



Lincoln Electric Holdings, Inc.

Q3 2018 Earnings Conference Call
October 25, 2018

Christopher L. Mapes

Chairman, President & Chief Executive Officer

Vincent K. Petrella

Executive Vice President & Chief Financial Officer

Safe Harbor and Regulation G Disclosures

Forward-Looking Statements:

Statements made during this presentation which are not historical facts may be considered forward-looking statements. Forward-looking statements involve risks and uncertainties that could cause actual events or results to differ materially from those expressed or implied. Forward-looking statements generally can be identified by the use of words such as “may,” “will,” “expect,” “intend,” “estimate,” “anticipate,” “believe,” “forecast,” “guidance” or words of similar meaning. For further information concerning issues that could materially affect financial performance related to forward-looking statements, please refer to Lincoln Electric’s quarterly earnings releases and periodic filings with the Securities and Exchange Commission, which can be found on www.sec.gov or on www.lincolnelectric.com.

Non-GAAP Measures:

Our management uses non-GAAP financial measures in assessing and evaluating the Company’s performance, which exclude items we consider unusual or special items. We believe the use of such financial measures and information may be useful to investors. Non-GAAP financial measures should be read in conjunction with the GAAP financial measures, as non-GAAP measures are a supplement to, and not a replacement for, GAAP financial measures. Please refer to the attached schedule for a reconciliation of non-GAAP financial measures to the related GAAP financial measures.

Q3 2018 Highlights: Improved margin and cash flow performance on strong organic sales growth in Americas, global pricing and productivity improvements

- **Reported sales increased 10.1% to \$737.1 million on 7.5% organic sales growth and 4.4% acquisition benefit**
- **Adjusted Operating Income increased 16.5% to \$104.4 million on global price management and Americas volume growth**
- **Adjusted Operating Income Margin of 14.2% (up 80 basis points vs. PY)**
- **Diluted EPS of \$1.07, Adjusted EPS increased 30.1% to \$1.21**
- **Generated \$106 million of cash flow from operations and 112% cash conversion¹**
- **ROIC increased 410 basis points to 19.3%**

Positive Momentum in Industrial Demand

- **Organic sales performance strongest in Americas Welding and portions of International Welding**
 - Strongest growth in Americas (North America) and in Asia Pacific
 - Consumables and equipment organic growth up high single-digit and low double-digit percent, respectively
- **Q3 2018 End Sector Performance¹:**
 - **Higher demand vs. PY:** Most end markets grew in Q3, led by strong double digit percent organic growth in Automotive, Heavy Industries, General Fabrication, and Energy
 - **Lower demand vs. PY:** Portions of Energy and Shipbuilding

Income Statement – Q3 2018

\$ in Millions	Q3 2018	% of Sales	Q3 2017	% of Sales	YoY % Change <i>Fav/(Unfav)</i>
Net Sales	\$ 737.1		\$ 669.5		10.1%
Gross Profit	251.6	34.1%	217.9	32.5%	15.5%
SG&A	148.1	20.1%	133.8	20.0%	(10.7%)
Special item charges ^{1,2}	3.6	0.5%	(46.0)	6.9%	(107.8%)
Operating Income	100.8	13.7%	135.6	20.3%	(25.7%)
Adjusted Operating Income¹	104.4	14.2%	89.6	13.4%	16.5%
Interest Expense, net³	4.0	0.5%	4.6	0.7%	13.6%
Income Taxes⁴	25.2	3.4%	24.5	3.7%	(2.8%)
Effective Tax Rate⁴	26.3%		18.8%		(750 bps)
Net Income	\$ 70.5	9.6%	\$ 106.1	15.9%	(33.5%)
Special Items ⁵	8.9	1.2%	(44.4)	6.6%	(120.0%)
Adjusted Net Income¹	\$ 79.4	10.8%	\$ 61.8	9.2%	28.5%
Diluted EPS	\$ 1.07		\$ 1.59		(32.7%)
Adjusted Diluted EPS¹	\$ 1.21		\$ 0.93		30.1%

