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LECO - Q4 2014 Lincoln Electric Holdings Inc Earnings Call

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OVERVIEW:

Co. reported 2014 reported sales of $2.8b and diluted EPS of $3.18.

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PRESENTATION

Operator

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

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

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

We released our financial results for the quarter and the full year this morning prior to the market's open and our release is available on the Lincoln Electric website at LincolnElectric.com.

Joining me on the call today is Chris Mapes, our Chairman and Chief Executive Officer. Chris will start the discussion this morning with an overview of our full-year 2014 results. I will then cover the fourth-quarter numbers in more detail, as well as our uses of cash. We will then take questions following our prepared remarks. As part of our webcast today, we are using a slide presentation which can be accessed on our website under the Company and Investor Relations tabs.

Before we start our discussion, please be reminded that certain statements made during this call and in our discussions may be forward-looking and actual results may differ from our expectations. Actual results may differ materially from such statements due to a variety of factors that could adversely affect the Company's operating results. Risks and uncertainties that may affect our results are provided in our press release and in our SEC filings on Forms 10-K and 10-Q.

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

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

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

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

Moving to Slide 3, I am pleased to report that we finished 2014 with record results and operating income margin on an adjusted basis, earnings, working capital and cash flow performance. We did this even with relatively flat sales, reflecting uneven market conditions, a challenging year-over-year comparison from our Venezuelan business, and rising foreign-exchange headwinds. We also increased returns with a 19.1% ROIC, up 20 basis points year-over-year, and returned approximately 95% of our cash flow from operations, or a record $380 million, to shareholders through dividends and share repurchases.

We feel these results give us continued confidence in our 2020 vision and strategy and our ability to execute on the plan. So, I would like to thank our employees, partners and customers around the world for another solid year for Lincoln Electric.

Moving to Slide 4, which highlights key income statement items, reported full-year 2014 sales declined 1.4% to $2.8 billion. Gains from our automation acquisitions and from pricing actions were offset by an unfavorable impact from foreign exchange and lower unit volumes. Volume weakness was predominantly in South America, in our Venezuelan operation, and from weak export sales from our North American segment, reflecting slowing or delayed project activity in key international regions. Despite these challenges, we achieved solid results in key areas.

We achieved solid organic growth in North America, excluding exports, which reflects solid demand for our innovative solutions from both our commercial and industrial customers as well as benefits from the ongoing recovery in the domestic market. In North America, consumable and equipment demand remained strong most of the year and we achieved record results from the launch of our new POWER MIG 210 welder which has been a breakthrough new product in the light industrial and commercial segment.

Additionally, our recent automation acquisitions, Burlington Automation and Easom Automation, are exceeding plan and we are excited about the growth opportunities in structural steel and heavy fabrication that these engineered solutions offer the Company long-term. We also achieved good unit volume growth in Europe, driven by a strong increase in equipment volumes in 2014 following the successful launch of our next generation equipment platform in Europe. And finally, our Harris Products Group achieved volume growth in 2014 on strong equipment sales.

Moving to profitability, we achieved increases in both gross profit and operating income margins on an adjusted basis due largely to improved mix and steady cost control. Excluding Venezuelan operations, our adjusted operating margin would have increased 130 basis points versus the prior year. This increase reflects favorable product and geographic mix and the benefits of our internal initiatives and productivity improvements.

Moving down the page, we reported diluted earnings per share of $3.18 in 2014, which includes the unfavorable impact of a $30.1 million rationalization and asset impairment charge primarily related to a planned divestiture of manufacturing capacity in the Asia-Pacific welding segment.

Adjusted EPS increased to $3.82 compared with $3.77 in 2013. We consider our adjusted EPS performance to be good given the challenging comparison we faced from the $0.46 EPS contribution generated by our Venezuelan business in 2013. Excluding our Venezuelan results, 2014 adjusted EPS would have increased 10% to $3.65, reflecting solid operational execution and the benefit of our share repurchase program.

