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LECO - Q1 2019 Lincoln Electric Holdings Inc Earnings Call

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OVERVIEW:

Co. reported 1Q19 sales of $759.2m, reported operating income of $94.5m and diluted EPS of $1.12.

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PRESENTATION

Operator

Greetings, and welcome to the Lincoln Electric 2019 First Quarter Financial Results Conference Call. (Operator Instructions) And this call is being recorded.

It is now my pleasure to introduce your host, Amanda Butler, Vice President of Investor Relations and Communication. Thank you, and you may begin.

Amanda H. Butler - *Lincoln Electric Holdings, Inc. - VP of IR & Communications*

Thank you, Carmen, and good morning, everyone. Welcome to Lincoln Electric's 2019 First Quarter Conference Call. We released our financial results earlier today, and you can find our release as an attachment to this call's slide presentation as well as on the Lincoln Electric website, at lincolnelectric.com in the Investor Relations section.

Joining me on the call today is Chris Mapes, Lincoln's Chairman, President and Chief Executive Officer; as well as our Chief Financial Officer, Vince Petrella.

Chris will begin the discussion with an overview of first quarter results, and Vince will cover the quarter performance in more detail.

Following our prepared remarks, we're happy to take your questions.

Before we start our discussion, please note that certain statements made during this call may be forward looking and actual results may differ materially from our expectations due to a number of risk factors.

A discussion of some of the 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.

In addition, we discussed financial measures that do not conform to U.S. GAAP. A reconciliation of non-GAAP measures to the most comparable GAAP measures is found in the financial tables in our earnings release, which, again, is available in the Investor Relations section of our website at lincolnelectric.com.

And with that, I'll turn the call over to Chris Mapes.

Christopher L. Mapes - *Lincoln Electric Holdings, Inc. - Chairman, President & CEO*

Thank you, Amanda. Good morning, everyone. I'm pleased to report that we achieved good earnings growth in the quarter by successfully mitigating inflation pressures and executing on our growth investments.

First quarter sales held steady on a year-over-year basis at $759.2 million. A 90 basis point improvement in organic sales growth and a 2.4% benefit from recent acquisitions were largely offset by unfavorable foreign exchange translation, volume declines narrowed sequentially to 3.6% in the quarter, and substantially represented the impact of our integration activities in International Welding as well as declines in U.S. exports and a slower pace of growth in automation, primarily in the automotive segment.

We successfully mitigated lower volumes, inflation and higher growth investments with good price management and favorable mix in our business. This resulted in a 20 basis point improvement in our adjusted operating income to 13%.

Moving to earnings. Adjusted net income increased 2.3% and adjusted earnings per share increased 6.4% to $1.17.

Returns remain strong with ROIC up 450 basis points to 21.2%. We also returned $106 million to shareholders through a combination of our 21% higher dividend payout rate and $76 million in share repurchases in the quarter.

This elevated rate reflects our confidence in the business, strong cash flow generation and its track record of superior returns.

Moving to Slide 4. Looking at organic sales trends in the first quarter, both the Americas Welding and Harris Products Group segments outperformed our International Welding segment.

International Welding's organic sales declines narrowed in the quarter but continued to reflect integration activities as well as softening European macroeconomic conditions, notably in key industrial economies, such as Italy and France.

China also continued to weaken in the quarter.

Looking at products, both consumables and automation organic sales increased at a low-single-digit percent rate. Both product areas faced challenging prior year volume comparisons. Equipment system organic sales declined by a low-single-digit percent substantially from International Welding.

End-market sectors remained generally healthy in the quarter, led by double-digit percent organic sales growth on a global basis in heavy industries, construction/infrastructure and in oil and gas. Rising commodity costs and the related uptick in mining construction and rolling stock equipment needed to support construction activity and oil and gas infrastructure are all drivers continuing -- contributing to this demand.

We anticipate these end sectors will continue to grow through the balance of the year. General fabrication and automotive transportation were relatively steady versus the prior year period.

General fabrication is typically indicative of broad industrial production, which had a slow start to the year.

Our automotive transportation performance exceeds the auto industry's plateauing vehicle production rates and a weak capital investment cycle. Model changeover schedules in North America suggest a stronger project pipeline in late 2019. And [quoted] activity in this area is strong given new solutions that are helping us win in the sector.

Turning to Slide 5. We're excited about several recent solutions that are showing excellent reception in the market. By engineering solutions that combine best-in-class consumable products with proprietary quoted WaveForms software in our leading equipment systems, we are winning in the marketplace, enriching our mix.

