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PRESENTATION

Operator

Greetings and welcome to the Lincoln Electric 2015 fourth-quarter and full-year 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, Amanda Butler, Director of Investor Relations. Thank you. You may begin.

Amanda Butler - *Lincoln Electric Holdings, Inc. - IR Director*

Thank you Tamar and good morning everyone. Welcome to Lincoln Electric's 2015 fourth-quarter conference call. We released our financial results for the quarter and full year earlier today, and you can find our release as an attachment to this call's webcast presentation as well as on the Lincoln Electric website at LincolnElectric.com in the Investor Relations section.

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

Before we start a discussion, please note though 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 discuss financial measures that do not conform to US GAAP. A reconciliation of non-GAAP measures to the most comparable GAAP measure is found in the financial tables in our earnings release.

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

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

Thank you Amanda. Good morning everyone, and I would direct you towards Slide 3. I'm pleased to report that we finish 2015 with solid execution and performance across a number of key metrics. We achieved a 14.7% operating income margin on an adjusted basis, reflecting a 19% decremental margin. We also generated strong cash flows with free cash flow conversion at 100% of adjusted net income, as well as a 21.1% return on invested capital. We are also proud to have returned a record $486 million to shareholders from both an increase in our dividend payout rate and a record $399 million in share repurchases.

We achieved these results by staying focused on our core priorities and strategy -- our customers, delivering value through innovative solutions, executing on our 2020 strategic initiatives, and maintaining a disciplined capital allocation strategy. These efforts, combined with aggressive short-term cost reduction actions that are contributing approximately $8 million to $9 million per quarter of benefit, continued to advance our financial performance as well as our long-term growth prospects and competitive positioning.

We faced challenging conditions in industrials in 2015 which persisted through year-end and impacted our worldwide operations. Our full-year 2015 sales decreased 9.9% to $2.5 billion, as benefits from price and acquisitions were offset by 8% in lower volumes with compressing industrial demand, the impact of a strong US dollar and general economic uncertainty. These factors outweighed growth we achieved in certain end markets and applications.

Reported EPS results of $1.70 was impacted by soft volumes, a $0.15 unfavorable impact from foreign exchange, and a $1.78 impact from special items charges associated with our pension settlement from rationalization and asset impairments and Venezuelan remeasurement losses. Excluding special items charges, adjusted EPS for 2015 was $3.48, which does not include the impact of an unfavorable $0.16 contingent consideration or earnout in 2015 related to an acquisition. Excluding Venezuelan results from both years due to the hyper-inflationary conditions in that country, our 2015 adjusted EPS would have declined 6% to $3.43 as compared with $3.65 in 2014.

Moving to Slide 4, looking at full-year 2015 trends in a bit more detail on Slide 4, I am pleased to report that we remain on track with our automation strategy and achieved double-digit percent organic sales growth for the year in the automation portfolio on the strength of our solutions and the resilient demand for the North American automotive and nonresidential construction sectors. Automation growth was offset by declines in both equipment systems and consumables. Equipment demand was largely impacted by a decline in our US exports as well as lower industrial activity and capital investment due to the dramatic decline in oil and commodity prices. In 2015, our oil and gas sector sales declined approximately 10%.

In our Asia-Pacific segment, volume performance was impacted by our strategic repositioning initiative in China where China organic sales declined by approximately $40 million in 2015. We are continuing to shift to a growth focus in automation solution, equipment systems, and alloy-based filler metals to drive improved returns in that business.

Looking at in-sector activity in 2015, while most sectors' performance decelerated in the fourth quarter, we benefitted from our diversified end market exposure and achieve full-year growth in transportation, notably in automotive, in general fabrication, in pipe activity, midstream applications, shipbuilding, and in nonresidential construction applications. This growth was offset by declines up and downstream oil and gas applications and in heavy fabrication, especially in our international regions.

Moving to Slide 5, we have continued to focus on investing for long-term profitable growth in this part of the cycle. Our growth initiatives automation and education both address the global secular trend of skilled welder shortages with both markets expanding in 2015. Additionally, our alloy strategy, which addresses the growing use of specialty materials requiring rigorous performance standards, continues to grow, most notably in aluminum.

We have always focused on innovation as a key value proposition and differentiator and in 2015 we continued to increase our investment in product development with R&D spending up 9% versus the prior year. This effort allowed us to maintain a strong vitality index with 31% of sales from new products launched within the last five years and a 44% vitality index within our equipment portfolio.

Given recent product launches highlighted in our last earnings call and a solid pipeline through 2016, we remain confident in the quality of our portfolio and our positioning when markets improve. We will continue to prioritize profitable growth and maintain strong balance sheet flexibility to support an active M&A program as we move into 2016.

During the year, we acted swiftly to align the business to weakening end market conditions and implemented actions that have been used in prior downturns, including aligning productive hours of customer demand, limiting overtime in our contract workforce, temporarily suspending our 401(k) match for US employees, and offering a voluntary separation incentive program. As our markets have remained challenged, we further implemented a 5% salary reduction for our global executives in the fourth quarter, and we will continue to monitor conditions and implement further controls if conditions merit.

