

Lincoln Electric Holdings, Inc.

Fourth Quarter & Full Year 2018
Earnings Conference Call
February 14, 2019



Christopher L. Mapes

Chairman, President & Chief Executive Officer

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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.

FY 2018 Highlights: Improved industrial demand, diligent price management and internal initiatives mitigated inflation – driving solid profit performance and returns

- **Reported sales increased 15.4% to record \$3.0B; Organic sales up 6.7%**
- **Adjusted Operating Income increased 14.7% to \$405 million**
- **Adjusted Operating Income Margin resilient at 13.4% (down 10 bps) on strong price/cost management and improved mix**
- **Diluted EPS of \$4.37, Adjusted EPS increased 27.2% to record \$4.82**
- **Generated \$329 million of cash flow from operations and returned \$304 million to shareholders (dividends & share purchases)**
- **ROIC increased 450 basis points to 20.7%**

Industrial Growth Decelerated in December and Improved in January 2019 Across Several Areas

- **Organic sales decelerated in Q4 on challenging prior year volume comparisons in Americas and Harris Products Group and integration activities in International Welding**
 - Strongest organic growth in Americas Welding and Harris Products Group
 - Consumables up mid single-digit percent; equipment (including automation) declined low-to-mid single digit percent year-over-year
- **Q4 2018 End Sector Performance¹:**
 - **Higher demand vs. PY:** Most end markets grew in Q4, led by strong double digit percent organic growth in Heavy Industries and Construction/Infrastructure. Automotive and portions of Energy also increased; General Fabrication was steady vs. prior year.
 - **Lower demand vs. PY:** Portions of Energy

Income Statement – Q4 2018

\$ in Millions	Q4 2018	% of Sales	Q4 2017	% of Sales	YoY % Change <i>Fav/(Unfav)</i>
Net Sales	\$ 743.8		\$ 747.2		(0.4%)
Gross Profit	250.3	33.7%	238.3	31.9%	5.1%
SG&A	154.4	20.8%	153.4	20.5%	(0.7%)
Special item charges ^{1,2}	1.8	0.2%	14.4	1.9%	87.5%
Operating Income	94.9	12.8%	76.3	10.2%	24.4%
Adjusted Operating Income¹	96.7	13.0%	90.7	12.1%	6.6%
Interest Expense, net³	(4.3)	0.6%	(4.4)	0.6%	2.4%
Income Taxes⁴	7.7	1.0%	49.5	6.6%	84.5%
Effective Tax Rate⁴	8.1%		67.2%		NM
Net Income	\$ 86.8	11.7%	\$ 24.2	3.2%	259.1%
Special Items ⁵	(3.3)	0.4%	43.3	5.8%	107.6%
Adjusted Net Income¹	\$ 83.5	11.2%	\$ 67.5	9.0%	23.7%
Diluted EPS	\$ 1.35		\$ 0.36		275.0%
Adjusted Diluted EPS¹	\$ 1.29		\$ 1.01		27.7%

Sales Mix⁶	
Volume	(4.3%)
Price	5.9%
Acquisitions	0.4%
FX	(2.3%)
TOTAL	(0.4%)

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

² Special items include Rationalization and asset impairment charges of \$0.9 million and Acquisition transaction and integration costs of \$0.8 million in 2018. 2017 includes Rationalization and asset impairment charges of \$6.6 million, Acquisition transaction and integration costs of \$3.6 million, \$2.3 million in the step up in value of acquired inventories and a \$1.9 million bargain purchase adjustment.

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

⁴ Q4 tax rate excluding special items was 14.7% in 2018 and 25.8% in 2017.

⁵ After-tax special items include charges in footnote 2, pension settlement charges of \$1.3 million in 2018 and \$1.8 million in 2017, a net \$4.4 million credit in 2018 related to the U.S. Tax Act in 2018, as compared with a \$28.6 million charge in 2017.

⁶ Figures may not sum due to rounding.

Americas Welding Segment

(\$ in Millions)	Q4 2018	Q4 2017	% YoY Change		Sales Mix ¹
Net Sales	\$ 455.2	\$ 423.0	7.6%	↑	Volume (0.1%)
					Price 8.3%
Adjusted EBIT	\$ 85.9	\$ 74.5	15.2%	↑	Acq/Div 0.7%
					FX (1.3%)
Adjusted EBIT Margin²	17.7%	16.8%	+90 bps	↑	Total 7.6%

**Volume held steady against challenging prior year comparisons.
Margins up on price management and favorable mix.**

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)	Q4 2018	Q4 2017	% YoY Change		Sales Mix ¹	
Net Sales	\$ 219.5	\$ 256.0	(14.3%)	↓	Volume	(13.7%)
					Price	3.8%
Adjusted EBIT	\$ 12.3	\$ 12.0	2.5%	↑	Acq/Div	-
					FX	(4.3%)
Adjusted EBIT Margin²	5.5%	4.6%	+90 bps	↑	Total	(14.3%)

