

Lincoln Electric Holdings, Inc.

First Quarter 2021 Earnings Call

April 27, 2021

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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: Operating Responsibly While Servicing Customers' Recovery

- » **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 while increasing wages in 2021**
- » **Cautious on global COVID-19 cases and vaccine rollouts**



Q1 2021 Highlights: Sales increase on accelerated recovery. Strong execution generates a 14.4% Adjusted operating income margin and record Q1 Adjusted EPS

- » **Reported sales increased 7.8% to \$757 million; Organic sales increased 6.4%**
- » **Adjusted Operating Income Margin of 14.4% (+180 bps vs. prior year)**
- » **Diluted EPS of \$1.23, Adjusted EPS increased 37% to record \$1.37**
- » **ROIC of 18.9%**
- » **Cash flow from operations of \$45 million**
- » **Returned \$59 million to shareholders (dividends and share repurchases)**

Solid Recovery Momentum in the First Quarter

- » **Q1 organic sales increase 6.4%**
 - All regions and product areas improved
 - Consumables increased mid single-digit percent
 - Equipment increased low double-digit percent
 - Automation relatively steady with prior year

- » **Q1 global end sector performance¹**
 - Approximately 80% of revenue exposed to growing end sectors
 - Automotive/Transportation, Heavy Industries and Construction/Infrastructure sector sales increased mid-teens percent; General Industries increased high single-digit percent
 - Energy sector declines narrowed

Expect Continued Momentum

Opportunities

- » Accelerating H1-2021 demand
- » Updating FY2021 organic sales assumptions to low-to-mid teens percent growth
- » Updating FY2021 adjusted operating income incremental margin assumption to high-20% range
- » Acquisition

Risks

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

Income Statement – Q1 2021

\$ in Millions	Q1 2021	% of Sales	Q1 2020	% of Sales	YoY % Change <i>Fav/(Unfav)</i>
Net Sales	\$ 757.0		\$ 702.0		7.8%
Gross Profit	253.8	33.5%	237.3	33.8%	6.9%
SG&A	145.7	19.2%	149.7	21.3%	2.7%
Special item charges ^{1,2}	5.3	0.7%	7.3	1.0%	28.0%
Operating Income	103.9	13.7%	81.1	11.5%	28.2%
Adjusted Operating Income¹	109.2	14.4%	88.4	12.6%	23.5%
Interest Expense, net ³	5.4	0.7%	5.5	0.8%	1.8%
Income Taxes ⁴	23.0	3.0%	20.4	2.9%	(13.0%)
Effective Tax Rate ⁴	23.7%		26.8%		310 bps
Net Income	\$ 74.2	9.8%	\$ 55.6	7.9%	33.5%
Special Items ⁵	8.6	1.1%	5.4	0.8%	(60.7%)
Adjusted Net Income¹	\$ 82.8	10.9%	\$ 60.9	8.7%	35.9%
Diluted EPS	\$ 1.23		\$ 0.91		35.2%
Adjusted Diluted EPS¹	\$ 1.37		\$ 1.00		37.0%

Sales Mix ⁶	
Volume	2.7%
Price	3.7%
Acquisitions	-
FX	1.4%
TOTAL	7.8%

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

² Q1 Special items include Rationalization and asset impairment charges of \$4.2 million and Acquisition transaction costs of \$1.1 million in 2021. This compares with Rationalization and asset impairment charges of \$6.5 million and Amortization of step up in value of acquired inventories of \$0.8 million in 2020.

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

⁴ Q1 tax rate excluding special items was 22.9% in 2021 and 26.8% in 2020.

⁵ Q1 Special items include the charges noted in footnote 2 and a \$4.9 million pension settlement charge and a \$1.6 million tax effect of Special items in 2021 and a \$2.0 million tax effect of Special items in 2020.

⁶ Figures may not sum due to rounding.

