

Lincoln Electric Holdings, Inc.

Second Quarter 2021 Earnings Call

July 27, 2021

Christopher L. Mapes

Chairman, President & CEO

Gabriel Bruno

EVP & CFO



Safe Harbor and Regulation G Disclosures

Forward-Looking Statements:

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

2021: Continuing to Operate Responsibly

- » **Focused on safety:** Implementing CDC and WHO best practice measures to protect employee health
 - Heightened hygiene and sanitation practices
 - Social distancing and safety protocols
 - Maximizing flexible and remote work arrangements
- » **Lincoln facilities are operating** as “essential businesses” focused on serving customers
- » **Safeguarding benefits and bonus programs and increased wages in 2021**
- » **Cautious on global COVID-19 cases and vaccine rollouts**



Q2 2021 Highlights: Sales increase on continued recovery. Strong execution generates a 15.1% Adjusted operating income margin and record \$1.67 Adjusted EPS

- » **Reported sales increased 39.9% to \$827 million; Organic sales increased 36.0%**
- » **Adjusted Operating Income Margin of 15.1% (+440 bps vs. prior year)**
- » **Diluted EPS of \$1.60, Adjusted EPS increased 108.8% to \$1.67**
- » **ROIC increased 280 bps to 21.4%**
- » **Cash flow from operations of \$100 million**
- » **Returned \$55 million to shareholders (dividends and share repurchases)**

Solid Sales Momentum - led by Volume

» Q2 organic sales increase 36.0%

- All regions and product areas improved – led by +26% volumes
 - Consumables and equipment increased by approximately forty percent
 - Automation increased high-teens percent
- Price of +10% reflects year-to-date pricing actions issued to mitigate inflation

» Q2 global end sector performance¹

- Approximately 80% of revenue driven by end sectors increasing at a double-digit percent pace
 - Strongest growth from Automotive/Transportation, followed by Heavy Industries, General Industries and Construction/ Infrastructure
 - Energy sector declines narrowed to mid-teens percent with growth in downstream

Expect Continued Seasonal Volume Performance With Increased Contribution from Pricing and Acquisitions in H2-2021

Opportunities

- » FY2021 organic sales growth assumption in high-teens percent to reflect H1-21 pricing actions
- » FY2021 adjusted operating income incremental margin assumption in the high 20% range
- » Acquisitions

Maintaining Risk Factors

- » H1-2021 demand may reflect an acceleration of H2-2021 orders
- » Supply chain constraints
- » Inflation
- » COVID restrictions

Income Statement – Q2 2021

\$ in Millions	Q2 2021	% of Sales	Q2 2020	% of Sales	YoY % Change <i>Fav/(Unfav)</i>
Net Sales	\$ 826.5		\$ 590.7		39.9%
Gross Profit	274.0	33.2%	189.4	32.1%	44.7%
SG&A	151.6	18.3%	126.4	21.4%	(19.9%)
Special item charges ^{1,2}	3.3	0.4%	23.2	3.9%	85.9%
Operating Income	121.8	14.7%	39.8	6.7%	206.4%
Adjusted Operating Income¹	125.1	15.1%	63.0	10.7%	98.6%
Interest Expense, net³	5.7	0.7%	5.9	1.0%	3.7%
Income Taxes⁴	21.6	2.6%	6.7	1.1%	(223.7%)
Effective Tax Rate⁴	18.3%		19.8%		150 bps
Net Income	\$ 96.1	11.6%	\$ 27.0	4.6%	256.0%
Special Items ⁵	4.5	0.5%	21.0	3.6%	78.6%
Adjusted Net Income¹	\$ 100.6	12.2%	\$ 48.0	8.1%	109.6%
Diluted EPS	\$ 1.60		\$ 0.45		255.6%
Adjusted Diluted EPS¹	\$ 1.67		\$ 0.80		108.8%

Sales Mix ⁶	
Volume	26.0%
Price	10.0%
Acquisitions	0.6%
FX	3.3%
TOTAL	39.9%

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

² Q2 Special items include Rationalization and asset impairment charges of \$0.6 million, Acquisition transaction costs of \$0.8 million and \$1.8 million from the Amortization of step up in value of acquired inventories in 2021. This compares with Rationalization and asset impairment charges of \$23.2 million in 2020.

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

⁴ Q2 tax rate excluding special items was 17.9% in 2021 and 20.3% in 2020.

⁵ Q2 Special items include the charges noted in footnote 2 and a \$1.7 million pension settlement charge and a \$0.4 million tax effect of Special items in 2021. This compares with a \$3.3 million pension settlement charge and a \$5.6 million tax effect of Special items in 2020.

⁶ Figures may not sum due to rounding.