**Volumes reflect integration activities and softer 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)	Q4 2018	Q4 2017	% YoY Change		Sales Mix ¹
Net Sales	\$ 69.2	\$ 68.1	1.5%	↑	Volume 4.6%
					Price (1.5%)
Adjusted EBIT	\$ 8.5	\$ 9.0	(5.0%)	↓	Acq/Div -
					FX (1.6%)
Adjusted EBIT Margin²	12.0%	12.9%	(90 bps)	↓	Total 1.5%

**Solid demand in the OEM and retail channels.
Margin lower on price/cost and a challenging prior year comparison.**

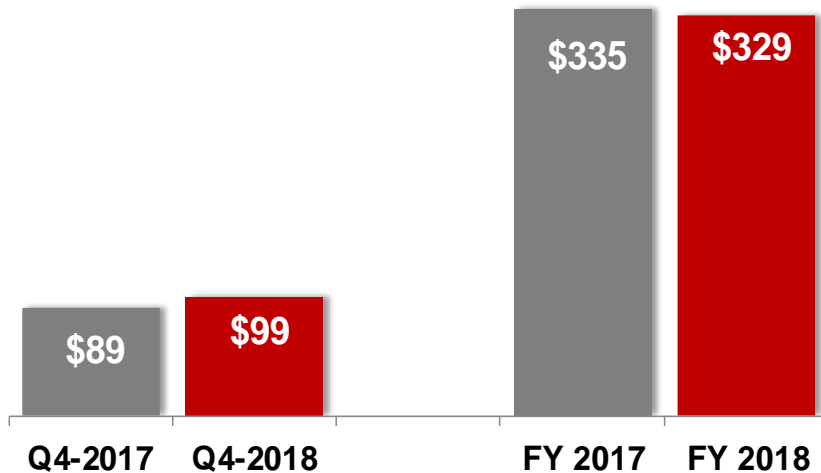
¹ Figures may not sum due to rounding

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

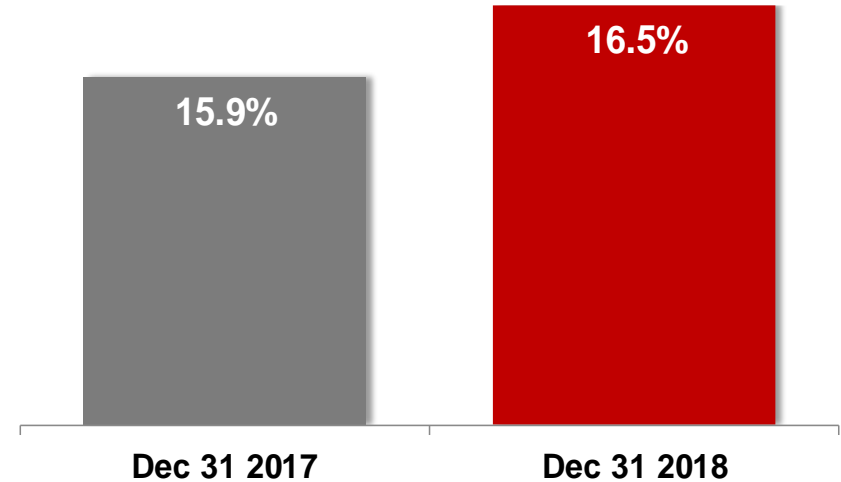
Cash Flow from Operations Metrics

Cash Flow from Operations

(\$ in Millions)