Moving to Slide 5, which highlights end sectors we serve, over the course of the year, we saw general improvement across most of the end sectors, notably in the rail portion of heavy fabrication and in transportation and automotive. We also saw a positive uptick in long challenged areas such as shipbuilding and structural applications. This general improvement was a positive trend given the extended flat to declining demand trends we experienced across some of our end markets for several quarters.

While you would note that the energy sector stayed reasonably strong for 2014, we do expect contraction in 2015 as lower oil prices begin to impact capital projects in up and midstream sectors, which we estimate represent approximately 15% of our consolidated sales. While still in early stages, nonresidential construction, or structural, appears to continue to pick up activity. While we expect to see some slight moderation in the heavy fabrication sector as construction machinery should be steady to flat while ag equipment is expected to contract slightly year-over-year.

Lastly, we continue to remain cautious on any substantial improvement in the mining sector for 2015.

We remain focused on executing our 2020 initiatives as we continue to emphasize engineered value-added solutions as part of our 2020 plan. We are investing in advancing our automation portfolio. This includes not only an active acquisition program but also broadening our automation portfolio to serve a wider base of users. This now includes solutions for the novice entry-level user with our simplified turnkey automate solution to leveraging unique capabilities offered by our Burlington Automation and Easom Automation acquisitions to further penetrate the Lincoln brand in structural steel applications and in heavy fabrication automation.

Another area of growth is in equipment and in alloys, an area where Lincoln already has strong positions and where we are extending our international markets and applications.

And lastly, we are focused on enriching our mix across product areas and geographies as we target achieving higher operating income margins by 2020.

Operationally, we continue to reposition our Asia-Pacific platform to support engineered value-added solutions in areas such as equipment, automation, and alloys as well as productivity programs and improved processes across our global footprint which will continue to deliver incremental efficiencies in 2015 and beyond. We are also driving cost out of the business with our new centers of excellence, such as our new printed circuit board manufacturing platform here in Cleveland, Ohio, where centralized production and economies of scale are providing us with a competitive advantage. These efforts, combined with the hundreds of lean projects and EH&S initiatives, are expected to drive 2015 performance above prior-year achievements. The Lincoln Electric business model and our global systems are continuing to drive value for our shareholders.

So, I will wrap up by saying that we are executing with confidence. We have solid momentum from 2014 and are executing on initiatives pacing to plan and are looking forward to another strong year of product innovations, higher returns, and delivering ongoing value for all of our stakeholders.

And now I'll pass the call to Vince to cover our segments, financial performance, balance sheet items, and uses of cash in more detail. Vince?

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

Thank you Chris. We finished the year strongly by continuing to improve the quality of our earnings in the face of a challenging topline environment and global economic uncertainty.

Turning to Slide 7, you will see that our consolidated sales were down 4.3% compared with the fourth quarter of 2013. Volume decreased, reported sales by 3.5%, and acquisitions increased sales by 2.2%.

Foreign exchange had a 4.8% negative impact on sales in the fourth quarter. Excluding the challenging comparisons from our Venezuelan business, volumes were flat on a year-over-year basis.

Our fourth-quarter gross profit margins decreased slightly to 33.8% compared with 34% in the comparable prior-year period. LIFO credits in the quarter totaled $3.3 million compared with a LIFO credit of $3.7 million in the prior year's fourth quarter. The slight decrease in gross margins was primarily caused by lower volumes and a contraction in our Venezuelan business. Excluding Venezuela and special items from both periods, gross margin would have been 34.2% in 2014 and 32.1% in 2013.

Our SG&A expense as a percentage of sales for the fourth quarter increased 110 basis points. Contributing to the increase in SG&A expenses were higher foreign-exchange transaction losses, increased incentive compensation costs, and SG&A related to recent acquisitions.

Operating income for the quarter decreased 130 basis points. Venezuela contributed $200,000 to adjusted operating income in the fourth quarter of 2014 compared with $24.2 million of adjusted operating income in the comparable prior-year period. Excluding our Venezuelan operations from both years' fourth quarters would have resulted in operating margins of 15.7% in 2014 and 14.2% in 2013.