Americas Welding Segment

(\$ in Millions)	Q2 2021	Q2 2020	% YoY Change		Sales Mix ¹
Net Sales	\$ 457.5	\$ 333.2	37.3	↑	Volume 27.1%
Adjusted EBIT	\$ 84.1	\$ 46.7	80.2%	↑	Price 8.2%
Adjusted EBIT Margin²	16.9%	12.9%	+400 bps	↑	Acq/Div -
					FX 2.0%
					Total 37.3%

Strong volume performance across all product categories, led by equipment, as end market trends continued to improve. Margin higher on cost reduction actions, productivity 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)	Q2 2021	Q2 2020	% YoY Change		Sales Mix ¹	
Net Sales	\$ 252.4	\$ 177.2	42.4%	↑	Volume	25.5%
Adjusted EBIT	\$ 30.0	\$ 9.7	209.8%	↑	Price	8.3%
Adjusted EBIT Margin²	11.6%	5.3%	+630 bps	↑	Acq/Div	2.0%
					FX	6.7%
					Total	42.4%

Volumes increased on continued recovery momentum – led by equipment. Margin higher on improved demand, benefits of cost reduction actions 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.

The Harris Products Group

(\$ in Millions)	Q2 2021	Q2 2020	% YoY Change		Sales Mix ¹
Net Sales	\$ 116.6	\$ 80.3	45.2%	↑	Volume 22.9%
Adjusted EBIT	\$ 18.2	\$ 11.7	55.5%	↑	Price 21.1%
Adjusted EBIT Margin²	15.3%	14.3%	+100 bps	↑	Acq/Div -
					FX 1.1%
					Total 45.2%

Volumes higher on broad end market strength and price reflects rising commodity costs – notably silver. Margin performance reflects strong volume growth partially offset by higher employee costs.

¹ Figures may not sum due to rounding

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

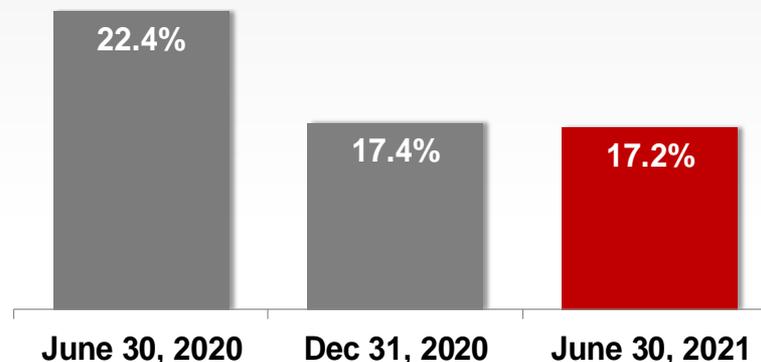
Cash Flow From Operations Metrics

Cash Flow from Operations

(\$ in Millions)



Average Operating Working Capital to Net Sales Ratio



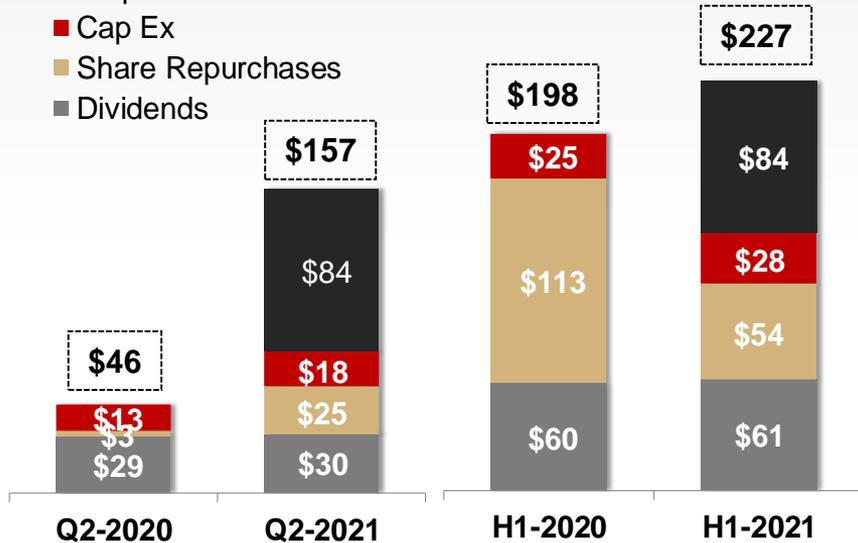
Solid Q2 cash flow generation, including \$25 million in higher tax payments, and working capital reflects strategic inventory build to service demand.