Sales Mix⁶	
Volume	0.4%
Price	7.1%
Acquisitions	4.4%
FX	(1.7%)
TOTAL	10.1%

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

² Special items include Rationalization and asset impairment charges of \$2.6 million and Acquisition transaction and integration costs of \$1.0 million in 2018. 2017 includes \$3.3 million in Acquisition and transaction and integration costs, \$2.3 million in the step up in value of acquired inventories, and a \$51.6 million bargain purchase gain.

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

⁴ Q3 tax rate excluding special items was 23.3% in 2018 and 31.3% in 2017.

⁵ After-tax special item include charges in footnote 2, pension settlement charges of \$3.2 million in 2018 and \$3.3 million in 2017, and a \$2.3 million charge related to the U.S. Tax Act in 2018.

⁶ Figures may not sum due to rounding.

Americas Welding Segment

(\$ in Millions)	Q3 2018	Q3 2017	% YoY Change		Sales Mix ¹
Net Sales	\$ 454.0	\$ 398.3	14.0%	↑	Volume 5.8%
Adjusted EBIT	\$ 89.3	\$ 74.1	20.5%	↑	Price 9.1%
Adjusted EBIT Margin²	18.4%	17.5%	+90 bps	↑	Acq/Div 0.3%
					FX (1.2%)
					Total 14.0%

Volumes up on continued strong end market demand and margins improved on higher volumes and price management.

¹ Figures may not sum due to rounding

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

International Welding Segment

(\$ in Millions)	Q3 2018	Q3 2017	% YoY Change		Sales Mix ¹	
Net Sales	\$ 209.6	\$ 197.6	6.1%	↑	Volume	(10.5%)
					Price	5.2%
Adjusted EBIT	\$ 10.7	\$ 10.6	1.0%	↑	Acq/Div	14.3%
					FX	(3.1%)
Adjusted EBIT Margin²	5.0%	5.2%	(20 bps)	↓	Total	6.1%

Volumes reflect integration activities and soft European demand. Price management, improving mix and synergies mitigated an unfavorable volume impact on margin performance.

¹ Figures may not sum due to rounding

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

The Harris Products Group

(\$ in Millions)	Q3 2018	Q3 2017	% YoY Change		Sales Mix ¹	
Net Sales	\$ 73.5	\$ 73.6	(0.2%)	↓	Volume	0.2%
					Price	1.0%
Adjusted EBIT	\$ 8.7	\$ 9.2	(6.1%)	↓	Acq/Div	-
					FX	(1.4%)
Adjusted EBIT Margin²	11.6%	12.2%	(60 bps)	↓	Total	(0.2%)