Our new Ranger engine drive does exactly that. We redesigned this product from the ground up and redefined customers' expectations. This product is now 31% smaller, 25% lighter and 60% quieter. Even quieter than a standard home generator set. Launched in late February, we're hearing great feedback on this product.

Introduced late last year at FABTECH and formally launched in the quarter, our HyperFill solution provides heavy industry customers with a very efficient and easy-to-use welding process that doubles the deposition of weld metal, which can increase productivity by at least 50% for these applications.

In our Harris Products Group, aluminum consumables are in high demand especially in the HVAC space.

Harris' new brazing aluminum alloys are formulated to deliver better performance, measurable improvement in quality and an average 5% reduction in customer's total cost in use. This is an area we have been investing in at Harris.

And, finally, we're excited about the development of our new metal Additive Manufacturing Business, which we will formally launch to customers in mid-2019.

On April 1, we announced our acquisition of Baker Industries near Detroit, Michigan, along with the build-out of a new additive development center near our headquarters, here in Cleveland. Together, these facilities will represent the initial sites that will broaden over time in targeted locations across the United States. These sites will offer a large-scale metal additive printing and machining of parts, tooling and prototypes for industrial, aerospace and automotive customers.

The additive business leverages our leadership competencies in consumables, automation and software to print large-scale parts. Using wire-based consumables versus metal powders and a robotic arm versus a printing bed, provides unparalleled versatility in build size, shape and complexity. Lincoln Electric is an innovator of this technology.

This is an exciting proprietary solution that we believe can be a leading solution and [phase], developing metal additive market, which is expected to grow at 4 to 6x the core welding market rate over the next 5 years. This represents an accelerated growth strategy within automation, which is expected to grow at about 2x the core welding growth rate. While we are still in the early stages, we expect to achieve over $1 billion in combined automation and additive sales by 2025.

Today we are actively working with leading aerospace, industrial and construction equipment OEMs and are excited to expand capacity in 2019 to address a growing list of active opportunities.

And now I will pass the call to Vince.

Vincent K. Petrella - *Lincoln Electric Holdings, Inc. - Executive VP, CFO & Treasurer*

Thank you, Chris. Moving to Slide 6. Our consolidated first quarter sales increased 20 basis points on 4.5% higher price and a 2.4% benefit from acquisitions, offset by 3.6% lower volumes and a 3.2% unfavorable impact from foreign exchange.

First quarter gross profit margin increased 10 basis points to 34% due to positive price cost and favorable mix.

Our SG&A expense was relatively flat in dollar terms but decreased 20 basis points to 21.1% of sales.

As we implement annual merit wage increases in April, we expect the business to incur an additional $3 million in salary and wage costs per quarter for the balance of 2019.

Reported operating income increased 10.9% to $94.5 million or 12.4% of sales. Operating income results included approximately $4.3 million in special item charges related to rationalization and asset impairments and acquisition transaction and integration costs, primarily from our International Welding integration activities.

Excluding special items, adjusted operating income increased 1.6% to $98.8 million or 13% of sales, a 20 basis point improvement versus the prior year.

Unfavorable foreign exchange reduced adjusted operating income by $1.9 million. Our first quarter effective tax rate was 23.1% compared with 27.8% in the prior year period. Excluding special items, our first quarter tax rate was 22.9%, this compares with a 24.5% rate in the prior year period.

A lower current year tax rate was due to the benefit of discrete tax items. We continue to expect our full year average 2019 effective tax rate to be in the mid-20% range, subject to the future mix of earnings and the timing and extent of discrete tax items including stock option exercises.

First quarter diluted earnings per share increased 21.7% to $1.12 compared with $0.92 in the prior year. On an adjusted basis, diluted earnings per share increased 6.4% to $1.17, benefiting from the lower effective tax rate and share repurchases. Unfavorable foreign exchange translation reduced EPS by $0.02.

Now moving to the geographical segments on Slide 7.

Americas Welding segment's first quarter adjusted EBIT dollars rose 5.6% to $81.8 million. The adjusted EBIT margin held steady at 16.8% as positive price cost and favorable mix helped offset lower volumes and higher salary and wage costs.

Looking at the top line, Americas Welding achieved 3.4% organic sales growth in the quarter against a challenging prior year comparison of 12.1% organic sales growth.

The business demonstrated seasonal strengthening through the quarter, however, growth rates narrowed in March due to a challenging prior year comparison in that month. The segment's 6.3% higher price reflects prior pricing actions and a reduction in tariff surcharges.

We expect Americas Welding segment's price to narrow further in the second quarter as we recognized less contribution from tariff surcharges.

