

REFINITIV STREETEVENTS

EDITED TRANSCRIPT

LECO.OQ - Q4 2023 Lincoln Electric Holdings Inc Earnings Call

EVENT DATE/TIME: FEBRUARY 15, 2024 / 3:00PM GMT

OVERVIEW:

Company Summary

CORPORATE PARTICIPANTS

Amanda H. Butler *Lincoln Electric Holdings, Inc. - VP of IR & Communications*

Gabriel Bruno *Lincoln Electric Holdings, Inc. - Executive VP, CFO & Treasurer*

Steven B. Hedlund *Lincoln Electric Holdings, Inc. - President, CEO & Director*

CONFERENCE CALL PARTICIPANTS

Bryan Francis Blair *Oppenheimer & Co. Inc., Research Division - Director & Senior Analyst*

Christopher M. Dankert *Loop Capital Markets LLC, Research Division - SVP*

Mircea Dobre *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

Nathan Hardie Jones *Stifel, Nicolaus & Company, Incorporated, Research Division - Analyst*

Robert Gregor Jamieson *UBS Investment Bank, Research Division - Analyst*

Robert Stephen Barger *KeyBanc Capital Markets Inc., Research Division - MD & Equity Research Analyst*

Saree Emily Boroditsky *Jefferies LLC, Research Division - Equity Analyst*

Walter Scott Liptak *Seaport Research Partners - MD & Senior Industrials Analyst*

Zeyu Song *Morgan Stanley, Research Division - Research Associate*

PRESENTATION

Operator

Good morning, everyone, and welcome to Lincoln Electric's Fourth Quarter and Full Year 2023 Financial Results Conference Call. (Operator Instructions) This call is being recorded.

It is my pleasure to introduce your host, Amanda Butler, Vice President of Investor Relations and Communications. Thank you. You may begin.

Amanda H. Butler - *Lincoln Electric Holdings, Inc. - VP of IR & Communications*

Thank you, Lisa, and good morning, everyone. Welcome to Lincoln Electric's Fourth Quarter and Full Year 2023 Conference Call. We released our financial results earlier today, and you can find our release and this call slide presentation at lincolnelectric.com in the Investor Relations section.

Joining me on the call today is Steve Hedlund, President and Chief Executive Officer; and Gabe Bruno, our Chief Financial Officer. Following our prepared remarks, we are happy to take your questions.

Before we start our discussions, please note that certain statements made during this call may be forward-looking, and actual results may differ materially from our expectations due to a number of risk factors. A discussion of some of the 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.

In addition, we discussed financial measures that do not conform to U.S. GAAP. A reconciliation of non-GAAP measures to the most comparable GAAP measures found in the financial tables in our earnings release, which again is available in the Investor Relations section of our website at lincolnelectric.com.

And with that, I'll turn the call over to Steve Hedlund. Steve?

Steven B. Hedlund - *Lincoln Electric Holdings, Inc. - President, CEO & Director*

Thank you, Amanda. Good morning, everyone. Turning to Slide 3. I am pleased to report record full year results for our key financial metrics. These results demonstrate the power of our people, products and processes to serve the needs of our customers. They also highlight the benefit of our broad and diverse exposure to different end markets and regions, our prior investments to build an industry-leading automation business and our disciplined capital allocation strategy.

We generated record sales from solid organic growth and strong performance from our acquisitions. Our automation portfolio sales are now \$941 million, and we are on track to exceed our \$1 billion 2025 automation sales target ahead of schedule. We achieved record profitability with all 3 segments delivering profit margins within their Higher Standard target ranges, and automation is now at a low teens margin. This improvement reflects operating leverage, diligent price cost management and productivity initiatives.