**Steady volume performance on challenging prior year comparison.
Margin performance reflects price/cost.**

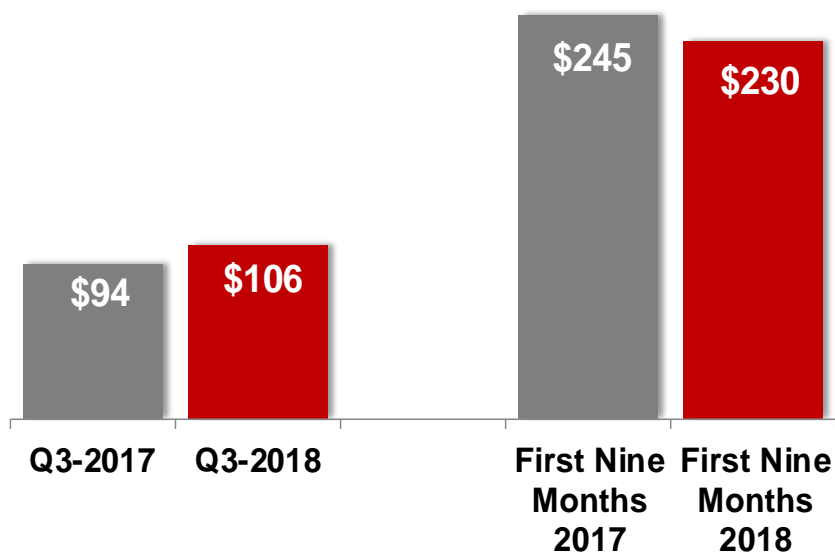
¹ Figures may not sum due to rounding

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

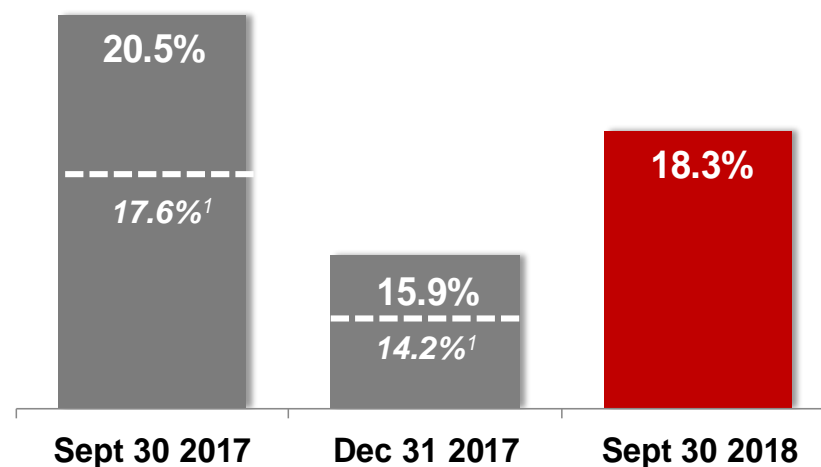
Cash Flow from Operations Metrics

Cash Flow from Operations

(\$ in Millions)



Average Operating Working Capital to Net Sales Ratio



**Working capital results reflect benefits of integration initiatives.
Cash conversion² of 112% in Q3.**

¹ Average operating working capital to net sales excluding the ALW acquisition.

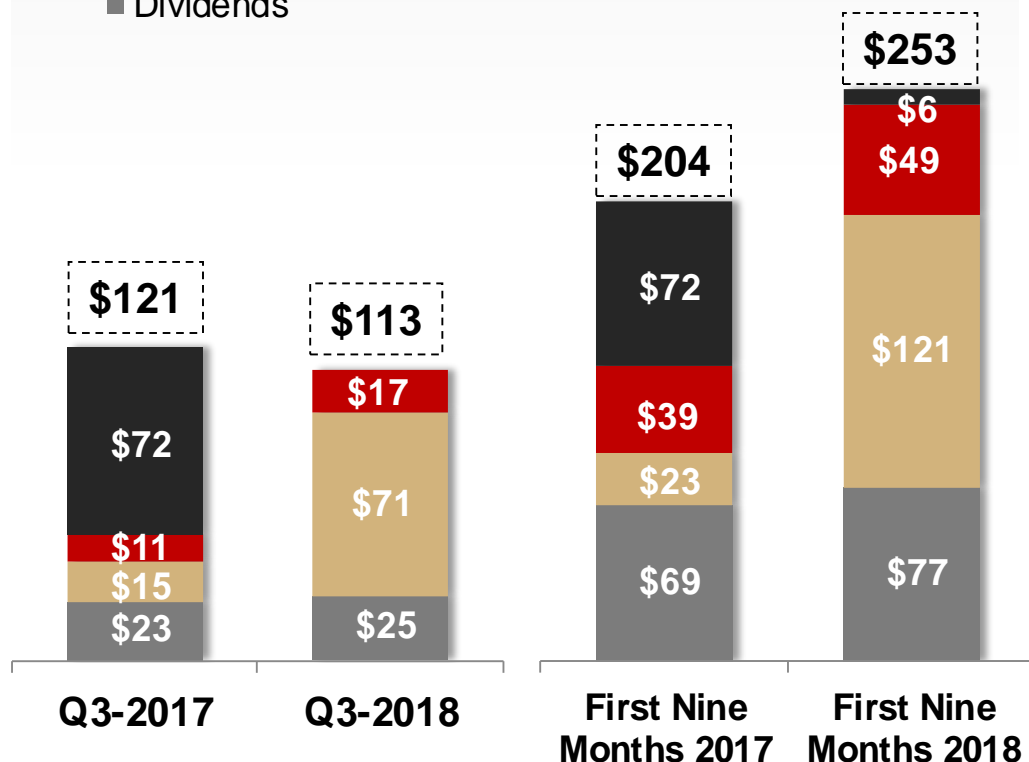
² Cash conversion is defined as Net cash provided by operating activities less Capital expenditures divided by Adjusted Net income.