Currently, we expect to generate $25 million in annualized temporary benefits and $12 million in annualized structural cost savings. This equates to approximately $9 million per quarter of benefits, which will partially offset the anticipated unfavorable impact from volume and foreign exchange. This benefit run rate is expected to anniversary in the third quarter of 2016. Very solid performance, very quick action in a very challenging environment.

And now I'd like to pass the call to Vince to discuss our fourth-quarter results and uses of cash in more detail. Vince?

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

Thank you Chris. We finished a challenging year with results that I believe demonstrate the flexibility of our business model, notably in our North American segment, the benefits of driving innovative solutions into diversified end markets and regions, and a rapid response to challenging market conditions. Our efforts generated solid margin, cash flow and ROIC results.

Looking at fourth-quarter income statement highlights on Slide 6, our consolidated fourth-quarter sales decreased 17% compared with the prior year on 8.2% higher price or 50 basis points, excluding price contributions from Venezuela, and a 2.1% increase from our Rimrock and SWP acquisitions. These increases were offset by 14.4% lower volumes and a 12.9% unfavorable impact from foreign currency translation, or 4.4% excluding the effects of Venezuela. Our Venezuelan operations significantly impacted our price and foreign currency results in the quarter due to the hyperinflationary conditions in that country, and our recent currency remeasurement to the Samadhi rate.

Our fourth-quarter gross profit decreased 15%, reflecting lower sales and a $700,000 charge related to the Venezuelan remeasurement losses we incurred from the adoption of the Samadhi rate at the end of the third quarter. While gross profit dollars declined, our gross profit margin increased 70 basis points to 34.5% compared with 33.8% in the prior-year period, reflecting the benefits of our cost reduction actions and lower input costs.

Our SG&A expense as a percentage of sales increased 110 basis points to 19.5%, primarily due to foreign currency and lower sales as we continue to control expenses. Our reported operating income declined 25% in the quarter to $78 million, or 13.8% of sales, reflecting the impact of lower sales, a $6.4 million non-cash pension settlement charge related to lump-sum pension payments, the impact of our Venezuelan remeasurement charge, and an additional $400,000 rationalization and asset impairment charge.

On an adjusted basis, our operating income margin was resilient at 15.1%, which was 30 basis points lower than the prior year on 14% lower volumes. Our decremental margins, excluding special items, were 16.5% in the quarter.

Our interest expense increased by $3.1 million to $9.8 million, primarily from a $6.4 million adjustment in the consideration we expect to pay to acquire an additional ownership interest in a majority-owned subsidiary. Interest expense also reflects higher interest accrued on higher borrowings.

Looking ahead to 2016's full year, we expect our interest expense range to be about $20 million to $22 million, reflecting current borrowings and our expected contingent consideration for the year. Contingent consideration is subject to changes based on actual performance compared with the subsidiary's forecasted performance plan.

Our fourth-quarter effective tax rate was 31.6% compared with 25.2% in the prior-year period. The prior year's tax rate includes the successful resolution of tax litigation and a more favorable mix of earnings. Looking ahead to 2016, our effective tax rate is expected to be in the low 30% range, subject to the mix of earnings and utilization of US tax credits.

Fourth-quarter diluted earnings per share decreased 29% to $0.68 compared with $0.96 per share in 2014. On an adjusted basis, diluted earnings per share decreased 22% to $0.75 as compared with $0.96 in 2014. While cost reduction actions and lower input costs helped to partially offset the impact of lower volumes, our EPS results were also unfavorably impacted by $0.08 from foreign exchange translation and an additional $0.09 per share from contingent consideration.

Now moving to the geographical segments on Slide 7, our North American welding segment's fourth-quarter adjusted EBIT margins were up 50 basis points to 19.8%, reflecting the benefits of our flexible incentive management system, cost reduction activities, as well as lower input costs. The segment saw a step down in sales in the quarter with a 13% decline as a 2.6% benefit from acquisitions and a 1.2% increase in pricing was offset by 14.9% lower volumes. While automation continued to achieve sales growth in the quarter, both equipment and consumable product lines were lower due to a broad decline in general industrial demand and heavy fabrication as well as from weakness in oil and gas applications.

In Europe, adjusted EBIT margin declined 340 basis points to 5.9% on lower volumes, which reflect broader declines in energy market demand in the region. These declines offset modest growth achieved in southern Europe and in our growth initiatives focused on alloys and automation.

Moving to Slide 9, the Asia-Pacific welding segment's adjusted EBIT margin was breakeven in the quarter due to unfavorable fixed cost absorption on 26.7% lower volumes and persistent end market weakness in oil and gas markets. South American welding incurred a modest net loss in the quarter on lower volumes from weakening macroeconomic conditions in the region, particularly in Venezuela and Brazil.

Moving to Slide 11, the Harris Products Group fourth-quarter EBIT margins held relatively steady at 9.2%. Sales declined 9.9% or 5.5% organically. Volume declines moderated to 2.8% as strength in the US domestic retail channel was offset by international market weakness. Pricing decreased 2.7% on lower metal costs, primarily silver.