We achieved record adjusted earnings performance at \$9.41 per share, and our cash flows from operations also accelerated to a record. Higher earnings and improved working capital efficiency delivered a 105% free cash flow conversion to net income. These achievements contributed to record ROIC, demonstrating gains from our strategic initiatives as well as our disciplined approach to capital allocation and our M&A strategy. Heading into 2024, we maintained an investment-grade balance sheet profile with strong free cash flow, which allows us to continue to invest in the business through the cycle while also returning capital to shareholders.

Turning to Slide 4. We are completing the last 2 years of our Higher Standard 2025 Strategy and are on pace to achieve our targets. Looking at the financial metrics, our sales performance is on track, and we will continue to focus on organic and inorganic growth to capitalize on the favorable secular trends, such as the shortage of skilled welders, labor inflation, reshoring, civil and energy infrastructure investments and electrification, all of which create demand for our solutions.

Operationally, we will continue to drive continuous improvement throughout the business, enhance our safety and environmental performance and further realize the benefits from investments we have made in shared services, process automation and most recently, centralized global procurement. We are especially focused on improving the margin performance of both our International Welding segment and automation portfolio by 200 to 300 basis points which will bring our 2020 to 2025 average consolidated operating income margin up to 16%, which is our 2025 target.

We have more opportunity to improve working capital efficiency and bring our average operating working capital to sales performance closer to 15% by the end of 2025. We have made strong progress as inventory levels normalize, and we are pursuing additional initiatives to reposition ourselves as a top decile operator in this area. We are also committed to our balanced capital allocation strategy. Under our Higher Standard Strategy, we've invested over \$900 million in growth and have returned approximately \$1.2 billion to shareholders. We intend on continuing a balanced approach in the years ahead.

So as I start my initial year as CEO, I could not be more confident in Lincoln Electric's position entering 2024. We have a strong core business and operational platform and expanding automation portfolio, market-leading innovation and 2 new long-term growth initiatives, additive manufacturing and our DC fast charger, which are both in early commercialization phase and offer attractive long-term upside options for the business.

Before we turn to fourth quarter results, I would like to thank Chris Mapes for his strong leadership and the Lincoln Electric team for their exceptional work in 2023. I would also like to extend my gratitude to our customers, partners and shareholders, who have put their trust in us and have supported our Higher Standard 2025 Strategy and all who are critical to our success.

With that, let's move to Slide 5 to discuss fourth quarter demand trend. We achieved strong sales growth in the fourth quarter to a record \$1.1 billion. Organic sales grew 2.6% from solid growth momentum across 4 of our 5 primary end markets and in 2 of our 3 main product categories, led by continued investments in capital equipment across our automation and equipment solutions. Fourth quarter sales were stronger than expected in automation, both organically and from acquisitions as our teams completed projects ahead of schedule while feeling high quoting activity. This has positioned the portfolio for growth in 2024, most likely accelerating in the second quarter based on project timing.

Our consumable organic sales contracted at low single-digit percent rate in the fourth quarter on decelerating industrial production activity in South America, Europe and portions of Asia Pacific. Consumable organic sales were up slightly in North America with choppy order patterns, which

we expect to continue in 2024. End market growth broadened in the fourth quarter to 4 of 5 markets or approximately 80% of our revenue exposure. Construction infrastructure led the improvement on strong automation demand and favorable prior year comparisons.

Energy and general industry sectors both increased mid-teens percent as project activity in midstream oil and gas and empower generation continued to remain strong globally. General industry growth reflects strength in automation demand in the quarter, including the continued success of our Cooper cobots and standardized automation cells. Heavy industry demand remained strong, up low-double-digit percent, primarily from strength in Americas Welding.

Automotive continued to contract on challenging prior year comparisons and slower production activity in the quarter. Residential-oriented applications like HVAC in the retail channel, both in our Harris Products Group remain challenged on weak residential sector trends. While a dynamic environment, our diversified end market and regional profile allowed us to successfully navigate through this portion of the cycle and will ensure we capture growth opportunities ahead.