Interest expense increased $6.1 million in the quarter, mostly due to additional accruals associated with contingent consideration related to a recent acquisition.

The effective tax rate for the fourth quarter was 25.2% compared with 27.5% in the prior year. The primary factors driving this lower effective tax rate were the renewal of the R&D tax credit and the favorable resolution of tax litigation. Our 2015 effective tax rate should increase into the high 20s%, subject to the mix of earnings by jurisdiction.

Our diluted earnings per share decreased 10% for the fourth quarter compared with the prior year. This decline reflects the year-over-year effect from our Venezuelan operations. The prior year's adjusted diluted earnings per share include $0.22 per share from our Venezuelan operations in the fourth quarter of 2013. Venezuelan operations were breakeven in the fourth quarter 2014. If Venezuelan results and special items were excluded from both periods, our adjusted EPS would have increased over 10%.

Now moving to the geographical segments on Slide 8, our North American welding segment improved adjusted EBIT margins by 10 basis points in the fourth quarter. Higher volumes and improved mix and good cost control drove the increase. In Europe, our adjusted EBIT margin improved 240 basis points in the quarter. The increase was attributable to improved mix and operational improvements.

Our volumes were slow across the continent but the Middle East had a very strong quarter. The Asia-Pacific segment produced a 3.1% adjusted EBIT margin in the fourth quarter after a breakeven position in the prior year. Sales in Asia-Pacific were down 7.7% due to volume. The volume decreases were generally caused by the continued softness in China as well as our ongoing repositioning of the portfolio there.

South America welding was breakeven for the quarter because of the significant contraction in our Venezuelan operations. The volume decrease again was primarily experienced in Venezuela. The South American segment does include $16 million in 2014 and $41 million in 2013 in sales from Venezuela and adjusted EBIT of $300,000 in 2014 and $24.3 million in 2013's fourth quarter.

The Harris Products Group expanded fourth-quarter EBIT margins by 10 basis points. Pricing decreased because of lower metals costs, primarily silver. Volumes improved across both the equipment and consumable product categories with equipment posting a double-digit increase from the prior year.

Our cash flow from operations increased $37 million in the quarter primarily from the receipt of a significant portion of a tax refund. Our net operating working capital to sales improved to a record 16.5% compared with 17.6% at the prior year-end. Full-year operating cash flows increased to a record $402 million from $339 million achieved during 2013.

During the quarter, we paid cash dividends of $17.9 million, which resulted in dividend payments for the full year of $73.3 million, and our dividend payout rate was increased by 26% for the first-quarter 2015 payment.

We spent $73 million for capital expenditures in 2014. Our current 2015 capital spending plan is estimated at $65 million to $75 million primarily associated with significant reinvestment projects in our North American business.

During the fourth quarter, we spent $58 million repurchasing about 812,000 shares for treasury. For the year, we spent $307 million on share repurchases for a total share repurchase of 4.398 million shares. We have now targeted $400 million for share repurchases in 2015.

We ended the year with $270 million of cash on our balance sheet and $71 million of debt. We will continue to invest in the business for the long term and prudently return cash to our shareholders.

Now, just a couple of comments on our 2015 outlook. As you know, the US dollar has strengthened significantly during the last half of 2014 and into 2015. This US dollar strengthening will negatively impact our 2015 reported revenue and earnings. Based on 2014 year-end exchange rates and assuming no additional significant movements in the US dollar for the remainder of this year, we expect an estimated mid-single-digit headwind to both revenue and earnings from foreign-exchange translations in 2015.

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

QUESTIONS AND ANSWERS

Operator

Thank you. (Operator Instructions). Schon Williams, BB&T Capital Markets.

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

Good morning. I wonder if we could maybe start with Asia-Pacific. That's been a region that's been targeted for restructuring, and obviously you made some significant progress in the margin profile this quarter. Can you just talk about what is still left to be done in Asia-Pacific, if anything, and then what can be expectations as we move into 2015? Could we start to see more kind of mid-single-digit margins more consistently out of this segment?