Capital Allocation: Increasing returns to shareholders

(\$ in Millions)

Capital Allocation¹

- Acquisitions
- Cap Ex
- Share Repurchases
- Dividends



Q3 2018 Highlights

- ▶ **Capital Expenditures: \$17M**
- ▶ **Dividend Payout Rate Increase: +11%**
and announced a +21% rate increase
- ▶ **Share repurchases: \$71M**
- ▶ **Return on Invested Capital: 19.3%**



Amanda Butler
Vice President, Investor Relations & Communications
✉ Amanda_Butler@lincolnelectric.com
📞 216.383.2534

Non-GAAP Financial Measures

Non-GAAP Financial Measures: Reconciliation of Operating Income, Net Income and EPS to Non-GAAP Adjusted Operating Income, Adjusted Net Income and Adjusted EPS

(In thousands, except per share amounts)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Operating income as reported	\$ 100,787	\$ 135,640	\$ 280,609	\$ 300,620
Special items (pre-tax):				
Rationalization and asset impairment charges ⁽²⁾	2,636	—	24,353	—
Acquisition transaction and integration costs ⁽³⁾	970	3,273	3,665	11,386
Amortization of step up in value of acquired inventories ⁽³⁾	—	2,314	—	2,314
Bargain purchase gain ⁽³⁾	—	(51,585)	—	(51,585)
Adjusted operating income ⁽¹⁾	\$ 104,393	\$ 89,642	\$ 308,627	\$ 262,735
As a percent of total sales	14.2 %	13.4 %	13.5 %	14.0 %
Net income as reported	\$ 70,539	\$ 106,126	\$ 200,227	\$ 223,322
Special items:				
Rationalization and asset impairment charges ⁽²⁾	2,636	—	24,353	—
Acquisition transaction and integration costs ⁽³⁾	970	3,273	3,665	11,386
Pension settlement charges ⁽⁴⁾	4,232	5,283	4,990	5,283
Amortization of step up in value of acquired inventories ⁽³⁾	—	2,314	—	2,314
Bargain purchase gain ⁽³⁾	—	(51,585)	—	(51,585)
Tax effect of Special items ⁽⁵⁾	1,033	(3,636)	(132)	(5,521)
Adjusted net income ⁽¹⁾	79,410	61,775	233,103	185,199
Non-controlling interests in subsidiaries' loss	(4)	(15)	(13)	(32)
Interest expense, net	3,969	4,595	13,222	14,984
Income taxes as reported	25,209	24,531	73,991	69,218
Tax effect of Special items ⁽⁵⁾	(1,033)	3,636	132	5,521
Adjusted EBIT ⁽¹⁾	\$ 107,551	\$ 94,522	\$ 320,435	\$ 274,890
Diluted earnings per share as reported	\$ 1.07	\$ 1.59	\$ 3.03	\$ 3.35
Special items per share	0.14	(0.66)	0.50	(0.57)
Adjusted diluted earnings per share ⁽¹⁾	\$ 1.21	\$ 0.93	\$ 3.53	\$ 2.78
Weighted average shares (diluted)	65,652	66,702	66,055	66,679