Volumes declined 2.9% in the quarter on challenging comparisons, lower exports out of the U.S. and softening and automation from weaker automotive end markets. Direct channel end-market demand trends were solid in the quarter with organic sales growth up in all sectors except general fabrication, which was down modestly. We saw the greatest strength in heavy industries, oil and gas and the construction and infrastructure sector.

First quarter organic sales in consumables increased mid-single-digit percent and equipment held relatively steady with prior year performance. Americas Welding sales benefited 2.9% from the 2 automation acquisitions we announced in the fourth quarter, we also announced the acquisition of Baker Industries on April 1. These acquisitions are expected to add a total of approximately $85 million in revenue through the balance of the year.

Moving to Slide 8. The International Welding segment's adjusted EBIT decreased 10.9% to $13.3 million and the adjusted EBIT margin improved 10 basis points to 6%. Price cost management, improved mix and benefits from integration activities helped to mitigate the impact of lower volumes in Europe.

Unfavorable foreign exchange translations reduced EBIT by approximately $1.3 million. Organic sales decreased 4.6% with 2.6% higher price and a 7.2% decline in volumes. Volumes reflect acquisition/integration activities and the weakening macro economic conditions in Europe, notably in France and Italy.

From an end-market perspective, organic sales and construction and infrastructure as well as oil and gas, increased at a double-digit percent rate in the quarter.

International Welding organic sales are expected to continue to be soft but at a narrowing rate as we anniversary the start of our integration activities.

Moving to The Harris Products Group. First quarter adjusted EBIT increased 14% to $10.5 million. The adjusted EBIT margin increased 40 basis points to 12.3% on volume leverage, favorable mix, acquisitions and productivity improvements.

Harris achieved 3.9% higher volumes from solid demand in the OEM channel and in their aluminum products against a challenging prior year comparison of 9.3% volume growth.

Harris also recognized a 7.6% benefit from the acquisition of the Worthington Industries Soldering Business on December 31.

Moving to Slide 10. We generated approximately $26 million of cash flow from operations in the first quarter, reflecting seasonal uses of cash in working capital needs. Cash flows from operations included a higher discrete tax payment of $13 million in the quarter.

Moving to Slide 11. We returned $106 million to shareholders, reflecting the 21% higher dividend payout rate and an acceleration in share repurchases to $76 million in the quarter.

We also invested in the business with $16 million in capital expenditures. We now estimate full year capital spending to be in the range of $65 million to $75 million.

We expect to maintain a balanced capital allocation strategy in 2019. Prioritizing growth investments and returning cash to shareholders through our dividend program and our share repurchases.

With that, I would like to turn the call over for questions. Carmen?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question is from Rob Wertheimer with Melius Research.

Robert Cameron Wertheimer - *Melius Research LLC - Founding Partner, Director of Research & Research Analyst of Global Machinery*

I actually wanted to start with -- regarding announcements on additive and I know you've been putting together assets and technologies for a long time. But maybe can you give us any more color on what the initial applications may be? If it's cost effective for a wide range creature of prototyping or only a few narrow things? If people are considering it for out of stock or out of production parts right now or in a few years advance? I mean it's an exciting sort of upshift in your capability, just hear any more detail about what the initial stage is like?

Christopher L. Mapes - *Lincoln Electric Holdings, Inc. - Chairman, President & CEO*

Yes. Well, look -- thanks. Look, we're very excited about the growth opportunities and the long-term opportunity that we think that we can have this present Lincoln Electric again as we stated. It's a natural expansion of competencies that we have within the business, within robotics and metallurgical technologies to be able to make these products.

But the real area that Lincoln Electric is focused on is making larger parts, those quarter parts may be for production parts, those larger parts may be for replacement parts, those larger parts may be for prototype parts.

We have seen and are having conversations with a multitude of industry participants across the aerospace, general, industrial, automotive that believe that this technology can be something that can be very interesting for them relative to creating value for their business. And that value is generally created in a couple of ways. One of the ways that the value is created is through speed to market, an ability to potentially manufacture and machine a part for an application that might be completed in days, that today might take months or several weeks for them to be able to get from the external marketplace.

Another great example to begin to help to give you context relative to the types of applications, you might have a part today that is machined from a solid material. The example I think of is that when I was at our Baker Industries' business, I saw what they were machining, a very large block of aluminum, a block that was probably 3 feet wide and 3 feet high and 20 feet long. And they were probably taking out 85% of the metal to manufacturer that particular part. We believe that with these technologies long term, we can manufacture that part and then maybe only machine out 3% to 5% of the material, creating a much greater value proposition both for the OEM as well as from an ability to manufacture that part more quickly.