Moving to Slide 12, cash generation in the quarter was solid with cash flow from operations of $75 million. While cash flows declined on a year-over-year basis due to a challenging comparison, including a $50 million tax refund last year, our cash flow generation represented a 121% cash conversion ratio of free cash flow to adjusted net income. Solid cash flows combined with only $50 million of net debt on our balance sheet positions us well to execute on our capital allocation strategy of investing in growth and returning cash to shareholders through dividends and share repurchases throughout the economic cycle.

Looking at our average operating working capital to net sales ratio, we held the ratio steady at 17.1% by aggressively managing working capital in a declining macro and topline environment.

Moving to Slide 13, we invested $37 million towards acquisitions in the year. Capital expenditure spending declined to $10 million in the quarter, or 31%, to $51 million for the full year as we curtailed projects to align the business to compressing market conditions.

Looking ahead to 2016, we estimate full-year capital spending to be in the range of $65 million to $75 million, including a substantial investment in our new welding technology center.

During the fourth quarter, we continued to return cash to shareholders. We paid cash dividends of $21 million, reflecting the higher dividend payout rate. Our dividend payout rate was increased by 10.3% for the first-quarter 2016 payment, marking our 20th consecutive year of dividend increases for the Company since our public offering in 1995. We also spent $102 million on repurchasing over 1.8 million shares for treasury in the quarter, and over $399 million for the year. In 2016, we are targeting $400 million of share buybacks, reflecting management's confidence in our cash flow generating capabilities and balance sheet strength through the cycle.

Now I will turn the call over to Chris to discuss our recently announced organizational segment reporting structure, changes, and our outlook for 2016. Chris?

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

Thank you Vince. Turning to Slide 14, as I hope many of you saw a few weeks ago, we announced a new organizational structure with the creation of two welding segments, Americas welding and international welding, as well as our existing Harris Products Group. These two new welding segments will be headed up by the executives who were formerly leading the North American and European welding segments. We made this change to simplify our organization to better leverage our resources, to improve operational efficiency across our global platform, and accelerate product development and commercialization activities across several global initiatives. Quite simply, faster execution and global alignment.

To aid investors in their analysis of our performance, we've included our fourth-quarter and full-year 2015 results in the new segment structure in the presentation's appendix. We will be using this new segment structure in our upcoming first-quarter 2016 earnings release.

I would also like to comment on our 2016 outlook. Given the short cycle nature of our business and persistent year-over-year and sequential weakness at a consolidated level through February from challenges in certain regions in an industry segment such as agriculture, mining and oil and gas, we are continuing demands of the business cautiously and are expecting continued challenges through 2016. While we have seen some sequential stabilization in certain countries and end sectors on a constant dollar basis in the first quarter, our consolidated first-quarter comparisons will be very challenging, especially considering our performance in 2015 in the oil and gas segment. And we only expect the year-over-year comparisons to ease in the second half of the year. On a full-year basis while we expect some growth opportunities to emerge in several end markets, we anticipate that these pockets of growth will be outweighed by ongoing declines in the energy and heavy fabrication sectors until oil and commodity prices stabilize. We will continue demands of the business diligently in this part of the cycle for margin performance, cash flow generation and returns, and we will remain disciplined in our capital allocation strategy and cost reduction programs. Given our 2020 program achievements to date, we are better positioned today to deliver solid performance in a downcycle with a solid balance sheet and top decile returns on invested capital.

So before we open the call to questions, I'd like to thank my many colleagues at Lincoln Electric around the world who focus on our customers and ensure that we deliver as the welding experts every day. It is their teamwork, their commitment to our strategy, and our brand that continues to drive our results and improve returns for all of our stakeholders.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Matt McConnell, RBC Capital Markets.

Matt McConnell - *RBC Capital Markets - Analyst*

Thank you. Good morning. I just wanted to highlight on the pretty impressive margin performance, especially given some of the end market challenges. So what was the LIFO benefit in the quarter? And what are your expectations for price costs in 2016? Maybe we'll just start there.

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

So, the LIFO credit in the quarter was about $4.3 million. For the full year, it ran about $11.5 million. Most of that $11.5 million was backloaded in the second half of the year.

As far as -- and the prior year's fourth quarter, Matt, had about $3.3 million of credits in it.

So as far as 2016 is concerned, we've seen a flattening out, a stabilization of input cost that had tailed off in the second half of 2015. So our view for 2016 is a relatively flattish environment, maybe a little bit on the downside, but certainly not to the level that we experienced in 2015.

Matt McConnell - *RBC Capital Markets - Analyst*

Okay. So price is still up even ex-the Venezuela adjustments, and I would imagine your raw materials are pretty sharply lower still, right?

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

Those prices are up largely due to the effects of foreign exchange. So we've talked in the last couple of quarters about the products that we sell, for example in North America, that might go into Canada and Mexico, and those products in US dollar terms are becoming more expensive. So outside of the US in the North American segment, those businesses have to raise their prices to make up for the strength of the US dollar and the weakness in their local currency. So, there's that dynamic that continued into the fourth quarter of the year. But other than that, from a core pricing, if you will, price book evolution, there's not a whole lot of price being pushed through the business or the industry at this point in time.

Matt McConnell - *RBC Capital Markets - Analyst*

Okay, great. And since we are fairly deep into the first quarter at this point, I wonder if you could just give an update on how demand has trended so far as you've started the year. Is it kind of comparable with the declines you saw in the fourth quarter? Just any update there would be helpful.