I will now pass the call to Gabe Bruno to cover fourth quarter financial results and our 2024 assumptions in more detail.

Gabriel Bruno - Lincoln Electric Holdings, Inc. - Executive VP, CFO & Treasurer

Thank you, Steve. Moving to Slide 6. Our consolidated fourth quarter sales increased approximately 14% to a record \$1.59 billion. We recognized a 9.8% increase from acquisitions, which included an approximate 270 basis point benefit from both \$15 million of revenue from the extra month of Fori acquisition sales reported in the fourth quarter as well as an incremental \$10 million of revenue from projects the automation team completed ahead of schedule.

Organic sales increased 2.6% from a 2% increase in volumes and 60 basis points of higher price. Foreign exchange translation was favorable by 1.3% versus the prior year.

Gross profit dollars increased approximately 21% or \$63 million versus the prior year on higher sales, price/cost management and operational improvements. We recognized a \$5.1 million LIFO benefit in the quarter, reflecting the progression of material costs and lower inventory levels. Our fourth quarter gross profit margin increased 200 basis points to 35.1%, with a modest positive price/cost position on a full year basis.

Our SG&A expense increased approximately 15% or \$25 million. The increase is primarily due to higher incentive compensation and employee-related costs as well as acquisitions. SG&A as a percent of sales was relatively steady at 17.8%. Reported operating income increased 44% to \$204 million. Operating income benefited from approximately \$22 million of special items from a gain on the sale of property, associated with rationalization activities initiated in Europe several years ago. Excluding special items, our adjusted operating income increased 24% to \$182 million. Diligent price cost management, operational improvements and contributions from acquisitions drove profit dollar growth.

Our adjusted operating income margin increased 140 basis points to a record 17.2%, generating a 28% incremental margin. Our incremental margin reflects price cost management, operational improvements and easier prior year comparisons in International Welding and the Harris Products Group segment.

Moving to earnings. Our fourth quarter diluted earnings per share increased 44% to \$2.70. Excluding special items, adjusted diluted earnings per share increased 26% to \$2.45, which included a \$0.02 benefit from favorable foreign exchange translation.

Moving to our reportable segments on Slide 7. We Americas Welding sales increased 14% in the quarter from approximately 11% benefit from our automation acquisitions and a 3% increase in organic sales led by volume growth. Acquisition performance exceeded expectations on efficient project execution. We are pleased with the progression of integration activities. Americas Welding 3% organic sales growth reflected a low double-digit percent increase in automation and a mid-single-digit percent rate in equipment systems, reinforcing the continued momentum in capital spending. Consumables were relatively steady in the region due to challenged industrial activity in South America, as Steve mentioned earlier.

Americas Welding segment's fourth quarter adjusted EBIT increased approximately 13% to \$130 million. They achieved an adjusted EBIT margin of 18.8% as benefits from effective price/cost management and operational initiatives were partially offset by higher employee costs and lower margin automation mix.

Moving to Slide 8. The International Welding segment sales increased 20% with approximately 4% higher organic sales. We achieved 5% volume growth from higher automation sales and a mid-single-digit percent increase in equipment. This increase reflects strong project activity in the Middle East, portions of Southeast Asia Pacific as well as pockets of strength in Europe. Consumables declined modestly on challenged industrial activity in Europe and portions of Asia Pacific.

Acquisitions contributed 12% sales growth as far as international teams exceeded plan on efficient project completion. Adjusted EBIT increased approximately 88% to \$43 million with a 490 basis point improvement in their adjusted EBIT margin to 14.1%. Higher volumes, favorable mix and productivity improvements drove strong margin performance in the segment.

Moving to the Harris Products Group on Slide 9. Fourth quarter organic sales declined approximately 3% on 7% lower volumes and 4% higher price performance. Volumes remain challenged on persistently weak residential construction trends. Harris' price performance reflects higher metal costs, primarily from silver and the benefits of prior pricing actions. Fourth quarter adjusted EBIT increased 27% to \$15 million. Their adjusted EBIT margin increased 300 basis points to 13.3%. The increase was driven by effective price/cost management and operational efficiencies, which were unfavorably impacted by lower operating leverage from volumes.