Americas Welding Segment

(\$ in Millions)	Q1 2021	Q1 2020	% YoY Change		Sales Mix ¹
Net Sales	\$ 425.2	\$ 418.5	1.6%	↑	Volume (0.9%)
Adjusted EBIT	\$ 76.6	\$ 70.7	8.4%	↑	Price 2.2%
Adjusted EBIT Margin²	16.7%	15.9%	+80 bps	↑	Acq/Div -
					FX 0.3%
					Total 1.6%

Volumes continued to recover, led by growth in equipment, as end market trends improved.

Margin higher from benefits of cost reduction actions.

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)	Q1 2021	Q1 2020	% YoY Change		Sales Mix ¹	
Net Sales	\$ 223.1	\$ 197.9	12.7%	↑	Volume	5.7%
Adjusted EBIT	\$ 18.8	\$ 6.6	184.4%	↑	Price	2.3%
Adjusted EBIT Margin²	8.3%	3.3%	+500 bps	↑	Acq/Div	-
					FX	4.7%
					Total	12.7%

Volumes increase on strong growth in Asia Pacific and steady performance versus prior year in Europe. Margin performance reflects improved demand and benefits of cost reduction actions.

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)	Q1 2021	Q1 2020	% YoY Change		Sales Mix ¹
Net Sales	\$ 108.7	\$ 85.5	27.1%	↑	Volume 13.6%
Adjusted EBIT	\$ 18.7	\$ 12.5	49.7%	↑	Price 14.5%
Adjusted EBIT Margin²	16.9%	14.3%	+260 bps	↑	Acq/Div -
					FX (1.1%)
					Total 27.1%

Volumes higher on retail channel strength and HVAC; price increase due to rising commodity costs – notably silver. Record Q1 margin performance reflects strong volume growth and benefits of cost reduction actions.

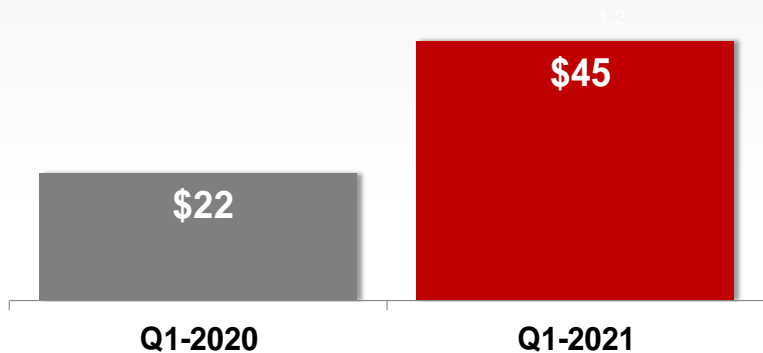
¹ Figures may not sum due to rounding

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

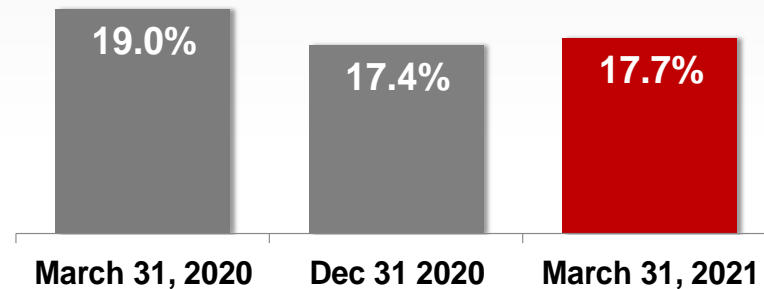
Cash Flow From Operations Metrics

Cash Flow from Operations

(\$ in Millions)