Average Operating Working Capital to Net Sales Ratio



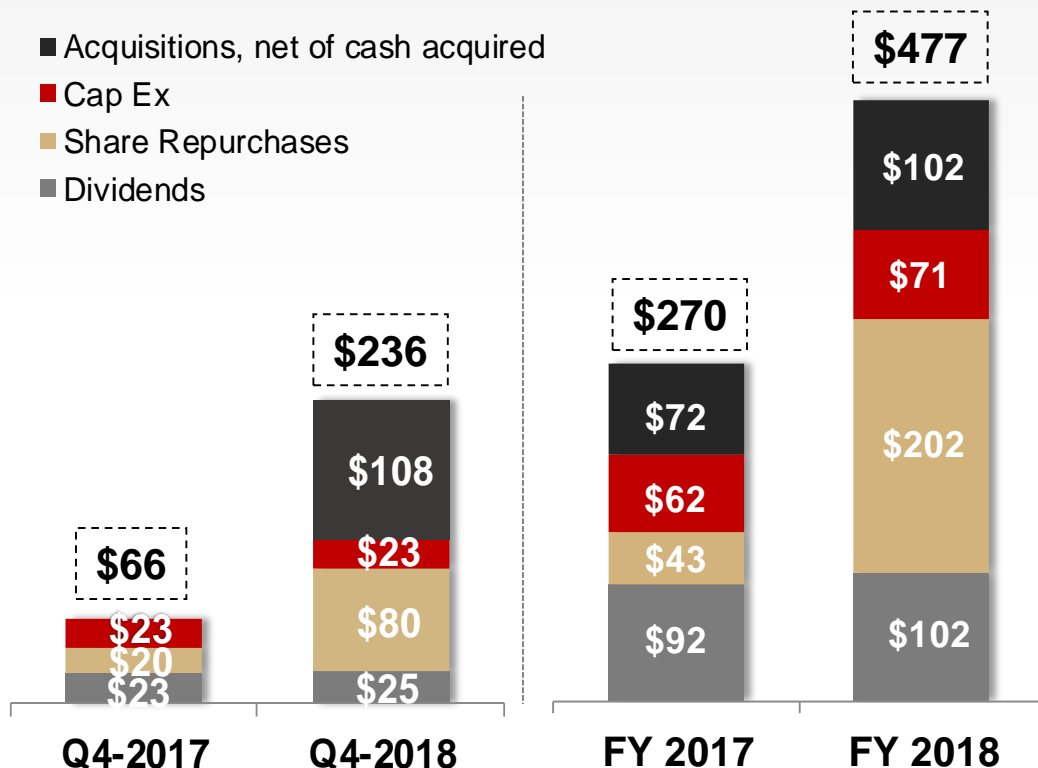
Good cash flow generation and working capital management.

Capital Allocation

(\$ in Millions)

Capital Allocation¹

- Acquisitions, net of cash acquired
- Cap Ex
- Share Repurchases
- Dividends



Q4 2018 Highlights

- ▶ Capital Expenditures: \$23M
- ▶ Dividend Payout Rate Increase: +11%
- ▶ Net Debt² Position: \$344M
- ▶ Return on Invested Capital: 20.7%

¹ Figures may not sum due to rounding

² Net Debt is defined as Total debt less Cash and cash equivalents and Marketable securities



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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 December 31,		Twelve Months Ended December 31,	
	2018	2017	2018	2017
Operating income as reported	\$ 94,930	\$ 76,322	\$ 375,539	\$ 376,942
Special items (pre-tax):				
Rationalization and asset impairment charges ⁽²⁾	932	6,590	25,285	6,590
Acquisition transaction and integration costs ⁽³⁾	833	3,616	4,498	15,002
Amortization of step up in value of acquired inventories ⁽³⁾	—	2,264	—	4,578
Bargain purchase adjustment (gain) ⁽³⁾	—	1,935	—	(49,650)
Adjusted operating income ⁽¹⁾	\$ 96,695	\$ 90,727	\$ 405,322	\$ 353,462
As a percent of total sales	13.0%	12.1 %	13.4 %	13.5 %
Net income as reported	\$ 86,839	\$ 24,181	\$ 287,066	\$ 247,503
Special items:				
Rationalization and asset impairment charges ⁽²⁾	932	6,590	25,285	6,590
Acquisition transaction and integration costs ⁽³⁾	833	3,616	4,498	15,002
Pension settlement charges ⁽⁴⁾	1,696	2,867	6,686	8,150
Amortization of step up in value of acquired inventories ⁽³⁾	—	2,264	—	4,578
Bargain purchase adjustment (gain) ⁽³⁾	—	1,935	—	(49,650)
Tax effect of Special items ⁽⁵⁾	(6,764)	26,057	(6,896)	20,536
Adjusted net income ⁽¹⁾	83,536	67,510	316,639	252,709
Non-controlling interests in subsidiaries' earnings (loss)	(60)	4	(73)	(28)
Interest expense, net	4,343	4,448	17,565	19,432
Income taxes as reported	7,676	49,543	81,667	118,761
Tax effect of Special items ⁽⁵⁾	6,764	(26,057)	6,896	(20,536)
Adjusted EBIT ⁽¹⁾	\$ 102,259	\$ 95,448	\$ 422,694	\$ 370,338
Effective tax rate as reported	8.1%	67.2 %	22.2 %	32.4 %
Net special item tax impact	6.6%	(41.4)%	(0.3)%	(4.4)%
Adjusted effective tax rate ⁽¹⁾	14.7%	25.8 %	21.9 %	28.0 %
Diluted earnings per share as reported	\$ 1.35	\$ 0.36	\$ 4.37	\$ 3.71
Special items per share	(0.06)	0.65	0.45	0.08
Adjusted diluted earnings per share ⁽¹⁾	\$ 1.29	\$ 1.01	\$ 4.82	\$ 3.79
Weighted average shares (diluted)	64,559	66,530	65,682	66,643

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, Adjusted effective tax rate 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 a credit of \$4,424 and a net charge of \$399 related to the U.S. Tax Act in the three and twelve months ended December 31, 2018, respectively, as well as a charge of \$28,616 in the three and twelve month period ended December 31, 2017.