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

As we mentioned very briefly in the call, we are seeing some markets around the world where, on a constant currency basis, we are seeing some sequential flattening. Some of those are regional; some of those are by industry. We are very excited about the fact of the growth that we have seen in our automation strategy and continue to see that and are expecting that to continue to trend favorably as we move into 2016.

But on a macro perspective, although it has decelerated significantly, we are still seeing some sequential weakness in the business.

And I would remind you that, as it relates to Q1, our 2015 Q1 was very strong. We hadn't really entered into the level of compression in the oil and gas market that the broad industry had in Q1 of 2015. So, we've got a very challenging year-over-year comp in 2015 relative to some of those markets and the denigration they saw in 2015. I still say the positives are our automation business is executing on it strategy, we are seeing deceleration in the sequential, but probably at the absolute level still expecting some sequential compression in Q1.

Matt McConnell - *RBC Capital Markets - Analyst*

Okay. Thank you very much.

Operator

Joe O'Dea, Vertical Research Partners.

Joe O'Dea - *Vertical Research Partners - Analyst*

First, on cost savings for 2016, you are now targeting the high end of previously announced programs. You've also now announced some things with salary. Can you just talk to, in terms of absolute kind of dollar savings, given the anniversarying toward the back half of 2016, just what you're looking for in terms of total dollar savings there?

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

Yes, it's roughly a combination of both temporary and structural savings ought to be running through 2016 around $9 million pretax per quarter in savings.

Joe O'Dea - *Vertical Research Partners - Analyst*

And then you would have realized that in 4Q, though, of this past year, right? So just in terms of kind of what the actual margin lift would be in 2016?

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

I see what's you're -- yes. So it's going to anniversary itself in the third quarter. We came pretty close to that $9 million in the fourth quarter. And it will, as the year unfolds, start to narrow in the second half of the year in the third quarter. But we ought to see -- the bulk of those $9 million in savings ought to come through in the first two quarters.

Joe O'Dea - *Vertical Research Partners - Analyst*

Okay. And then just a question on automation and the growth that you've seen there through 2015. I think, to start 2016, some increasing concerns around where we are in the North America kind of auto cycle. Can you just talk to kind of any visibility you have for demand within that segment through the course of 2016, if you've seen any sort of softening of demand there?

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

I think the important thing to think about when you are talking about it relative to automation is that, although automotive had a very strong 2015, especially from a units perspective, and there is some conversation about whether that demand level is flattening a little bit as we're moving into 2016, but those demand levels are off very, very strong numbers. And you are seeing a lot of capital continuing to be invested in the automotive space. And although we might see a flattening of the unit's demand, if they flatten at these levels, we are going to continue to see advancement in automation and continued use of that technology in the automotive space. So although we might see a flattening of the overall demand curve for broad products, we are expecting it to continue to be a very positive year in automotive for our automation business in 2016.

I'd also share with you that, beyond the automotive space, we have got some unique solutions. We are seeing nice advancements with the technology in the structural sector. We've seen growth in the pipe sector. Some of that is from new technologies that we have in that region. And we have some great offerings in the heavy industry end of the cycle that we've really not been able to execute on much as they have continued to be challenged from a capital investment perspective.

So much like our core business, our automation business has various solutions that we are driving into various segments, certainly automotive, a heavy user of automation, and we are getting some of the benefits from that today within the portfolio.

Joe O'Dea - *Vertical Research Partners - Analyst*

That's really helpful detail. Thank you.

Operator

Eli Lustgarten, Longbow Securities.

Eli Lustgarten - *Longbow Research - Analyst*

Good morning everyone. Just for clarification to make the scenario relative new, you said oil and gas was down I think 10% for the year. What part of your -- how much of your business can you identify as it relates to oil and gas? And with the oil and gas market, down 10% is sort of a fraction of what you're hearing across the board from other people who are down more in the mid-20s% or so. Is that what we should expect for 2016 in that sector?

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

That's for the full year. And by way of history, we had a good start to 2015 from an oil and gas perspective. We were only down in the first quarter of the year mid single digits. That decline we recognize was industry-leading, and a lot less than what we had seen from other people that were disclosing their oil and gas effect. Now, we saw it progress downward during the course of the year to a point where we were down double digits in the fourth quarter on a year-over-year basis. And so it did progress down like we expected as the year unfolded. But we started the year better than what might be expected in 2015 and it caught up with us in the second half.

As far as --

Eli Lustgarten - *Longbow Research - Analyst*

Do you have what percentage of the business is related to oil and gas in a rough number?

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

It's in excess of 15%.

Eli Lustgarten - *Longbow Research - Analyst*

Okay. And the follow-up question, can we talk a little bit about the decrementals that you might expect in 2016 because you had fabulous decrementals across the board this past year? And tied to that, you surprised us and gave us a lot of good information in the fourth quarter about how the market has stepped down to a big double-digit number. You gave us the data at FABTECH that -- are we seeing a continuation of that level comparison? Has it gotten weaker than what we saw from the FABTECH in the fourth-quarter results, and that's what hurts first quarter? And can you contrast it to the weakness in the market versus what we saw in the fourth quarter and the decrementals that we should expect for this year?