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

This is Chris. Look. I think that we were happy with the initial results from some of the activities from the strategies we are trying to drive in that particular segment. I'm certainly looking for expansion of equipment sales and some automation work in that region, but I still view that 2015 will be a pretty transitional year for us in China as we execute on those strategies. So, again, very happy that we are seeing some of the impact, although that impact is off a small base. Really hoping that, in 2015, we can continue down that path and execution on the strategies continue to show improvements we are looking for in that business. But I still expect that 2015 will have some choppiness to it and really probably just want to continue to see the execution of the strategies and the improvements, but I don't think we're going to have a significant shift in that model in 2015.

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

Okay. And are you still trying to divest some assets in that region?

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

Yes, we have a facility that is for sale in the region today.

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

Okay, thank you. And then maybe just a follow-up on the interest expense jump. It sounds like that may be related to the, I guess to the Easom acquisition, you said to a recent acquisition. Could we just talk about exactly what that is, and when would that potentially get paid out?

And then maybe as a follow-up, the acquisition revenue, certainly above my expectations. Can you talk about exactly -- you mentioned maybe slightly better than expectations out of some of the automation. Can you just talk about what is really moving the needle? Is it Easom? Is it Revolution? Is it Burlington? Is it all of the above? Just some comments around what you're seeing on volume trends and automation would be helpful.

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

I'll start with the accounting for contingent consideration on an acquisition. So, we are required to update our forecasts of the sales and earnings of an acquisition that we've executed on in the previous year that will determine the final contingent consideration that's paid. And those payments will occur over the next couple of years as we move through our contract agreement with the target company. And that -- will class B -- the significant change in the fourth quarter was classified within the interest expense line item, and that's where adjustments will be made in the future related to that acquisition.

In terms of our automation business, all of the acquisitions are performing in line with our expectations. We have good results coming out of our Burlington acquisition in Canada, and our US acquisitions have performed well since we've acquired them over the course of the past two or three years, so we are pleased with the progress that we are making. We look forward to continuing to integrate those businesses within the Lincoln Electric platform to continue to drive higher growth trajectories on a global basis. So, we are very pleased with that strategy where we stand today.

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

All right. Thanks guys. I'll get back in the queue.

Operator

Mark Douglass, Longbow Research.

Mark Douglass - *Longbow Research - Analyst*

Good morning everyone. Can you discuss the underlying trends in North America, both equipment and consumables, and what were the exports? What was the export number in the quarter?

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

So, exports were down on a year-over-year basis by about 13%. For the full year, we were down about 19% in exports year-over-year out of the US.

From a product category standpoint, we have seen a bit more strength on the equipment side of our business than on the consumables side. But our domestic business was up mid-single digits in the fourth quarter compared to the prior year, so we are seeing some greater strength domestically than we are seeing in the export markets, and it's largely been a little bit better on the equipment side than consumables.

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

Yes, Mark, as you would expect, we continue to see real strength in the heavy fabrication side, especially on the rail portion of heavy fab. Transportation and automotive has stayed strong. And as much as we are concerned about the potential impacts of the shift, recent shift, in oil pricing in the marketplace, especially here in North America, we haven't seen a lot of that within the business, certainly in the fourth quarter. So, I think, again, it just shows the continued improvements in the general North American economies and certainly Lincoln participating significantly in that space.

Mark Douglass - *Longbow Research - Analyst*

But I think you -- if I look at the slides, general fab was mediocre, kind of low growth in North America. Given the relatively strong PMI, can you square that circle?

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

My only comment would be look, for us, in that particular data point, we didn't see general fab having much strength for us within our portfolio. But again, seeing the strengths in the other area, I wouldn't necessarily identify that as a long-term trend, but within our business portfolio, the way we look at it within the quarter, we saw general fab as smallish.