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)

	Twelve Months Ended December 31,	
	2018	2017
Return on Invested Capital		
Net income as reported	\$ 287,066	\$ 247,503
Rationalization and asset impairment charges	25,285	6,590
Pension settlement charges	6,686	8,150
Acquisition transaction and integration costs	4,498	15,002
Amortization of step up in value of acquired inventories	—	4,578
Bargain purchase adjustment (gain)	—	(49,650)
Tax effect of Special items ⁽³⁾	(6,896)	20,536
Adjusted net income ⁽¹⁾	\$ 316,639	\$ 252,709
Plus: Interest expense, net of tax of \$6,117 and \$9,273 in 2018 and 2017, respectively	18,386	14,947
Less: Interest income, net of tax of \$1,732 and \$1,833 in 2018 and 2017, respectively	5,206	2,955
Adjusted net income before tax effected interest	\$ 329,819	\$ 264,701
Invested Capital		
	December 31, 2018	December 31, 2017
Short-term debt	111	2,131
Long-term debt, less current portion	702,549	704,136
Total debt	702,660	706,267
Total equity	887,592	932,453
Invested capital	\$ 1,590,252	\$ 1,638,720
Return on invested capital ⁽¹⁾⁽²⁾	20.7%	16.2%

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 \$399 and \$28,616 in the twelve months ended December 31, 2018 and 2017, respectively.

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 December 31, 2018

(In thousands)

(Unaudited)

	Americas Welding	International Welding	The Harris Products Group	Corporate / Eliminations	Consolidated
Three months ended December 31, 2018					
Net sales	\$ 455,217	\$ 219,456	\$ 69,154	\$ —	\$ 743,827
Inter-segment sales	29,265	4,907	1,522	(35,694)	—
Total	<u>\$ 484,482</u>	<u>\$ 224,363</u>	<u>\$ 70,676</u>	<u>\$ (35,694)</u>	<u>\$ 743,827</u>
Net income					\$ 86,839
As a percent of total sales					11.7%
EBIT ⁽¹⁾	\$ 84,198	\$ 11,371	\$ 8,506	\$ (5,277)	\$ 98,798
As a percent of total sales	17.4%	5.1%	12.0%		13.3%
Special items charges (gains) ⁽³⁾	1,696	932	—	833	3,461
Adjusted EBIT ⁽²⁾	\$ 85,894	\$ 12,303	\$ 8,506	\$ (4,444)	\$ 102,259
As a percent of total sales	17.7%	5.5%	12.0%		13.7%
Three months ended December 31, 2017					
Net sales	\$ 423,019	\$ 256,021	\$ 68,145	\$ —	\$ 747,185
Inter-segment sales	22,002	3,646	1,427	(27,075)	—
Total	<u>\$ 445,021</u>	<u>\$ 259,667</u>	<u>\$ 69,572</u>	<u>\$ (27,075)</u>	<u>\$ 747,185</u>
Net income					\$ 24,181
As a percent of total sales					3.2%
EBIT ⁽¹⁾	\$ 70,590	\$ 4,246	\$ 8,951	\$ (5,611)	\$ 78,176
As a percent of total sales	15.9%	1.6%	12.9%		10.5%
Special items charges (gains) ⁽⁴⁾	3,959	7,762	—	5,551	17,272
Adjusted EBIT ⁽²⁾	\$ 74,549	\$ 12,008	\$ 8,951	\$ (60)	\$ 95,448
As a percent of total sales	16.8%	4.6%	12.9%		12.8%

Segment EBIT

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 \$1,696 in Americas Welding, rationalization and asset impairment charges of \$932 in International Welding and acquisition transaction and integration costs of \$833 in Corporate/Eliminations related to the acquisition of Air Liquide Welding.

(4) Special items in 2017 reflect pension settlement charges of \$2,867 in Americas Welding, rationalization and asset impairment charges of \$6,590 in Americas Welding and International Welding, amortization of step up in value of acquired inventories of \$2,264 in International Welding and acquisition transaction and integration costs of \$3,616 and an adjustment to the bargain purchase gain of \$1,935 in Corporate/Eliminations related to the acquisition of Air Liquide Welding.