So we have seen a host of opportunistic applications for us, again, very focused on large part -- large process applications. And as we stated, we are launching that business in mid-2019. We already have a couple of orders for some applications and believe that it can be a larger portion of our growth profile as we build that out over the next several years

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Operator

Your next question is from Saree Boroditsky with Jefferies.

Saree Emily Boroditsky - *Jefferies LLC, Research Division - Equity Analyst*

I appreciate the end-market color earlier but I believe a lot of the commentary was geared towards organic growth, which includes positive price. So could you just help us understand what end markets you've seen higher or lower volume activity? And then, there's been a lot of talk so far, this earning season, about the negative impact from weather, so is this something that you also saw?

Vincent K. Petrella - *Lincoln Electric Holdings, Inc. - Executive VP, CFO & Treasurer*

Yes. Saree, I would tell you from a volume perspective. We still saw a strong growth year-over-year in heavy fabrication, in structural and in oil and gas. I mean those -- all of those categories are up double digits and reflect a strong volume growth.

On the weather question, we wouldn't cite weather as a contributing factor to the performance in the quarter. We actually saw -- our biggest monthly challenge was in March when we had very challenging comparisons on a year-over-year basis. We just had a very strong March of 2018 and that strength was moderated in March of 2019.

Saree Emily Boroditsky - *Jefferies LLC, Research Division - Equity Analyst*

Okay. And then, going on the additive question, so on the $1 billion in sales from additive and automation by 2025, could you just help split that out between the 2 categories?

Christopher L. Mapes - *Lincoln Electric Holdings, Inc. - Chairman, President & CEO*

Yes. At this point we're not splitting out the 2. Obviously, the Baker Industries' acquisition is an acquisition which really is a scaleup of just the additive portion of the business. It would really depend on how successful we are between now and 2025 in building out those businesses and the acquisitions that we'll continue to try to identify between automation and additive. But we're going to actually view those businesses as one entity, as we talk about them and continue to build them out internally.

Operator

Our next question is from Joe O'Dea with Vertical Research.

Joseph O'Dea - *Vertical Research Partners, LLC - Principal*

Could you talk about the export trends in the quarter, the degree to which that's concentrated in China? And then, just any color specifically on China, end markets where you might be seeing some of the softness concentrated, whether or not you see your performance in that market as being, kind of, in line with your competitors? Or if you're seeing other trends that might suggest a little bit of underperformance?

Vincent K. Petrella - *Lincoln Electric Holdings, Inc. - Executive VP, CFO & Treasurer*

Yes. Joe, so from an export perspective, we were down over $7 million, close to $8 million on exports, about a 19% decline over the prior year. And China was one of the leading reasons for the decline. It was Asia in general and China in particular, were down significantly on a year-over-year basis. I would attribute much of that slowdown in China to the trade issues that have been discussed for some time now. And as far as understanding how our performance compares to our competitors, I wouldn't be able to comment on that other than I think they are probably also affected by the same macroeconomic conditions that faced Lincoln from a trade perspective. So I wouldn't be surprised if other U.S. industrial companies are facing the same kind of export challenges in the China.

Joseph O'Dea - *Vertical Research Partners, LLC - Principal*

Got it. That's helpful. And then, if you could just talk about, kind of, the organic growth cadence set up for the remainder of the year. And, specifically, really in the Americas' segment, I think the second quarter has a pretty similar comp to the first quarter. I don't know if you're seeing anything to suggest 2Q volume trend's a little bit better than what we saw in the first quarter. But then, also just -- what's embedded in your full year expectations? Is there the expectation for underlying activity to improve as we get into the back half of the year? Or is it more a matter of first half comps are just really tough?

Vincent K. Petrella - *Lincoln Electric Holdings, Inc. - Executive VP, CFO & Treasurer*

No, that's a good observation, Joe. And I -- we see it that way. The second quarter, again, will have a challenging comparison. When you look at the growth in the prior year, it was significant, although it did moderate slightly off of the first quarter. So we see the second quarter unfolding largely in line with what we experienced in the first quarter. We hoped to narrow that decline a little bit. But we wouldn't be surprised if we see something similar, a slight decline in volumes but a slight improvement in organics as we finish off the first half of the year.

Then the second half will be a little bit easier from a comparison perspective. We will see -- in the Americas, those comparisons become a little bit easier. We will have challenges we think in Europe, if the macroeconomic environment continues to soften and weaken as we've seen at the outset of the first quarter, and now starting into the second quarter of 2019. But I think we're going to have a challenging comparison, certainly in the second quarter.