Mark Douglass - *Longbow Research - Analyst*

Okay. And then just lastly, you mentioned oil and -- let me just clarify. Oil and gas is 15% of total sales. Was that -- or was that just upstream and midstream, or is that all of the above?

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

That's correct. That's what we would define as upstream, midstream. That is going to be more largely exposed to the oil price declines.

Mark Douglass - *Longbow Research - Analyst*

Is that mostly North America for you?

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

No, that's global, but North America has certainly its share of oil exposure in line with its relative size for the Corporation. So the bulk of our oil and gas -- our oil exposure would be North America simply because of its size relative to the consolidated group.

Mark Douglass - *Longbow Research - Analyst*

Okay, thank you.

Operator

Rob Wertheimer, Vertical Research.

Rob Wertheimer - *Vertical Research Partners - Analyst*

Let's see. I Think I heard the headwind to revenue earnings from FX. I'm not sure I heard a growth range for 2015. I think you gave one last year. I don't know if you have an outlook you're willing to share on revenue growth in total.

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

We wouldn't provide that kind of an outlook at this point in time. We would say that the year 2015 has started out relatively flattish with the prior year, so that's maybe the best that we can give you at this point in time.

Rob Wertheimer - *Vertical Research Partners - Analyst*

That's perfect. Thank you. And then just in general, the comment on midstream, is that customer feedback you're hearing that it might be weaker, or industry projections, or what's the source of thinking that the weakness in upstream, which is pretty obvious, I suppose, will fully come into midstream?

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

We simply looked at the customers in those categories, and looked at what they are saying about their CapEx and spending trends for 2015, and consider upstream and midstream to be the areas that are going to be most affected by the price of oil in 2015.

Rob Wertheimer - *Vertical Research Partners - Analyst*

Okay. Thanks. I'll get back in line.

Operator

Steve Barger, KeyBanc Capital.

Steve Barger - *KeyBanc Capital Markets - Analyst*

Good morning. Vince, you called out that mid-single-digit headwind for revenue for 2015 from FX. You also talked about contraction in energy. Can you point to any positive revenue offsets, or are you thinking mid-single-digit revenue decline is kind of best case for 2015 given what you see right now?

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

From a positive standpoint, we think our North American business, domestically, will continue to do well. We think certain product segments that Chris outlined a little earlier in his comments, including automotive, should remain strong for the bulk of the year. We see good momentum in nonres construction or what we might refer to as structural. We see some pockets of strength from a geographical standpoint, but we do know that the foreign currency translations based on where current exchange rates are will have that negative impact on the business as well as the often-discussed oil price impact on CapEx expenditures. So, there certainly are bright spots during the course of 2015, but we also see a mixed type of environment from an outlook perspective this year.

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

I would also add that we expect to see continued improvement in our Harris business in 2015. And one of the values of our investments and execution in the automation portfolio is that we believe strongly that business has the ability to grow at a much faster based than the global core welding market. And that business, with its current concentration in the North American market, does not have a heavy concentration of oil and gas exposure. So, I'm also expecting continued improvement in our automation businesses as we move through 2015.

Steve Barger - *KeyBanc Capital Markets - Analyst*

To that point, you guys have done a great job of reducing inventory as a percentage of revenue. If revenue is flat to slightly down next year, can you get inventory below the current $330 million? And is that decline that we've seen really a function of the revenue mix towards more services?

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

The answer to your first question is yes. We expect to continue to improve our working capital metrics over the long-term. Part of that lower $330 million inventory number is caused by foreign currency translations as well as the lower requirements in the automation business. But we have as part of our performance metrics a working capital measure and we are very focused on freeing up cash out of our working capital for investing in the business or returning that cash to shareholders. So we expect continuous improvement and we will set targets that require that continuous improvements into the future.

Steve Barger - *KeyBanc Capital Markets - Analyst*

So your 2015 operate cash flow target is presumably better than the $402 million you ended up this year with or 2014 with?

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

We expect continuous improvement in our business.

Steve Barger - *KeyBanc Capital Markets - Analyst*

Got it. One more and I'll get back in line. You talked about the CapEx reinvestment in North American business. What are the priority projects there, and what do you expect to gain from them?