Non-GAAP Financial Measures (continued)

Footnotes for Non-GAAP Financial Measures: Reconciliation of Operating Income, Net Income and EPS to Non-GAAP Adjusted Operating Income, Adjusted Net Income and Adjusted EPS

- 1) Adjusted operating income, Adjusted EBIT, Adjusted net income and Adjusted diluted earnings per share are non-GAAP financial measures. Management uses non-GAAP measures to assess the Company's operating performance by excluding certain disclosed special items that management believes are not representative of the Company's core business. Management believes that excluding these special items enables them to make better period-over-period comparisons and benchmark the Company's operational performance against other companies in its industry more meaningfully. Furthermore, management believes that non-GAAP financial measures provide investors with meaningful information that provides a more complete understanding of Company operating results and enables investors to analyze financial and business trends more thoroughly. Non-GAAP financial measures should not be viewed in isolation, are not a substitute for GAAP measures and have limitations including, but not limited to, their usefulness as comparative measures as other companies may define their non-GAAP measures differently.
- 2) Primarily related to severance, asset impairments and gains or losses on the disposal of assets.
- 3) Related to the acquisition of Air Liquide Welding.
- 4) Related to lump sum pension payments.
- 5) Includes the net tax impact of Special items recorded during the respective periods, including an adjustment to taxes on unremitted foreign earnings related to the U.S. Tax Act of \$2,323 and \$4,823 in the three and nine months ended September 30, 2018, respectively.
- 6) The tax effect of Special items impacting pre-tax income was calculated as the pre-tax amount multiplied by the applicable tax rate. The applicable tax rates reflect the taxable jurisdiction and nature of each Special item.

Non-GAAP Financial Measures

Return on Invested Capital (ROIC)

(In thousands, except per share amounts)
(Unaudited)

Return on Invested Capital	Twelve Months Ended September 30,	
	2018	2017
Net income as reported	\$ 224,408	\$ 276,717
Rationalization and asset impairment charges	30,943	—
Pension settlement charges	7,857	5,283
Acquisition transaction and integration costs	7,281	11,386
Amortization of step up in value of acquired inventories	2,264	2,314
Bargain purchase adjustment (gain)	1,935	(51,585)
Tax effect of Special items ⁽³⁾	25,925	(5,521)
Adjusted net income ⁽¹⁾	\$ 300,613	\$ 238,594
Plus: Interest expense, net of tax of \$6,087 and \$9,795 in 2018 and 2017, respectively	18,295	15,789
Less: Interest income, net of tax of \$1,676 and \$1,614 in 2018 and 2017, respectively	5,036	2,602
Adjusted net income before tax effected interest	\$ 313,872	\$ 251,781
Invested Capital	September 30, 2018	September 30, 2017
Short-term debt	\$ 794	\$ 2,135
Long-term debt, less current portion	698,468	704,804
Total debt	699,262	706,939
Total equity	927,868	945,928
Invested capital	\$ 1,627,130	\$ 1,652,867
Return on invested capital ⁽¹⁾⁽²⁾	19.3%	15.2%

Non-GAAP Financial Measures (continued)

Footnotes for Non-GAAP Financial Measure: Return on Invested Capital (ROIC)