Capital Allocation

Capital Allocation¹

(\$ in Millions)

- Acquisitions
- Cap Ex
- Share Repurchases
- Dividends



Q2 2021 Highlights

- » Capital Expenditures: \$17.8M
- » Acquisition: \$83.7M
- » Dividend Rate Increase: +4.1%
- » Return on Invested Capital: 21.4%

Capital Allocation Outlook

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



¹ Figures may not sum due to rounding

Contact:

Amanda Butler

Vice President, Investor Relations & Communications

✉ Amanda_Butler@lincolnelectric.com

📞 216.383.2534

Non-GAAP Information

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

Management uses non-GAAP measures to assess the Company's operating performance by excluding certain disclosed special items that management believes are not representative of the Company's core business. Management believes that excluding these special items enables them to make better period-over-period comparisons and benchmark the Company's operational performance against other companies in its industry more meaningfully. Furthermore, management believes that non-GAAP financial measures provide investors with meaningful information that provides a more complete understanding of Company operating results and enables investors to analyze financial and business trends more thoroughly. Non-GAAP financial measures should not be viewed in isolation, are not a substitute for GAAP measures and have limitations including, but not limited to, their usefulness as comparative measures as other companies may define their non-GAAP measures differently.

Non-GAAP Financial Measures

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

(In thousands, except per share amounts)

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Operating income as reported	\$ 121,822	\$ 39,764	\$ 225,750	\$ 120,838
Special items (pre-tax):				
Rationalization and asset impairment charges ⁽²⁾	630	23,238	4,793	29,759
Acquisition transaction costs ⁽³⁾	810	—	1,923	—
Amortization of step up in value of acquired inventories ⁽⁴⁾	1,841	—	1,841	806
Adjusted operating income ⁽¹⁾	\$ 125,103	\$ 63,002	\$ 234,307	\$ 151,403
As a percent of total sales	15.1 %	10.7 %	14.8 %	11.7 %
Net income as reported	\$ 96,105	\$ 26,996	\$ 170,282	\$ 82,558
Special items:				
Rationalization and asset impairment charges ⁽²⁾	630	23,238	4,793	29,759
Acquisition transaction costs ⁽³⁾	810	—	1,923	—
Pension settlement charges ⁽⁵⁾	1,650	3,334	6,536	3,334
Amortization of step up in value of acquired inventories ⁽⁴⁾	1,841	—	1,841	806
Tax effect of Special items ⁽⁶⁾	(433)	(5,576)	(1,994)	(7,552)
Adjusted net income ⁽¹⁾	100,603	47,992	183,381	108,905
Non-controlling interests in subsidiaries' income (loss)	175	17	131	10
Interest expense, net	5,663	5,881	11,022	11,339
Income taxes as reported	21,581	6,667	44,601	27,037
Tax effect of Special items ⁽⁶⁾	433	5,576	1,994	7,552
Adjusted EBIT ⁽¹⁾	\$ 128,455	\$ 66,133	\$ 241,129	\$ 154,843
Effective tax rate as reported	18.3 %	19.8 %	20.7 %	24.7 %
Net special item tax impact	(0.4)%	0.5 %	(0.5)%	(0.6)%
Adjusted effective tax rate ⁽¹⁾	17.9 %	20.3 %	20.2 %	24.1 %
Diluted earnings per share as reported	\$ 1.60	\$ 0.45	\$ 2.83	\$ 1.37
Special items per share	0.07	0.35	0.21	0.44
Adjusted diluted earnings per share ⁽¹⁾	\$ 1.67	\$ 0.80	\$ 3.04	\$ 1.81
Weighted average shares (diluted)	60,164	59,831	60,229	60,300

Non-GAAP Financial Measures (continued)

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

- 1) Adjusted operating income, Adjusted net income, Adjusted EBIT, Adjusted effective tax rate and Adjusted diluted earnings per share are non-GAAP financial measures. Refer to Non-GAAP Information section.
- 2) Primarily related to severance, gains or losses on the disposal of assets and asset impairments of long-lived assets.
- 3) Related to an acquisition and are included in Selling, general & administrative expenses.
- 4) Related to acquisitions and are included in Cost of goods sold.
- 5) Related to lump sum pension payments and are included in Other income (expense).
- 6) Includes the net tax impact of Special items recorded during the respective periods.
The tax effect of Special items impacting pre-tax income was calculated as the pre-tax amount multiplied by the applicable tax rate. The applicable tax rates reflect the taxable jurisdiction and nature of each Special item.