Operator

Our next question is from Nathan Jones with Stifel.

Nathan Hardie Jones - *Stifel, Nicolaus & Company, Incorporated, Research Division - Analyst*

Vince, just following up on one of those last comments there on Europe. Maybe you could talk in a little bit more detail about what you guys are seeing on the ground there in terms of maybe daily order rates on the consumables side? Obviously, the macro data out of Europe is not very good at this point. Just any color you can give us on what you guys are seeing on the ground over there.

Vincent K. Petrella - *Lincoln Electric Holdings, Inc. - Executive VP, CFO & Treasurer*

Yes. Right. Thanks, Nathan. So we do have some -- we have some headwinds from the macroeconomic activity there. We did see a meaningful decline year-over-year in a couple of countries, in France, and Italy. There are some smaller declines in some other economies including the big engine of Europe being Germany. But certainly, those 3 countries are the biggest contributors.

We have some tailwinds from the perspective of easier comparisons, though, Nathan. As I've said, I think we will see a narrowing of the International year-over-year performance as we continue to anniversary the heavy integration activities that we've been executing on in Europe with the Air Liquide welding acquisition. So we -- that 7%-plus volume decline in the first quarter, we think, will narrow in the second quarter and continue to narrow as we finish off the second half of the year. But what's pushing a headwind against that, though, is clearly the trends that we've been seeing the last few months from a macro perspective, the purchasing manager index continues to soften and industrial activity is softening in Europe. So we're growing more concerned about how we finish off from that perspective in the second half of the year, and then our own internal initiatives to continue to integrate the businesses.

Nathan Hardie Jones - *Stifel, Nicolaus & Company, Incorporated, Research Division - Analyst*

Is it possible for you to split what you think the volume decline is, voluntarily related to the acquisition/integration versus softening underlying markets?

Vincent K. Petrella - *Lincoln Electric Holdings, Inc. - Executive VP, CFO & Treasurer*

That's an interesting question. I would've said last year that the markets -- the macros were relatively flattish if not growing slightly. And the bulk of our declines were because of the integration activities. I think this year some of the declines I would attribute to the overall softness in the markets. I'd be hesitant to give you a split this time, but I think the welding markets and the steel markets in Europe are showing some volume declines as we exit the first quarter.

Nathan Hardie Jones - *Stifel, Nicolaus & Company, Incorporated, Research Division - Analyst*

And then, one quick one as a follow-up to a previous question regarding volume in the Americas. You gave out 3 markets there that were strong, that were up double digits. Can you give us some -- any color on the markets that were less strong, maybe down?

Vincent K. Petrella - *Lincoln Electric Holdings, Inc. - Executive VP, CFO & Treasurer*

The markets that were down were only down in modest terms. So a general fabrication was one of those, where there's a very modest amount to hundreds of thousands of dollars, so I'm reluctant to say, that's a meaningful trend there. A couple of other areas that were subcategories of oil and gas including power gen and ship building were down, but again, nothing that was significant.

And then, lastly, our offshore was down. But those -- all of those categories collectively don't outweigh, for example, heavy fabrication that was up significantly in the quarter in the Americas. So there were modest year-over-year declines but not meaningful.

Operator

Our next question is from Mig Dobre with Baird.

Mircea Dobre - *Robert W. Baird & Co. Incorporated, Research Division - Associate Director of Research and Senior Research Analyst*

A couple of margin questions for me. So I think I heard you say that starting with April, you're looking at another round of salary and wage increases, $3 million per quarter. Am I to sort of -- does that imply that Q1 '19 was not really impacted by the wage inflation that you kind of called out going forward?

Vincent K. Petrella - *Lincoln Electric Holdings, Inc. - Executive VP, CFO & Treasurer*

No. There was underlying wage inflation in the first quarter as well but that was a -- instituted in almost a year ago. So we were highlighting the incremental increases in SG&A that will be affecting us as the year unfolds. So those prior year increases are certainly in our cost base in 2019's first quarter.

Mircea Dobre - *Robert W. Baird & Co. Incorporated, Research Division - Associate Director of Research and Senior Research Analyst*

Okay. So I'm asking because when I'm looking at the incremental margin in the Americas, right, I mean we're talking something like 17%. And going forward -- and in the quarter you also had the benefit from mix and from price cost. So going forward, if we're talking about an additional drag from wages, how should folks think about your incremental margins for the year or quarters, however you want to frame it?