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

I'll address the decrementals and maybe I'll let Chris talk about market trends. From a decremental perspective, that 16.5% decremental is excluding special items in the fourth quarter. It was an excellent result for us and was outside of what -- the norm we've seen in decrementals over a fairly long period of time. I would expect that, in at least the first half of 2016 and certainly the first quarter, that that will likely increase a bit, maybe to be in the 20% to 25% range. And we'll just have to wait and see what volumes do and what other cost take-out actions we might initiate during the course of 2016 to line up our expectations as the first quarter and first half unfold.

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

Really as it relates to the trend data, we did announce very early in the fourth quarter that we had experienced some further challenges from a volume perspective. We are not seeing a recovery from that. To answer your question, as I stated, we are seeing the deceleration stabilize. We are not seeing sequentially where it is completely absolved, but we are seeing it to decelerate and quite frankly seeing some stabilization in certain markets around the world. But we are still expecting in Q1 a sequential slight decline within the portfolio as we move into 2016.

Eli Lustgarten - *Longbow Research - Analyst*

Thank you very much.

Operator

Mig Dobre, Robert Baird.

Mig Dobre - *Robert W. Baird & Company, Inc. - Analyst*

Good morning everyone. I guess the first question for me, just trying to clarify your comments here, Chris, because I'm a little bit confused. Are you basically seeing some stabilization or not? If I look at what the industrial distributors have reported for January, some better-than-expected results there. Has translated at all in your North American business? And can you also give us some color as to seasonally how this business normally performs from the fourth quarter to the first?

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

Let me clarify the comments on what we are seeing in the market trends and the demand. I think it's important to recognize that there's two different things that are important. Certainly, one is the year-over-year comparison and one is what we are discussing relative to the trends from a sequential basis.

So, on a year-over-year basis, as you would expect, as Vince mentioned earlier, we did not have some of the challenges in oil and gas in 2015 as that market started to decelerate that maybe the broad market had. And that shows up in our annual compression in oil and gas, which, again, we said is slightly higher than 15% of our broad portfolio. So we expect to continue to see challenges on a year-over-year basis.

As it relates to the sequential impact within the business globally, we have seen markets and we have seen industry segments that are stabilizing sequentially and on a constant dollar basis than some of those regions, so we are seeing some improvements relative to the demand profile for the business sequentially although, on a macro basis, we are still seeing slight declines sequentially within the business and would expect to see slight declines in the business sequentially in Q1.

Mig Dobre - *Robert W. Baird & Company, Inc. - Analyst*

Okay. I see. That's helpful.

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

From the year-over-year performance in the fourth quarter.

Mig Dobre - *Robert W. Baird & Company, Inc. - Analyst*

I see. Okay. And then maybe could you provide any sort of color on the midstream, the energy midstream customer demand levels? I guess I'm just wondering exactly what you are hearing from these folks looking into 2016. I know some of the work they've had in 2015 has really been backlog they had that's been built up when oil prices were much higher. Is that a market that you expect can be stable in 2016 at all, or not maybe?

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

I would tell you that the midstream segment of our oil and gas end markets have and is performing better than certainly upstream and downstream. So it's, if you will, a bright spot but not one that is meaningful enough to make a difference in our oil and gas numbers, but certainly better than up and downstream.

Mig Dobre - *Robert W. Baird & Company, Inc. - Analyst*

All right, thanks.

Operator

Schon Williams, BB&T Capital Markets.

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

Good morning. I wonder if we could maybe focus on the China strategy. Could you talk a little bit about where we are in terms of the repositioning within China? How much did that hurt you at the topline in 2015? How much is still left to go in 2016? And then any update on kind of the divestiture of some of those businesses?

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

So, we announced in the fourth quarter that we were going to exit one of our larger facilities there. That plant is effectively shut down now. So, I would tell you that most of our repositioning is behind us in China. There's maybe a little bit more to go. If I were to put a number on it, we may have of another $10 million to $20 million of topline compression there during the course of 2016. But we've done most of the effort to exit our product line that we were positioning during the course of the last year, 18 months.

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

That's helpful. Can you maybe just give the export numbers out of North America overseas? A lot of that goes to China. Can you give us an update on where we are there?

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

Yes, I think exports out of the US were roughly $37 million versus $51 million in the prior year for the fourth quarter.

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

And that's mostly -- that would be all equipment? Is that right?

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

I wouldn't say it's all equipment. It certainly is a heavy mix of that, but not all equipment. If we are roughly two-thirds consumables, a third equipment, you can flip it around the other way for export markets.

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

Okay. And one more, if I may. You guided $20 million to $22 million on the interest expense. Is that -- does that already bake in the incremental debt that you expect to incur going into 2016, or is that kind of on a normalized kind of run rate basis of where we exited the year?

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

That's on a run rate basis based on exiting the year. So, during the course of 2015, we had a total interest expense charge of around $22 million. And about $12 million of that was related to the contingent consideration accruals during the course of the year. So we would estimate a similar type of $20 million to $22 million with almost a roughly equal split between financing costs associated with the $350 million of debt, as well as expected accruals on the contingent consideration for 2016. So, if we layer on some additional debt this year, that's not contemplated in those estimates.