Average Operating Working Capital to Net Sales Ratio



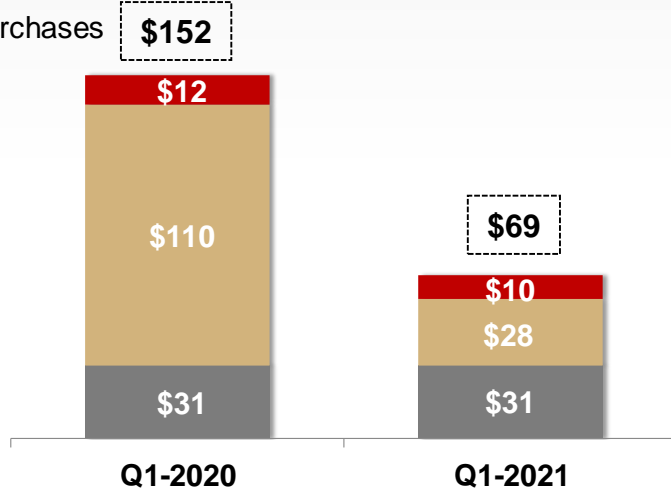
Solid cash flow generation and working capital reflects strategic inventory build to service recovery demand.

Capital Allocation

Capital Allocation¹

(\$ in Millions)

- Acquisitions
- Cap Ex
- Share Repurchases
- Dividends



Q1 2021 Highlights

- » **Capital Expenditures: \$9.9M**
- » **Dividend Rate Increase: +4.1%**
- » **Return on Invested Capital: 18.9%**

Capital Allocation Outlook

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

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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 March 31,	
	2021	2020
Operating income as reported	\$ 103,928	\$ 81,074
Special items (pre-tax):		
Rationalization and asset impairment charges ⁽²⁾	4,163	6,521
Acquisition transaction costs ⁽³⁾	1,113	—
Amortization of step up in value of acquired inventories ⁽⁴⁾	—	806
Adjusted operating income ⁽¹⁾	\$ 109,204	\$ 88,401
As a percent of total sales	14.4 %	12.6 %
Net income as reported	\$ 74,177	\$ 55,562
Special items:		
Rationalization and asset impairment charges ⁽²⁾	4,163	6,521
Acquisition transaction costs ⁽³⁾	1,113	—
Pension settlement charges ⁽⁵⁾	4,886	—
Amortization of step up in value of acquired inventories ⁽⁴⁾	—	806
Tax effect of Special items ⁽⁶⁾	(1,561)	(1,976)
Adjusted net income ⁽¹⁾	82,778	60,913
Non-controlling interests in subsidiaries' income (loss)	(44)	(7)
Interest expense, net	5,359	5,458
Income taxes as reported	23,020	20,370
Tax effect of Special items ⁽⁶⁾	1,561	1,976
Adjusted EBIT ⁽¹⁾	\$ 112,674	\$ 88,710
Effective tax rate as reported	23.7 %	26.8 %
Net special item tax impact	(0.8)%	—
Adjusted effective tax rate ⁽¹⁾	22.9 %	26.8 %
Diluted earnings per share as reported	\$ 1.23	\$ 0.91
Special items per share	0.14	0.09
Adjusted diluted earnings per share ⁽¹⁾	\$ 1.37	\$ 1.00
Weighted average shares (diluted)	60,299	60,799

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 and gains or losses on the disposal of assets.
- 3) Related to the acquisition and are included in Selling, general & administrative expenses.
- 4) Related to an acquisition 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 March 31,	
	2021	2020
Return on Invested Capital		
Net income as reported	\$ 224,730	\$ 277,191
Rationalization and asset impairment charges	43,110	18,174
Acquisition transaction and integration costs	1,113	1,014
Pension settlement charges	13,005	—
Amortization of step up in value of acquired inventories	—	3,814
Gains on asset disposals	—	(3,554)
Gain on change in control	—	(7,601)
Tax effect of Special items ⁽²⁾	(10,179)	(8,549)
Adjusted net income ⁽¹⁾	<u>\$ 271,779</u>	<u>\$ 280,489</u>
Plus: Interest expense, net of tax of \$5,904 and \$6,484 in 2021 and 2020, respectively	17,550	19,489
Less: Interest income, net of tax of \$396 and \$605 in 2021 and 2020, respectively	1,184	1,818
Adjusted net income before tax-effected interest	<u>\$ 288,145</u>	<u>\$ 298,160</u>
Invested Capital		
	March 31, 2021	March 31, 2020
Short-term debt	\$ 3,607	\$ 132,378
Long-term debt, less current portion	715,328	715,950
Total debt	718,935	848,328
Total equity	803,408	667,960
Invested capital	<u>\$ 1,522,343</u>	<u>\$ 1,516,288</u>
Return on invested capital ⁽¹⁾	18.9 %	19.7 %
Total Debt / EBITDA		
	Twelve Months Ended March 31,	
	2021	2020
Net income as reported	\$ 224,730	\$ 277,191
Income taxes	60,546	74,328
Interest expense, net	21,874	23,550
Depreciation and amortization	78,582	83,614
EBITDA ⁽¹⁾	<u>\$ 385,732</u>	<u>\$ 458,683</u>
	March 31, 2021	March 31, 2020
Total debt	\$ 718,935	\$ 848,328
Total debt / EBITDA	1.86	1.85