Moving to Slide 10. Cash flows from operations increased 9% to \$122 million with a 68% cash conversion ratio on free cash flow to adjusted net income. Cash conversion is seasonally lower in the fourth quarter due to higher uses of cash for incentive compensation payments. We improved our average operating working capital sales ratio to 17.1% on lower inventory levels.

Moving to Slide 11. We invested \$25 million in CapEx in the quarter, bringing full year CapEx spend to \$91 million. We returned \$105 million to shareholders in the quarter to approximately \$68 million of share repurchases in our higher dividend payout. We generated a record return on invested capital of 24.1%.

Turning to Slide 12 and our full year 2024 assumptions. We remain in growth mode and expect to expand organic sales margins and earnings in 2024. Coming into 2024, we have seen several months of choppy order trends and dynamic operating conditions. Given this environment, we are assuming a more conservative full year 2024 organic sales growth rate range in the low- to mid-single digits, half from volume and half from price. We're assuming continued volume momentum in Americas, partially offset by weakness in Europe, residential construction and in the retail channel. Our team is encouraged by improving PMI trends, elevated quoting activity in automation and growth from our 2023 new product launches.

As we start the year in this first quarter, we are expecting steady to slightly lower sales performance versus the prior year with an inflection to growth in the second quarter as automation sales accelerate towards a seasonally stronger back half of the year. We are continuing to manage to a neutral price/cost position and have taken modest pricing actions in our Welding segment in this first quarter to mitigate inflation. We expect these benefits to fully mature in the second quarter.

Diligent price cost management, combined with operating leverage and continuous improvement initiatives are anticipated to deliver full year incremental margins in the low- to mid-20% range. In the first quarter, we expect an incremental \$3 million in corporate expense versus the prior year from long-term incentive compensation costs associated with our CEO transition. We're expecting a consistent interest expense range of \$45 million to \$50 million and a tax rate in the low- to mid-20% range. We are planning on \$90 million to \$110 million of CapEx investments to fund both growth initiatives and investments in operational efficiencies.

Given expectations of continued strong margin and earnings performance and working capital efficiencies, we are targeting full year cash conversion at 100-plus percent of adjusted net income. Our assumptions do not include contributions from possible upside growth in our 2 newest technology platforms, our DC fast charger, Velion, nor our 3D printing/Additive manufacturing business as we are still commercializing these early-stage growth initiatives.

Overall, we are very confident in our market position and our ability to successfully navigate the year ahead. We have a solid track record of managing and delivering long-term value while remaining agile in the short term. We are excited to capture the many growth opportunities ahead of us and built upon our record results as we progress towards our Higher Standard 2025 Strategy targets.

And now I would like to turn the call over for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) We'll take our first question today from Saree Boroditsky, Jefferies.

Saree Emily Boroditsky - Jefferies LLC, Research Division - Equity Analyst

So could you provide any details on just how you thought about the guidance for the low to mid incremental margins. I guess I would have thought easier comps from older Fori contracts and potentially less headwinds from Harris, maybe we could have seen some higher incremental margins there. So what are the offsets?

Gabriel Bruno - Lincoln Electric Holdings, Inc. - Executive VP, CFO & Treasurer

So Saree, obviously, it's early in the year. And I mentioned some of the pull forward of activity and automation -- in our automation business in the fourth quarter from Fori. So it's just a conservative posture. We're optimistic of potential short-cycle activity. But being early in the year, we want to keep a conservative posture as we progress.

Saree Emily Boroditsky - Jefferies LLC, Research Division - Equity Analyst

Conservatism is always good. So you also highlighted some strong growth from capital investments in the quarter. I believe a lot of that came from the backlog, although you did see some positive quoting activity. So just could you expand on what you are seeing or hearing from customers on the capital investment side for 2024?