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

First, I would say two things. One is we've invested an enormous amount of capital over the last two or three years as we've been executing on the strategy, examples like the new print circuit board manufacturing facility that we have here in our Cleveland operations, so we have deployed a lot of capital over the last couple of years that we are executing on today and certainly should see the benefits from that.

I would tell you our focus on capital as we're moving into the year is we have some areas of our business that we need to expand some capacity to meet some of the needs, the demands, globally. We're also looking at a couple of new product development initiatives that may require some capital. We are increasing, although not capital, the expense in our R&D area to continue to try to drive more solutions to the marketplace.

So, as we look into 2015, I think the first is continuing to execute on the capital we have deployed, and then capital that we will be deploying in automation and some new product initiatives that we have moving into 2015.

Steve Barger - *KeyBanc Capital Markets - Analyst*

Very good. I'll get back in line. Thanks.

Operator

Tom Hayes, Northcoast Research.

Tom Hayes - *Northcoast Research - Analyst*

I was just wondering if maybe we could talk a little bit about South America now that we have kind of washed Venezuela through. I was wondering what are your thoughts on the outlook and the opportunity in South America going through 2015.

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

This is Chris. I think 2015 is going to be a pretty challenged window for our South American businesses. So those businesses from an overall revenue percentage are smallest of the total Corporation, but Brazil is a very significant and strategic market for us. We like some of the strategic initiatives we are building into that marketplace and some of the capabilities not only with our core products and technologies, but also with the greenfield automation facility that we placed down into Brazil. But the Brazilian economy has its challenges right now as well as some challenges associated with oil and gas in that marketplace with some governmental issues that are going on with the state-owned enterprise. So, we are just expecting, as we look at that marketplace in 2015, that that will be one of the challenges that we have in the portfolio. We like our strategy. We like our management team. We are certainly committed to the Brazilian business over the longer term, but don't have great expectations for there being any significant changes as it relates to the financial performance in 2015.

Tom Hayes - *Northcoast Research - Analyst*

Okay, great. And maybe the follow-up is what are your thoughts on the ability to achieve pricing gains in 2015, maybe specifically in kind of the North American market?

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

As we've talked about in the past, pricing has a number of dynamics that affect the ability to move prices, and those dynamics include the strength of the underlying demand in the portfolio, the input costs that are either rising or falling in the current environment, as well as your portfolio positioning in any particular geography that you're doing business in. The way that I see our environment now is going to be relatively stable with maybe the potential for slight pricing, but nothing significant either way.

Tom Hayes - *Northcoast Research - Analyst*

Good. Thank you.

Operator

Joe Mondillo, Sidoti and Company.

Joe Mondillo - *Sidoti & Co. - Analyst*

I just wanted to talk about the European segment just for a bit. I know 2014 was a pretty good year certainly on the margin side of things. And I think you guys called out that there was potentially sort of a mix issue regarding stronger equipment sales I think in 2014, if you can verify that. But just looking at the margin improvement that you saw over 2014, I'm just wondering how you're looking at 2015. Do you think that's sort of sustainable in what you saw in 2014 regarding the margin there?

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

We do believe the margin is sustainable in our European business as we move into 2015. So we launched an upgraded equipment profile and some new technologies in the equipment space in Europe at the Global Essen Show in late 2013, started execute on bringing those products to market throughout 2014, and still have some opportunities to expand portions of that product portfolio in the marketplace.

We also believe our European business should be able to continue to show the type of market share gains it's been showing in the European market. It's performed very well over the last 12 and 18 months and we are expecting continued performance from our European business.

So I think we're doing a very nice job executing on our strategies. It's really beyond equipment. We've also got some new alloys that we're moving into the marketplace in Europe, and really believe that that business has made a nice step change and looking for continued improvement with that business. Certainly though one of the challenges that we have in Europe, the geopolitical issues centered around Greece and Russia, and just my expectations as we think about 2015 are really without any significant changes to those particular issues in that economy.