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, including tax benefits of \$4,852 for the settlement of a tax item as well as tax deductions associated with an investment in a subsidiary in the twelve months ended March 31, 2020.

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 March 31, 2021

(In thousands)

(Unaudited)

	<u>Americas Welding</u>	<u>International Welding</u>	<u>The Harris Products Group</u>	<u>Corporate / Eliminations</u>	<u>Consolidated</u>
Three months ended March 31, 2021					
Net sales	\$ 425,242	\$ 223,079	\$ 108,700	\$ —	\$ 757,021
Inter-segment sales	32,748	4,285	2,147	(39,180)	—
Total	<u>\$ 457,990</u>	<u>\$ 227,364</u>	<u>\$ 110,847</u>	<u>\$ (39,180)</u>	<u>\$ 757,021</u>
Net income					\$ 74,177
As a percent of total sales					9.8 %
EBIT ⁽¹⁾	\$ 72,177	\$ 14,207	\$ 18,697	\$ (2,569)	\$ 102,512
As a percent of total sales	15.8 %	6.2 %	16.9 %		13.5 %
Special items charges (gains) ⁽³⁾	4,440	4,609	—	1,113	10,162
Adjusted EBIT ⁽²⁾	<u>\$ 76,617</u>	<u>\$ 18,816</u>	<u>\$ 18,697</u>	<u>\$ (1,456)</u>	<u>\$ 112,674</u>
As a percent of total sales	16.7 %	8.3 %	16.9 %		14.9 %
Three months ended March 31, 2020					
Net sales	\$ 418,535	\$ 197,923	\$ 85,533	\$ —	\$ 701,991
Inter-segment sales	24,783	4,483	1,725	(30,991)	—
Total	<u>\$ 443,318</u>	<u>\$ 202,406</u>	<u>\$ 87,258</u>	<u>\$ (30,991)</u>	<u>\$ 701,991</u>
Net income					\$ 55,562
As a percent of total sales					7.9 %
EBIT ⁽¹⁾	\$ 69,512	\$ 478	\$ 12,492	\$ (1,099)	\$ 81,383
As a percent of total sales	15.7 %	0.2 %	14.3 %		11.6 %
Special items charges (gains) ⁽⁴⁾	1,190	6,137	—	—	7,327
Adjusted EBIT ⁽²⁾	<u>\$ 70,702</u>	<u>\$ 6,615</u>	<u>\$ 12,492</u>	<u>\$ (1,099)</u>	<u>\$ 88,710</u>
As a percent of total sales	15.9 %	3.3 %	14.3 %		12.6 %

Non-GAAP Financial Measures (continued)

Footnotes for EBIT and Adjusted EBIT Reconciliation – Three Months Ended December 31, 2020

- 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 pension settlement charges of \$4,440 and \$446 in Americas Welding and International Welding, respectively. Rationalization and asset impairment charges of \$4,163 in International Welding and acquisition transaction costs of \$1,113 in Corporate/Eliminations related to an acquisition.
- 4) Special items in 2020 reflect Rationalization and asset impairment charges of \$1,190 and \$5,331 in Americas Welding and International Welding, respectively, and amortization of step up in value of acquired inventories of \$806 in International Welding related to an acquisition.