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

All right. That's helpful guys. I'll get back in the queue here.

Operator

Jason Rodgers, Great Lakes Review.

Jason Rodgers - *Great Lakes Review - Analyst*

What was the growth in the automation portfolio in the quarter on a year-over-year basis?

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

It was single digits.

Jason Rodgers - *Great Lakes Review - Analyst*

Do you expect that to get back to double digits in 2016?

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

Well, based on the trends and the trajectory of our year-over-year performance in automation, it would require some kind of change or catalyst in end markets that would re-energize our growth trajectory. So at this point in time, I would say, for the first half of 2016, probably not. I think it remains to be seen whether or not something emerges in the second half of the year that gives us a greater level of confidence that we achieve double-digit growth there again. But at the present time, I would say not highly likely based on what we see in the first quarter, first half of the year.

Jason Rodgers - *Great Lakes Review - Analyst*

And then maybe if you could give us some thoughts on your acquisition targets, what you might be looking at currently?

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

Look, I think that, as we enter into what we believe will be a challenging 2016 from a macro perspective, we are hopeful that there will be more and more opportunities for Lincoln to continue to evaluate assets that can continue to improve upon our strategy. We are happy with the acquisitions that we could close in 2015 and the way those businesses can improve upon the strategy moving forward. We like our balance sheet position. We like our ability to continue to evaluate those. But as you are well aware, it's difficult to understand exactly how many of those opportunities we will be able to mature. Certainly, we will continue to look at opportunities to advance our automation strategy and we'll continue to look globally for identifying those strategies or solutions that can continue to support the 2020.

Jason Rodgers - *Great Lakes Review - Analyst*

And then finally, if demand were to take another leg downward, how much room is left both in temporary and permanent cost savings?

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

Look, I think we have a material room if we need to if there were to be another step down within the portfolio. As I said, we like the fact that we think the deceleration is minimizing. We like the fact that we've seen some stabilization in some regions around the world. But we certainly have other levers that we can evaluate if the business were to materially shift in a different direction. As we said earlier, these cost savings that we've implemented will mature out there around the third quarter. Most of those will occur in Q1, Q2. If we were to see a material shift in the business, then we will continue to manage the business aggressively to minimize the impact if we continue or were to experience a significant shift in demand.

Jason Rodgers - *Great Lakes Review - Analyst*

Thank you.

Operator

Joe Mondillo, Sidoti and Company.

Joe Mondillo - *Sidoti & Company - Analyst*

Good morning guys. So, you saw a 15% decline in volume in the North America segment, and yet you still saw operating margin expand. I assume a lot of that was the cost cuts, but is there anything else related to mix or anything that drives that as well, whether it's the export mix or anything else that drives the operating margin there, aside from the cost cuts?

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

Certainly the earlier question on LIFO credits was -- assisted the fourth quarter. We had a sizable -- the largest quarterly LIFO credit during the course of the year that aided us. And certainly the last quarter of the year, the input cost declines were fully realized.

We also have year-end accruals and reserve adjustments that occur every year that can benefit us, and 2015 is no exception. We had adjustments to our bonus accruals that were larger than expected in 2015 compared to 2014. So, those are items that are unlikely to repeat, at least in the first half of 2016. But we had certainly a very good profitability quarter in North America in the fourth quarter of 2015.

Joe Mondillo - *Sidoti & Company - Analyst*

Okay. Is there a mix issue at all, or is that not really a -- ?

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

I think a little bit, but I wouldn't put that at the top of the list of the benefits of the margins that we experienced in the fourth quarter. I wouldn't put that in the top three or four reasons for the strong margins in North America, Joe.

Joe Mondillo - *Sidoti & Company - Analyst*

Okay. And those accrual and reserve adjustments, was that bigger or smaller than the LIFO credit?

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

It was bigger than the LIFO credit.

Joe Mondillo - *Sidoti & Company - Analyst*

Okay. And the year-over-year change of that was a lot different than a year ago?

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

It was a bigger benefit in 2015 than 2014.

Joe Mondillo - *Sidoti & Company - Analyst*

Okay. And then the margin in Europe, you cited it sounded like it's sort of just volume there as well. Is there anything else going on there, where it brought on the margin pretty considerably?

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

It was a little bit more difficult pricing environment. If you look at the pricing table at the end of your appendices in the press release, you see that Europe compressed about 50 basis points in margin and pricing. I would also say that, in Europe, there were some mix headwinds. Their equipment sales declined more rapidly than consumables, and that certainly had an impact on margins in Europe.

Joe Mondillo - *Sidoti & Company - Analyst*

Okay. And then just lastly, this South America, is there -- it seems like just looking at the pricing and the FX, obviously the hyperinflation that they are seeing seems like it's not sort of changing. But do you see any sort of change in the environment at all, or is it continuing to get worse or what's your sort of outlook down there?

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

We don't see Venezuela getting better anytime soon, and Brazil certainly had a very difficult 2015. We wouldn't expect our South American businesses are going to have a meaningful turnaround in 2016, and certainly not to a level that would impact our consolidated results in 2016. So, we are not expecting a meaningful contribution from those businesses anytime soon.