Non-GAAP Financial Measures

Return on Invested Capital (ROIC) and Total Debt / EBITDA

(In thousands, except per share amounts)

(Unaudited)

	Twelve Months Ended June 30,	
	2021	2020
Return on Invested Capital		
Net income as reported	\$ 293,839	\$ 218,735
Rationalization and asset impairment charges	20,502	40,105
Acquisition transaction costs	1,923	—
Pension settlement charges	11,321	3,334
Amortization of step up in value of acquired inventories	1,841	2,415
Gain on change in control	—	(7,601)
Tax effect of Special items ⁽²⁾	(5,036)	(9,374)
Adjusted net income ⁽¹⁾	\$ 324,390	\$ 247,614
Plus: Interest expense, net of tax of \$5,843 and \$6,439 in 2021 and 2020, respectively	17,368	19,348
Less: Interest income, net of tax of \$389 and \$563 in 2021 and 2020, respectively	1,166	1,691
Adjusted net income before tax-effected interest	\$ 340,592	\$ 265,271
Invested Capital	June 30, 2021	June 30, 2020
Short-term debt	\$ 10,435	\$ 49,597
Long-term debt, less current portion	718,137	715,817
Total debt	728,572	765,414
Total equity	859,623	660,111
Invested capital	\$ 1,588,195	\$ 1,425,525
Return on invested capital ⁽¹⁾	21.4 %	18.6 %

	Twelve Months Ended June 30,	
	2021	2020
Total Debt / EBITDA		
Net income as reported	\$ 293,839	\$ 218,735
Income taxes	75,460	62,955
Interest expense, net	21,656	23,533
Depreciation and amortization	77,922	83,313
EBITDA ⁽¹⁾	\$ 468,877	\$ 388,536

	June 30, 2021	June 30, 2020
Total debt	\$ 728,572	\$ 765,414
Total debt / EBITDA	1.55	1.97

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



Segment EBIT

EBIT and Adjusted EBIT Reconciliation – Three Months Ended June 30, 2021

(In thousands)

(Unaudited)

	Americas Welding	International Welding	The Harris Products Group	Corporate / Eliminations	Consolidated
Three months ended June 30, 2021					
Net sales	\$ 457,468	\$ 252,352	\$ 116,634	\$ —	\$ 826,454
Inter-segment sales	39,765	6,897	2,284	(48,946)	—
Total sales	<u>\$ 497,233</u>	<u>\$ 259,249</u>	<u>\$ 118,918</u>	<u>\$ (48,946)</u>	<u>\$ 826,454</u>
Net income					\$ 96,105
As a percent of total sales					11.6 %
EBIT ⁽¹⁾	\$ 82,484	\$ 27,526	\$ 18,212	\$ (4,698)	\$ 123,524
As a percent of total sales	16.6 %	10.6 %	15.3 %		14.9 %
Special items charges (gains) ⁽³⁾	1,650	2,471	—	810	4,931
Adjusted EBIT ⁽²⁾	<u>\$ 84,134</u>	<u>\$ 29,997</u>	<u>\$ 18,212</u>	<u>\$ (3,888)</u>	<u>\$ 128,455</u>
As a percent of total sales	16.9 %	11.6 %	15.3 %		15.5 %
Three months ended June 30, 2020					
Net sales	\$ 333,229	\$ 177,167	\$ 80,331	\$ —	\$ 590,727
Inter-segment sales	27,493	4,286	1,753	(33,532)	—
Total sales	<u>\$ 360,722</u>	<u>\$ 181,453</u>	<u>\$ 82,084</u>	<u>\$ (33,532)</u>	<u>\$ 590,727</u>
Net income					\$ 26,996
As a percent of total sales					4.6 %
EBIT ⁽¹⁾	\$ 20,695	\$ 9,117	\$ 11,713	\$ (1,964)	\$ 39,561
As a percent of total sales	5.7 %	5.0 %	14.3 %		6.7 %
Special items charges (gains) ⁽⁴⁾	26,007	565	—	—	26,572
Adjusted EBIT ⁽²⁾	<u>\$ 46,702</u>	<u>\$ 9,682</u>	<u>\$ 11,713</u>	<u>\$ (1,964)</u>	<u>\$ 66,133</u>
As a percent of total sales	12.9 %	5.3 %	14.3 %		11.2 %

Non-GAAP Financial Measures (continued)

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

- 1) EBIT is defined as Operating income plus Other income (expense).
- 2) The primary profit measure used by management to assess segment performance is Adjusted EBIT. EBIT for each operating segment is adjusted for special items to derive Adjusted EBIT.
- 3) Special items in 2021 reflect Rationalization and asset impairment charges of \$630 in International Welding, pension settlement charges of \$1,650 in Americas Welding, amortization of step up in value of acquired inventories of \$1,841 in International Welding related to an acquisition and acquisition transaction costs of \$810 in Corporate/Eliminations related to an acquisition.
- 4) Special items in 2020 reflect Rationalization and asset impairment charges of \$22,673 and \$565 in Americas Welding and International Welding, respectively, and pension settlement charges of \$3,334 in Americas Welding.