Joe Mondillo - *Sidoti & Co. - Analyst*

So to sustain those margins that you saw in 2014, are you modeling in or do you need to see volume growth to sustain those, or can you manage some sort of a volume headwind if the markets turn badly?

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

We believe we can maintain those margins without any volume leverage in the current business model.

Joe Mondillo - *Sidoti & Co. - Analyst*

Okay, great. Thanks a lot. That's all for me.

Operator

Jason Rodgers, Great Lakes Review.

Jason Rodgers - *Great Lakes Review - Analyst*

Good morning. I wonder if you could talk about the hard facing terminal spray market and M&A opportunities you might be seeing there.

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

We certainly have expanded into the hard facing technologies. Lincoln has been in hard facing technology for decades, but you saw us make a movement last year with some licensing technology from NanoSteel, which expanded the portfolio of high-end technologies on the hard facing space.

So certainly one way to apply hard facing is through a thermal spray application, so that's a viable alternative from a process perspective into that space. Our commitment is that we see hard facing as a very intriguing market, a market we participate in that we would like to expand our capabilities. And with that, we will look at the various options, both from a process as well as a product technology, as we continue to execute on our 2020 vision strategy longer-term.

Jason Rodgers - *Great Lakes Review - Analyst*

And then you'd mentioned so far in 2015 kind of flattish performance. Would that be including foreign exchange impacts?

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

Yes, that would.

Jason Rodgers - *Great Lakes Review - Analyst*

Okay. And then finally, are you seeing any benefits or do you expect to see benefits from lower steel pricing?

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

It's too early to really talk about what the impact of some lower steel prices might be at this point in time, but certainly we are seeing some moderation in pricing in that environment. And I wouldn't want to make any predictions at this point on what steel prices do on average during the course of 2015.

Jason Rodgers - *Great Lakes Review - Analyst*

Thank you.

Operator

Stanley Elliott, Stifel.

Stanley Elliott - *Stifel Nicolaus - Analyst*

Good morning, everyone, and thank you for taking my question. A quick question on Europe, and I apologize if you already said this, but the volumes being down 2%, was that more reflective of what's happening in Russia where you could say that some of the new product platforms you have in Germany and elsewhere were actually obviously better than that?

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

Yes. A portion of those volume contractions that we saw were related to our ability to move products into the Russian marketplace from our European businesses.

Stanley Elliott - *Stifel Nicolaus - Analyst*

And turning to the balance sheet and I guess the pension outlook, what are your thoughts on kind of debt levels, where you would like to be by the end of the year? Any new thoughts by the board on what to do with the overfunded pension plan? Thank you.

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

As far as the pension plan is concerned, we did finish the year slightly underfunded in our pension plan, Stanley. As interest rates moved down relatively significantly during the course of 2014 as the use of the new mortality table that was required by the American Association of Actuaries drove up our obligation, we did fall to a slightly underfunded position.

As far as our debt is concerned, we will continue to follow our previously announced capital allocation strategy, which means we will spend $400 million on share buybacks this year. We will pay a dividend that is a 26% higher rate than the prior year. We will also invest $65 million to $75 million in CapEx, and we'll take whatever opportunities we believe are appropriately priced and fit our strategy in the M&A side.

At the end of the day, our cash flows will be ample, but we would expect that our investment plans will likely require some additional debt raising over and above how we ended the year with $71 million of debt. Whatever we do in 2015, however, will be I believe relatively modest when we look at the capital structure and the balance sheet of Lincoln Electric with over $500 million of EBITDA and significant equity in the business. So, it will be a modest change in respect of the total capital structure of Lincoln Electric.

Stanley Elliott - *Stifel Nicolaus - Analyst*

Thank you.

Operator

Justin Bergner, Gabelli and Company.

Justin Bergner - *Gabelli & Co. - Analyst*

Good morning and thank you for taking my questions. My first question relates to FX. I believe you mentioned there would be a mid-single-digit headwind to revenue and earnings related to FX translation. Is there an additional impact on the transactional side given sort of the cost and revenue geographic split in your business?