Joe Mondillo - *Sidoti & Company - Analyst*

Okay. Good enough. Thanks.

Operator

Liam Burke, Wunderlich.

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

Good morning Chris. Good morning Vince. Chris, has the dependent profile on automation changed at all, or is it pretty much the same landscape with a lot of smaller, more regional competitors?

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

No, really the landscape has not changed. We see this as a global opportunity to provide solutions, but we see the competitive base as being very regionally focused, smaller participants in the space. And that's why, over the last two or three years in the acquisitions that you see us bring into the portfolio, they've tended to be businesses between $20 million and $50 million of revenue that we've aggregated into the strategy.

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

And in your prepared comments, you highlighted both Europe and China as automation being one of the growth initiatives there. Is this still primarily North American business, or do you see any near-term traction out of either of those countries in the automation space?

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

I would say within the automation space, you really have businesses within automation. It's important to understand when you answer that question. We certainly have automation solutions that are product based solutions that are global platforms. And that we are selling those particular solutions. Whether it's an orbital pipe solution or a structural steel solution for robotic plasma cutting, we are selling those solutions globally.

As it relates to the solutions relative to designing and integrating and installing welding automation solutions, the really larger portion of that portfolio within Lincoln today is really in North American business, although we do have some of those capabilities around the world. Certainly the larger share of that particular strategy today has been implemented in North America.

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

Thank you Chris.

Operator

Walter Liptak, Seaport Global.

Walter Liptak - *Seaport Global Securities - Analyst*

Thanks. Good morning. I've just got a couple of quick follow-ups. One on the M&A. With where we are in the cycle and I guess the balance sheet cash flow continuing to be strong, can you refresh us on the 2020 strategy and the outlook for M&A and what the Company's appetite would be for doing larger acquisitions and taking advantage of the maybe better valuations on deals?

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

Yes, so if you were to take a look at the 2020, when we started down this path, we acknowledged that we were going to drive our topline through a host of initiatives, including organic growth, solutions-based selling, and driving more solutions to the marketplace. But to achieve our long-term goal, we needed to have acquisitions be a portion of that strategy.

So as we evaluate how we are really participating and executing on the 2020, we see that as still an area where we need to accelerate, if possible, those acquisitions that we can bring into the portfolio. So, I would tell you that our appetite and desire is just as strong if not stronger to be able to identify and execute on an acquisition strategy within the portfolio. But again, it's very important for us to make sure that it's aligned with our broader strategy, driving solutions to the marketplace. And we continue to invest an enormous amount of time in researching and trying to identify and opening a dialogue with those products and solutions that we think could be a benefit to us long-term.

Walter Liptak - *Seaport Global Securities - Analyst*

Okay. Are those businesses out there that would be good welding fits, either here in the US or internationally, that would be good larger targets?

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

Certainly. I think the question becomes what's the definition of larger and, quite frankly, exactly whether some of those companies would be accretive to our strategy from a solutions perspective. But there are meaningful acquisitions that are in the marketplace today, and part of it will be determining whether those acquisitions are actually available for Lincoln to be able to consider, but there certainly are material businesses globally that would fit into our strategy.

Walter Liptak - *Seaport Global Securities - Analyst*

Okay. Great. And just a follow-on on the oil and gas discussion of that 10% decline in 2015. What was the -- you may have said this already, but what was the fourth-quarter decline rate?

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

Fourth quarter was down in the double digits.

Walter Liptak - *Seaport Global Securities - Analyst*

Okay. In the first quarter, is the comp more difficult than the fourth-quarter comp?

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

It will be more difficult in the first quarter because, as a reminder, we were only down first quarter 2015 over 2014 mid single digits. Our first quarter is obviously our most challenging comp in 2016.

Walter Liptak - *Seaport Global Securities - Analyst*

Okay, thank you.

Operator

Steve Barger, KeyBanc Capital Markets.

Steve Barger - *KeyBanc Capital Markets - Analyst*

Good morning guys. You already talked about how revenue comparisons don't get easier until the back half, and I know it's tough to forecast a short cycle business, but I'm trying to frame up what happens if oil and commodity prices stay where they are versus some of the stabilizing trends in other markets you are seeing. If there were no recovery in oil, would you expect Two Half sales to be up or down?

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

This is Chris. As you said, we'll start by saying it's very difficult to prognosticate in the short-cycle business how that would mature. But I would tell you that stabilization of commodity prices and oil prices would actually be a positive. So I view stabilization as something that the market would be looking for, and we continue to see it in some investment around that stabilization, so I would view that as a positive.

The broader concern is that lack of stabilization or potentially further declines in those particular commodities and what that might mean to the demand cycle in the back half of the year. But stabilization within those commodity prices, especially oil, would, in my opinion, be a favorable.

Steve Barger - *KeyBanc Capital Markets - Analyst*

So you think people would start to spend again at some level if they just saw stabilization versus being as tight as they are right now?

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

I do believe that, quite frankly, the lack of stability creates a level of uncertainty even at these commodity price points. At least there would be some investment thesis that some participants would be able to build around that. So quite frankly, I do see stability as a favorable.