Gabriel Bruno - Lincoln Electric Holdings, Inc. - Executive VP, CFO & Treasurer

Yes. So we've got, as I mentioned and Steve mentioned, a lot of quoting activities. So it's fairly broad-based. Then we think about the strength we saw in general industry, for example, is driven by automation activity. So we're bullish on the level of continued capital investment and that was one of the growth drivers we point to as we progress into this year.

Steven B. Hedlund - Lincoln Electric Holdings, Inc. - President, CEO & Director

And Saree, it's not only the quoting activity, but also the order intake on the capital equipment side is signaling to us that people are still spending money to invest in productivity despite the higher interest rates.

Operator

Next up, we will hear from Bryan Blair, Oppenheimer.

Bryan Francis Blair - *Oppenheimer & Co. Inc., Research Division - Director & Senior Analyst*

I'd love to hear some more about the automation momentum and the outlook growth there against a rather healthy comp was impressive. Also the \$940 million or so revenue base, what kind of growth does your team expect in 2024? And then based on backlog order trends, what you see in the project pipeline? How should we think about the end market mix for the strategy going forward?

Gabriel Bruno - *Lincoln Electric Holdings, Inc. - Executive VP, CFO & Treasurer*

Yes. So Bryan, I would go back and just emphasize for 2023, organic growth in automation was 8%. And so that, coupled with the impact of the acquisition just really postures for strength progressively. So the strength of orders and quoting would lead us to continue to be bullish about the automation growth opportunity in 2024.

Bryan Francis Blair - *Oppenheimer & Co. Inc., Research Division - Director & Senior Analyst*

Okay. Fair enough. And if we were to net take a very strong quarter and constructive outlook. The trends in consumables being -- having a little bit of compression there, albeit versus an elevated comp. That would be the area. Maybe speak to what you're seeing year-to-date specific to consumables? You mentioned kind of choppy trends in general, expecting flattish Q1 sales, but there's costs optimism on short-cycle activity, and that's understandable. So there any additional color you can offer on the consumable side, it would be great.

Gabriel Bruno - *Lincoln Electric Holdings, Inc. - Executive VP, CFO & Treasurer*

Yes. So Bryan, I would add that for the Americas segment for an example. You heard our comments is that when you pull out some of the dynamics in South America, our actual North American business was slightly up in the fourth quarter. So a steady state in our biggest part of our business when you think about the consumables mix in the Americas. So as we start to see and we're hopeful that PMI measures and new orders start to pull forward some short-cycle activity. That's the area that we'll see growth in the consumables side.

So as I mentioned, we have a conservative posture, but as things open up, and we start to see a little bit of expansion in general industry activity, particularly in consumables, that's a potential upside in our business.

Operator

Next question comes from Mig Dobre, Baird.

Mircea Dobre - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

So just to clarify the discussion on automation. Are we to understand here that automation growth in '24 is going to exceed the low- to mid-single-digit range that you've given overall? And then I guess my follow-up to this, as you think about 2024 and you think about your end markets, where are you seeing growth versus potential contraction like auto for instance, that's been declining here, do you expect that to return to growth? Is there some catch-up in activity that you think you're going to have post strike? And at the same time, heavy equipment, we're hearing from Deere today talking about production cuts, we heard from others. How do you think about that vertical as well?

Gabriel Bruno - *Lincoln Electric Holdings, Inc. - Executive VP, CFO & Treasurer*

Yes. So maybe the first part of your question in terms of automation growth, we do expect more accelerated growth in our assumptions as we highlighted for 2024. And if you just think about the mix of our business in 2023, our organic overall was up 4%, and that was with automation being up 8%. So we do expect accelerated growth from automation.

