$ 88,300</u>
As a percent of total sales	14.7 %	6.7 %	17.2 %		13.2 %





# Non-GAAP Financial Measures (continued)

## Footnotes for EBIT and Adjusted EBIT Reconciliation – Three Months Ended September 30, 2021

- 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 2021 reflect Rationalization and asset impairment charges of \$3,484 primarily in International Welding, pension settlement charges of \$73,562 in Americas Welding and amortization of the step up in value of acquired inventories of \$3,143 and \$547 in International Welding and The Harris Products Group, respectively, related to acquisitions.
- 4) Special items in 2020 reflect Rationalization and asset impairment charges of \$3,856 and \$2,401 in Americas Welding and International Welding, respectively, and pension settlement charges of \$3,188 in Americas Welding.