I also think, if you look at where the pricing is at today and compare that against the last six months of last year, it wouldn't be materially different. So I don't see that as a broad decline model. I see that as probably a favorable.

Steve Barger - *KeyBanc Capital Markets - Analyst*

Got it. And Vince, just to clarify on SG&A, with the cost saves coming through, where do you think SG&A comes in on a dollar basis in the first half? I'm just trying to nail down the model a little.

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

That depends on where sales come in in the first half.

Steve Barger - *KeyBanc Capital Markets - Analyst*

Just because of the bonus accruals and things like that?

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

Absolutely. Bonus accruals, profitability, there's some portion of that you know as variable. It's fair that the preponderance of SG&A is fixed, but there is a large variable component, larger at Lincoln than at most other companies. I would be prepared to give any kind of guidance on that at this point.

Steve Barger - *KeyBanc Capital Markets - Analyst*

Okay. And last one, just a conceptual question. During 2003 to 2008, all industrial companies benefited from the global emerging market build out from 2010 through 2014. We had energy renaissance. You did a great job of margin expansion during both those periods. As you look at the world now, is there any thought as to what the next multi-year end market catalyst might be when we move past this weakness?

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

I'm not sure what the next end market move might be, but at Lincoln Electric, we are adamantly confident that our strategy around automation is going to be able to be that catalyst within the business that drives us into an ability to continue to provide organic growth within the business structure. So it impacts a multitude of various businesses but as we've said before about that strategy, we just firmly believe that automation is going to continue to accrete into all of our industry segments. We think we are very well positioned to execute on that over the next several years.

Steve Barger - *KeyBanc Capital Markets - Analyst*

I guess I'll ask one follow-up to that. Are you seeing any potential automation customer struggling to get financing in this environment? And given the strength of your balance sheet, would you ever consider offering financing solutions?

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

I think the most important answer to that is the first one, which is we are not seeing customers that are approaching us relative to the solutions that they are looking for talking to us about challenges over financing extensively. So as it relates to that, we are not really seeing it. Certainly, we would use our balance sheet as we viewed it appropriate if it was going to create value for our shareholders and our strategy.

Steve Barger - *KeyBanc Capital Markets - Analyst*

Thanks very much gentlemen.

Operator

Justin Bergner, Gabelli and Company.

Justin Bergner - *Gabelli & Co. - Analyst*

Good morning. Most of my questions have been answered. I just wanted to clarify an earlier question. The decremental margin 20% to 25%, is that a first-quarter 2016 view or a full-year, and is that for the whole business, or more particular for North America?

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

Yes, that's for the whole business, and I would say that's the outlook for at least the first quarter and at most the first half. So I would expect first quarter, we would be looking at something a bit higher than the 16.5% we saw in the fourth quarter of 2015.

Justin Bergner - *Gabelli & Co. - Analyst*

Okay. Thank you. That's helpful. I apologize for any background noise on my end. One more question. In regards to your volume figure in the fourth quarter, I guess one of your more consumables focused competitors had a sort of much less negative volume print. I realize some of the businesses are different. Are there any share shifts taking place sort of in North America or globally that are worth noting?

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

I certainly don't view looking at the business on a quarterly basis and thinking much about share. I would also say our North American business performed exceptional in the quarter and in 2015 and feel very comfortable that, across 2015, it's maintained if not expanded its positioning within the marketplace. There are a multitude of various regional aspects to the welding business that may influence some of those performance metrics, but at Lincoln Electric, we are very confident that we are executing on our strategy and maintaining the share position in the solutions markets that we are participating in.

Justin Bergner - *Gabelli & Co. - Analyst*

Great. Thanks for taking my questions this morning.

Operator

Mig Dobre, Robert W. Baird.

Mig Dobre - *Robert W. Baird & Company, Inc. - Analyst*

Thanks for taking my follow-up. Just a small housekeeping item. Is there any way to break out raw material costs as a percentage of COGS? And also, any color you can provide us as to how you are seeing demand progression in structural steel? Thanks.

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

So, from a COGS perspective, I can tell you that raw material costs are the predominant element of our COGS. That's in excess of two-thirds I believe of our cost of goods sold represent raw material costs. So it's the most significant input cost that we have.

In terms of trending in steel, I think the numbers that you would see are from a volume perspective and, frankly, from a price perspective, continuing slow progression down on a year-over-year and certainly a sequential basis. Although I think that if you look at it over 2015 and now into 2016, it's starting to moderate a little bit on both counts.

Mig Dobre - *Robert W. Baird & Company, Inc. - Analyst*

So starting to slow demand growth that is?

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

Slow demand compression.

Mig Dobre - *Robert W. Baird & Company, Inc. - Analyst*

Slowing demand compression.

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

Decelerating compression.

Mig Dobre - *Robert W. Baird & Company, Inc. - Analyst*

Understood. Thank you guys.

Operator

Thank you. This concludes our question-and-answer session. I would like to turn the call back to Vincent Petrella for closing remarks.

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

Thanks Tamara. I'd like to thank everyone for joining us on the call today and for your continued interest in Lincoln Electric. We do look forward to discussing the progression of our strategic programs on our 2020 strategy at upcoming conferences, and to give you an update on our next earnings call in April. Again, thank you very much.

Operator

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