When you think about the end markets, you point to automotive, we've had some challenging comps with some large projects in the back half of 2022 versus 2023. So -- but we still feel that we've got a lot of good strong demand on capital investment when you look at both ICE and EV. So we look -- we're bullish around automotive investment. You do point to a few pockets of areas and heavy industries that were more cautious of, whether it's ag or construction. But I think in balance, when you think about the exposure we have in so many end markets, that gives us confidence in the operating assumptions that we provide.

Steven B. Hedlund - *Lincoln Electric Holdings, Inc. - President, CEO & Director*

Yes, Mig, I think you summarized it well. As we look at the automation business, we expect continued growth based on the activity we see in the market today. So that would be above the guidance for the overall business. So obviously, there's parts of the business that are lagging. What are those parts? It's early innings in terms of seeing a turn in the macroeconomic indicators, particularly in Europe. So we're cautious on Europe. We're cautious on things that are consumer facing. So the Harris portion from our business that is retail and HVAC focused, we're cautious on that.

And then as you pointed out, there are some large end users that are themselves being cautious about their outlook for 2024. And so that just tempers our overall conservatism approach to it. There's still a lot of pressure on our people and our teams to outperform our conservatism. And so we hope that as the global economy starts to accelerate, that we'll see our business improve as well.

Mircea Dobre - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

Fair enough. Nobody has the fast charger question yet, and I'm surprised. So I'm going to be the guy to ask it. We are yet to see sort of quantifiable update from you in terms of how this opportunity is evolving. So what should our expectations be in 2024? At what point in time are you going to be in a position where you can provide maybe a little more clarity on this? And maybe your thoughts on it?

Steven B. Hedlund - *Lincoln Electric Holdings, Inc. - President, CEO & Director*

Yes, Mig. We're still in the commercialization process for this product. We're a new entrant into the market. I think we've done a very good job of cutting through the clutter and a lot of the vaporware that's out in the industry. We are engaged with dozens of large potential customers, all of whom you'd recognize. We're talking to the right people. We're working through their testing and validation protocols. It's a long selling cycle based on the capital spend that they need to make and the potential risk to them of making a wrong decision.

So I expect that we'll take the balance of the first half of the year to get through that process, and then we should be able to provide you more clarity on how we think that will ramp up in the second half.

Operator

Chris Dankert from Loop Capital has the next question.

Christopher M. Dankert - *Loop Capital Markets LLC, Research Division - SVP*

I guess first off, nice execution on higher standards, so I'm glad you highlighted that. I guess just the one spot that still needs some work, international margin, how much volume do we really need to get that additional 200, 300 basis points? Or how much of this is still kind of inside of Lincoln control, excluding volume here?

Gabriel Bruno - *Lincoln Electric Holdings, Inc. - Executive VP, CFO & Treasurer*

Well, Chris, I would point to that we executed a 14% in this fourth quarter on the international side. So we're looking to more consistency. So for the full year 2023, we were in the range. So while we point to in the slide deck that we're on average, we're at just over 10%. With current volumes, we're within the range. So improvements in volumes as we continue to shape our business just gives us more confidence that we'll be on the higher end of the range.

And as we continue to navigate things through the longer 2030 strategy that we've spent some time thinking about, we just continue to see improvement in shaping our model. So we're very much comfortable that with existing volumes, we're within that range.

Christopher M. Dankert - *Loop Capital Markets LLC, Research Division - SVP*

Understood. I guess the concern I had here, too, as you cited some of the concerns around Europe and maybe just update us on the other international trends kind of year-to-date here been as India and the Middle East held up kind of with what we saw in the fourth quarter.

Gabriel Bruno - *Lincoln Electric Holdings, Inc. - Executive VP, CFO & Treasurer*

Yes. Chris, what we've seen is strength -- continued strength in India and Middle East and energy sectors there just continue to drive strength in the demand profile.

Operator

We'll take the next question from Nathan Jones from Stifel.