Vincent K. Petrella - *Lincoln Electric Holdings, Inc. - Executive VP, CFO & Treasurer*

Yes. So incremental margins, I would expect to be in the same range that we've been disclosing, heretofore, Mig, we were about 18%, 19%, I believe, in the Americas and our expectations are to be somewhere in the 20% to 25% range as a group-wide number, mainly driven by that Americas segment. So we're going to have to continue to drive productivity through the business and hope to offset those escalating wage costs, have to see some improvements in input cost outside of wage inflation. But, certainly, we will have the headwinds from the higher wage cost affecting our business for the rest of 2019. And the offsets will have to come, again, through productivity improvements or an easing in input cost outside of wages, which is primarily raws.

Mircea Dobre - *Robert W. Baird & Co. Incorporated, Research Division - Associate Director of Research and Senior Research Analyst*

Understood. And then, shifting to International, again, on margin, I understand the volume decline comment, and obviously, that has an impact on profitability as well. But we're not really seeing a lot on margin improvement still on a year-over-year basis here. So, I guess, I'm wondering can you maybe separate what's going [out of] ALW versus your core business? And then, put maybe out -- looking out to 2020, is it still fair for us to think that a double-digit target for this segment is appropriate, margin-wise?

Christopher L. Mapes - *Lincoln Electric Holdings, Inc. - Chairman, President & CEO*

Yes. That's a great question. I can tell you, Mig, that we're still very focused on our Phase 1 of our integration process, which we believe that we'll complete by the time we get to the back half of 2019. Really positioning that business at that point to be able to grow from that completion of Phase 1, we still got a couple more systems integration to complete before that period of time as well as a host of other strategic projects.

I can share with you that we are not moving off our current targets that we set out for the integration of that business. Our margin profile has not moved as quickly as I would've liked to have seen it, but I do like the work that the team is doing in positioning the business. We do have a little bit of a headwind now from the macroeconomics that are going on there within Europe. And we'll certainly have to see how that impacts our ability to execute on that target as we are moving forward. But we are holding to the target of 10% operating profit that we had set out for that business as we entered into the integration work in bringing that business into Lincoln Electric now 18 months ago or so.

Operator

And our next question is from Matt Trusz with G. Research.

Matthew A. Trusz - *G. Research, LLC - Research Analyst*

Can you discuss the additive business model in greater detail? Do you plan that this is going to stay additive-as-a-services, or do you anticipate selling equipment systems, too, looking into the mid-2020s? And can you provide any early take on how you would compare this to equipment sales as far as margins go?

Christopher L. Mapes - *Lincoln Electric Holdings, Inc. - Chairman, President & CEO*

Well, first I'd say that as we're executing on this piece of the strategy, our intention is to be a service provider of this innovation, technology into the marketplace. Our experience in building out the global automation portfolio and certainly having a largest welding automation portfolio here in the United States has given us experience in recognizing that bringing those technologies to the marketplace too quickly can create other challenges within the business model. And I think that would only be enhanced as we're talking about the additive strategy that Lincoln's deploying because we are really at the front end of this innovation. There are only a handful of people around the world who are utilizing this type of technology as it relates to making these types of parts and building out this business model. So our intention is that this would be a service model. We may very well have a handful of units that are in R&D centers or technical centers around the world. But it -- our intention, again, is for it to be a service model for us.

I would expect that as we're building that model out, that the margins associated with this would be at or slightly favorable to our overall margins in the portfolio. At this point in time, we just really need to see exactly what types of opportunities are coming towards us. But we see the value that can be created. When you're creating that type of value you should be able to extract really a substantial portion of that profit pool. So we're excited about what the margin profile can look for this business longer term. But probably too early for us to determine exactly what that might be for our additive business as we're building it out.

Matthew A. Trusz - *G. Research, LLC - Research Analyst*

And just a follow-up on that, how robust is the patent protection there? And I get that this is better than laser and powder but for competitors who might have laser or hot wire would you be able to -- being able to compete with this?

Christopher L. Mapes - *Lincoln Electric Holdings, Inc. - Chairman, President & CEO*

Oh, yes. We -- look, we believe -- first of all, we were one of the early innovator in laser hot wire. So we understand that technology very well. We believe that we will not be only able to compete but quite frankly, could be a component within our broad additives strategy. So -- and I think what's important to think about the value proposition and the moat that we're building around this technology is -- look, there are some proprietary IP that we have that we'll be able to leverage. But as importantly is the competencies that we bring to this, the competencies and understanding utilization of robotics with metallurgy, the building out of the software capabilities around that. And so we're very confident that although there may be other participants who can be in the marketplace, that this is a challenging innovation tool and that quite frankly, we believe we'll be able to deliver and develop capabilities that will be very difficult for others to be able to match in the marketplace as we build out this business.