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

There isn't an impact that I would be able to estimate for you at this time. I will tell you that Lincoln Electric very actively and in a sophisticated way hedges all transaction risks to the Corporation. So we attempt to mitigate any moves in foreign exchange rates with an active hedging program. So, I wouldn't predict at this point in time that we would have any higher or lower for that matter foreign-exchange losses borne by the business.

Justin Bergner - *Gabelli & Co. - Analyst*

Okay. Thank you. Another question I had relates to your acquisition revenue contribution in North America. Was there a margin headwind in the fourth quarter associated with the revenue growth from acquisitions? And if so, could you quantify that?

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

No, there wasn't. The acquisitions in the fourth quarter contributed margins in line with our consolidated group total, so there was no disadvantage from the acquisitions in the fourth quarter.

Justin Bergner - *Gabelli & Co. - Analyst*

Okay, thank you. And then lastly, with respect to revenue growth that you are seeing in your markets year-to-date, would you be willing to sort of add some color on how North America is tracking year-to-date?

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

I would tell you that North America is similar to what we said as far as the group is concerned. It's a relatively flattish type of environment in January so far.

Justin Bergner - *Gabelli & Co. - Analyst*

Thank you for taking all my questions this morning.

Operator

Schon Williams, BB&T Capital Markets.

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

I wonder if you could just comment. Are you seeing any impact from the slowdown on the ports on the West Coast? Is that impacting either components coming into either North America or product going outside of North America?

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

It's not impacting us relative to there being a detrimental impact to the performance of the Company, although we have been having to make some adjustments to our supply chain models to look at potential reroutes or other transportation vehicles to be able to continue to be able to receive the components of raw materials that we are looking for as well as our exporting strategy. So we see the challenges associated with the port issues on the West Coast. Today we are managing those issues and do not expect there to be any detrimental financial or operational impact from that.

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

Okay. And then just a little housekeeping, I think the last call you mentioned you're expecting some potential refund from the Canadian government on a tax issue. Can you just give us an update on where that stands?

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

Yes. We received over CAD50 million of that refund during the course of the fourth quarter, and we received notice that the remaining CAD30 million will be received in the first quarter of this year. So 100% of the refund we expect to be received by the end of the first quarter 2015.

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

Perfect. Thanks guys.

Operator

Steve Barger, KeyBanc Capital.

Steve Barger - *KeyBanc Capital Markets - Analyst*

One quick follow-up. Can you talk about how much energy contributed to volume growth in 2014, or maybe what you expect for the rate of contraction in 2015?

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

This is Chris. I Would not say that energy was a huge contributor to the volume relative to 2014, and as it relates to the expectation of the contraction, we are certainly aware that is going to be a headwind for us and we're certainly talking to our customers and channel partners. The other side of that contraction is that those consumer dollars that might be saved at the pump are going to migrate their way somewhere within the economy, and whether those will move into automotive or appliance or some other spaces that might provide us an additional lift within those segments. So at this point in time in the cycle is just difficult for us to place an estimate on the level of headwind that we may see from that space in 2015. Hopefully, we will see a little more clarity in that as we move through the year.

Steve Barger - *KeyBanc Capital Markets - Analyst*

Understood. Thank you.

Operator

I'm showing no further questions at this time, gentlemen.

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

Thank you, thank everyone for joining the call today and for your continued interest in Lincoln Electric. Again, our fourth-quarter and full-year record results demonstrate the Company's ability to execute on improving its operations for more profitable growth even in a challenging market condition. We believe that we continue to be well positioned in 2015 to take advantage of the opportunities that are available in the marketplace, and we expect our competitive advantages to drive a continuing earnings and cash flow growth through the cycle. Thank you again for joining us today, and we look forward to providing you with a progress update at the end of April on our first-quarter 2015 results.

Operator

(technical difficulty) concludes today's teleconference. You may now disconnect your lines at this time and thank you for your participation.