- 1) Adjusted net income and Return on invested capital are non-GAAP financial measures. Management uses non-GAAP measures to assess the Company's operating performance by excluding certain disclosed special items that management believes are not representative of the Company's core business. Management believes that excluding these special items enables them to make better period-over-period comparisons and benchmark the Company's operational performance against other companies in its industry more meaningfully. Furthermore, management believes that non-GAAP financial measures provide investors with meaningful information that provides a more complete understanding of Company operating results and enables investors to analyze financial and business trends more thoroughly. Non-GAAP financial measures should not be viewed in isolation, are not a substitute for GAAP measures and have limitations including, but not limited to, their usefulness as comparative measures as other companies may define their non-GAAP measures differently.
- 2) Return on invested capital is defined as rolling 12 months of Adjusted net income before tax-effected interest income and expense divided by invested capital.
- 3) Includes the net tax impact of Special items recorded during the respective periods, including the net impact of the U.S. Tax Act of \$33,439 in the twelve months ended September 30, 2018. The tax effect of Special items impacting pre-tax income was calculated as the pre-tax amount multiplied by the applicable tax rate. The applicable tax rates reflect the taxable jurisdiction and nature of each Special item.

Segment EBIT

EBIT and Adjusted EBIT Reconciliation – Three Months Ended September 30, 2018

(In thousands)

(Unaudited)

	Americas Welding	International Welding	The Harris Products Group	Corporate / Eliminations	Consolidated
Three months ended September 30, 2018					
Net sales	\$ 454,010	\$ 209,622	\$ 73,467	\$ —	\$ 737,099
Inter-segment sales	31,845	3,663	1,537	(37,045)	—
Total	<u>\$ 485,855</u>	<u>\$ 213,285</u>	<u>\$ 75,004</u>	<u>\$ (37,045)</u>	<u>\$ 737,099</u>
Net income					\$ 70,539
As a percent of total sales					9.6%
EBIT ⁽¹⁾	\$ 85,021	\$ 8,085	\$ 8,676	\$ (2,069)	\$ 99,713
As a percent of total sales	17.5%	3.8%	11.6%		13.5%
Special items charges (gains) ⁽³⁾	4,232	2,636	—	970	7,838
Adjusted EBIT ⁽²⁾	\$ 89,253	\$ 10,721	\$ 8,676	\$ (1,099)	\$ 107,551
As a percent of total sales	18.4%	5.0%	11.6%		14.6%
Three months ended September 30, 2017					
Net sales	\$ 398,289	\$ 197,617	\$ 73,585	\$ —	\$ 669,491
Inter-segment sales	25,546	5,451	2,064	(33,061)	—
Total	<u>\$ 423,835</u>	<u>\$ 203,068</u>	<u>\$ 75,649</u>	<u>\$ (33,061)</u>	<u>\$ 669,491</u>
Net income					\$ 106,126
As a percent of total sales					15.9%
EBIT ⁽¹⁾	\$ 68,813	\$ 8,298	\$ 9,244	\$ 48,882	\$ 135,237
As a percent of total sales	16.2%	4.1%	12.2%		20.2%
Special items charges (gains) ⁽⁴⁾	5,283	2,314	—	(48,312)	(40,715)
Adjusted EBIT ⁽²⁾	\$ 74,096	\$ 10,612	\$ 9,244	\$ 570	\$ 94,522
As a percent of total sales	17.5%	5.2%	12.2%		14.1%

Non-GAAP Financial Measures (continued)

Footnotes for Non-GAAP Financial Measure: Segment EBIT

- 1) EBIT is defined as Operating income plus Other income (expense).
- 2) The primary profit measure used by management to assess segment performance is Adjusted EBIT. EBIT for each operating segment is adjusted for special items to derive Adjusted EBIT.
- 3) Special items in 2018 reflect pension settlement charges of \$4,232 in Americas Welding, rationalization and asset impairment charges of \$2,636 in International Welding and acquisition transaction and integration costs of \$970 in Corporate/Eliminations related to the acquisition of Air Liquide Welding.
- 4) Special items in 2017 reflect pension settlement charges of \$5,283 in Americas Welding, amortization of step up in value of acquired inventories of \$2,314 in International Welding and acquisition transaction and integration costs of \$3,273 and a bargain purchase gain of \$51,585 in Corporate/Eliminations related to the acquisition of Air Liquide Welding.