Operator

Our next question comes from Walter Liptak with Seaport Global.

Walter Scott Liptak - *Seaport Global Securities LLC, Research Division - MD & Senior Industrials Analyst*

I wanted to ask a follow-up on the international operating margin question, especially with regard to Air Liquide Welding. In your comments -- I understand, the macro may have gotten a little bit worse but is there a step-up that can happen? Are there costs from these systems upgrades? Or are there integration costs that go away from the P&L and help that margin step-up later on this year?

Vincent K. Petrella - *Lincoln Electric Holdings, Inc. - Executive VP, CFO & Treasurer*

Look, I think we can get an improvement in the operating profit margins, actually confident that we can. As the restructuring and integration processes unfolded, Walt, what's happened is that the sales declines are leading the cost decline. So we're chasing the sales and costs down. And so those sales declines will, in my opinion, begin to moderate and stabilize and restore themselves, while costs will continue to decline after the top line stabilizes. So we are continuing to spend on integration activities and new systems' implementations and restructuring the manufacturing and SG&A footprint and activities. And I think that will catch up to the top line and expand margins as we exit this first half of the year.

Walter Scott Liptak - *Seaport Global Securities LLC, Research Division - MD & Senior Industrials Analyst*

Okay. As the sales stabilize, do you think we will see growth as it stabilizes? Or do you think we'll continue to see declines through the back half of the year?

Christopher L. Mapes - *Lincoln Electric Holdings, Inc. - Chairman, President & CEO*

Well, Walter, as we had stated, getting to that back half of the year where we get to a stable business environment and preparing ourselves from -- for growth, the only caution question I have is that, obviously, not understanding what our macroeconomic position will be there in that particular market as we're in the back half of the year. If we were to see a broad headwind across Europe that would be difficult for us to say that we would drive the level of growth that we're looking for. But I do believe that if we get to a stable business model and business structure there, late in the back half of '19, we'll position that business for growth. And even with that we'll be able to drive some of our solutions and technologies into that market place. So -- and still expecting that then we will have executed on what we were looking for, from the integration and then we'll have to determine what those macros look like as we're moving in the back half of '19.

Operator

(Operator Instructions) Our next question is from Rob Wertheimer with Melius Research.

Robert Cameron Wertheimer - *Melius Research LLC - Founding Partner, Director of Research & Research Analyst of Global Machinery*

My question is just on pricing and your perception of how it was absorbed by customers, whether there was any hesitation in ordering or buying, and people waiting to see if it would stick or not? And then, even though you've kind of addressed this, just more generally, whether you feel some of the weakness that you saw, was any of that related to lack of confidence? Or do you think it was genuinely end-market weakness?

Vincent K. Petrella - *Lincoln Electric Holdings, Inc. - Executive VP, CFO & Treasurer*

So on the first one, I don't think we observed any significant movements in order patterns as a result of pricing changes, particularly in the first quarter of 2019. And I don't view -- there weren't really significant pricing changes across our portfolio of companies, both geographically and on a product-line basis. So I don't see that there was a big impact from that.

Robert Cameron Wertheimer - *Melius Research LLC - Founding Partner, Director of Research & Research Analyst of Global Machinery*

And then, just more generally on, whether you can tell by customer by customer on flow versus equipment or any other way whether you felt like there was just an air pocket from hesitation? Or whether it was really just that's where the end markets are?

Vincent K. Petrella - *Lincoln Electric Holdings, Inc. - Executive VP, CFO & Treasurer*

Yes. No, I think it's where the end markets are, and I can't emphasize enough what an unusually strong March of 2018 that we had. March is generally the strongest month of the quarter and one of the stronger of the year, and we had a bump up in March of 2018. And I think part of that was, to your question, on pricing dynamics. If there was an impact on order patterns and sales in any particular period it would've been in the prior year because the prior year had price increases coming out in April. We raised prices in February in '18 as well as in April and there were escalating raw material prices and tariff discussions. So if anything, the prior year might have had a little bit extra bump in it over and above what a strong March might look like. And then this year, it doesn't have any of that as well as maybe a few markets including automotive being a little bit softer for us. But I don't think the current year certainly has any meaningful order pattern changes from pricing.

Operator

And our next question is from Steve Barger with KeyBanc Capital.

Robert Stephen Barger - *KeyBanc Capital Markets Inc., Research Division - MD and Equity Research Analyst*

Just a follow-up to the conversation around becoming a service provider in additive. Is there any thought to pushing more into helping customers with other nonwelding automation applications like material handling or machine tending to leverage the investments you've made there?

Christopher L. Mapes - *Lincoln Electric Holdings, Inc. - Chairman, President & CEO*

Yes, Steve, look that's something that I would tell you we've been doing. So when we've been acquiring these automation businesses across our portfolio, rarely are these automation businesses a 100% welding and cutting automation systems. And if the -- and if one of those businesses already has a competency or a capability around material handling or press transfer units or something else that they've already got within their portfolio, we've not moved that business outside of the automation business. We've kept that business. So we have competencies and capabilities in those other areas. So I would share with you that our focus is still welding and cutting. But where we find complementary skill sets or capabilities within the portfolio, we've been willing to continue to utilize those capabilities and at times, expand those capabilities. So some of those competencies already exist inside of our automation business, and we would accept those opportunities in working with our customers as we're doing that. Now what we have not done at this point is necessarily say that we would target unique opportunities outside of our portfolio that are 100% focused on those types of capabilities. We might -- we have looked at some acquisition opportunities in that area, but it's just finding the right ones if we view that that's a skill set that we want to bring in, or if they bring some unique value proposition that we think would add to our overall automation and additive business.

Robert Stephen Barger - *KeyBanc Capital Markets Inc., Research Division - MD and Equity Research Analyst*

So when you think about growing automation and additive to $1 billion in 2025, 2 questions. One, do you -- is that going to look like the current portfolio in your mind? And how much of that is driven by M&A versus organic?

Christopher L. Mapes - *Lincoln Electric Holdings, Inc. - Chairman, President & CEO*

Well, I don't think it's going to look like the current portfolio because quite frankly, the additive portfolio needs to be a significant piece of that $1 billion, and that's a new business model for us. So -- and it is clearly going to have some uniqueness. So that in itself, Steve, I think creates it looking like a different portfolio. There needs to be an M&A component to that. But as -- when we see the growth opportunities within these marketplace, both in the automation piece and the additive piece, there also needs to be a very significant growth perspective just because of those markets. So I think we'll see a complement of both. Obviously, if we were successful in bringing in a multitude of acquisitions in that space then we might come back out and adjust that number. But today we're seeing that and believing that can be accomplished with some minor M&A and more material organic growth within those businesses.

Robert Stephen Barger - *KeyBanc Capital Markets Inc., Research Division - MD and Equity Research Analyst*

Got it. And then just one last one. In the press release you called this a cautious period of the cycle. And are you seeing that around the trends we've already discussed on the call today in Europe and China or are you seeing customers in North America express caution about demand trends?

Christopher L. Mapes - *Lincoln Electric Holdings, Inc. - Chairman, President & CEO*

No. I think as Vince said earlier, we're not seeing any necessary broad caution between our customers here in the Americas' piece. So I think it's just our perspective on this point in the cycle for Lincoln Electric and where we see the business.

Operator

Our next question is from Nathan Jones with Stifel.

Nathan Hardie Jones - *Stifel, Nicolaus & Company, Incorporated, Research Division - Analyst*

I hope you can give us some color on the growth investments, you pointed to that as a drag to margins. Can you maybe tell us how much more you're putting into growth investments this year? And then any color you can give us on where it's going? Sure you know additive and automation are some of those places. And then I think you took the CapEx guidance down $5 million, just what's behind that?

Vincent K. Petrella - *Lincoln Electric Holdings, Inc. - Executive VP, CFO & Treasurer*

Yes. Nathan, so the growth investments are really primarily around the additive conversation that we've been having this morning. And that's the bulk of the increase in cost, and we estimate that to be around a run rate of $2 million per quarter during the course of 2019.

Operator

And our last question is coming from Jason Rodgers with Great Lakes Review.

Jason Andrew Rodgers - *Great Lakes Review - VP*

My questions are already asked.

Operator

And I'm not showing any questions in the queue. This concludes our Q&A session. I would like to turn the call back to Vincent Petrella for closing remarks.

Vincent K. Petrella - *Lincoln Electric Holdings, Inc. - Executive VP, CFO & Treasurer*

Thank you, Carmen. And thank, everyone, for joining us on the call today and for your continued interests in Lincoln Electric. We look forward to discussing the progression of our strategic programs in -- at the end of second quarter of 2019. Thank you very much.

Operator

And with that, ladies and gentlemen, we thank you for participating in today's conference. This concludes the program, and you may all disconnect. Have a wonderful day.