Nathan Hardie Jones - *Stifel, Nicolaus & Company, Incorporated, Research Division - Analyst*

I've got a follow-up on the EV charger stuff. I mean you said in response to Mig's question that working through the testing procedures in the first half, potentially could see some ramp-up in the second half of 2024. Did I also hear you say that you've included none of that ramp-up in the guidance in 2024?

Gabriel Bruno - *Lincoln Electric Holdings, Inc. - Executive VP, CFO & Treasurer*

Yes, that's correct.

Nathan Hardie Jones - *Stifel, Nicolaus & Company, Incorporated, Research Division - Analyst*

And I mean you guys have previously stated that you have \$600 million of capacity to sell those EV chargers. Is there any expectation of when you might be at that kind of level? Are we looking at like '25, '26, '27, any kind of expectation for when you think you can get that capacity filled?

Steven B. Hedlund - *Lincoln Electric Holdings, Inc. - President, CEO & Director*

It's really hard for us to forecast that for you, Nathan, in particular, because there are so many factors outside our control and so many factors outside even our prospective customers' control in terms of grid connections and civil construction and permitting and their own capital deployment plans. So it's really premature for us to be able to give you a ramp-up horizon really. I expect that we would know more after the end of the first half as we work our way through this process.

We're also fortunate that a lot of these prospective customers are enthusiastic about our value proposition and have asked for us to execute NDAs with them so they can share with us in more detail their capital spending plan. So I'm hoping we will have more visibility later in the year. I just don't have that visibility to share with you now.

Gabriel Bruno - *Lincoln Electric Holdings, Inc. - Executive VP, CFO & Treasurer*

So Nathan, I would add that we just -- we are confident, Nathan, that we're doing all the right things from our products, from a commercialization, from an operating capacity standpoint. So it really is about as Steve's point to, to continuing to nurture the progression of the product offering. And then by second half, be able to give a little bit more insight as to how that's progressing.

Nathan Hardie Jones - *Stifel, Nicolaus & Company, Incorporated, Research Division - Analyst*

And then maybe just one on capital allocation. Leverage is less than 1, strong free cash flow ahead. The automation portfolio has been a priority for capital deployment over the last few years. Do you feel like that portfolio is mostly complete and capital allocation priorities tend to somewhere else? Or is automation still really the outlet for M&A dollars?

Gabriel Bruno - *Lincoln Electric Holdings, Inc. - Executive VP, CFO & Treasurer*

Well, Nathan, as we've talked before, the market is very fragmented. We believe we have lots of opportunities to continue to drive inorganic growth through acquisitions, automation and outside of automation. So we'll continue to prioritize capital allocation through internal investment and acquisitions and then the balance to return cash to shareholders. But we think we have a lot of opportunities, a very robust pipeline of acquisitions that we're actively pursuing.

Steven B. Hedlund - *Lincoln Electric Holdings, Inc. - President, CEO & Director*

And Nathan, I would just add just for clarification, it's not necessarily been that automation has been the priority for M&A. It's just been the most fertile hunting ground for us in the last couple of years. We continue to be very active in the rest of our business and looking for M&A investment opportunities. And as Gabe mentioned, as we sit today, the pipeline looks fairly robust for us. So we're optimistic that we'll be able to deploy the capital effectively and productively, consistent with our capital allocation strategy and our disciplined approach to investment.

Operator

We'll now take a question from Walt Liptak, Seaport Research Partners.

Walter Scott Liptak - *Seaport Research Partners - MD & Senior Industrials Analyst*

Can you hear me now?

Gabriel Bruno - *Lincoln Electric Holdings, Inc. - Executive VP, CFO & Treasurer*

Yes, Walt.

Walter Scott Liptak - *Seaport Research Partners - MD & Senior Industrials Analyst*

So I wanted to ask about the guidance, the low- to mid-single digit. I wonder if you could run through the regions for us? We're seeing some -- hearing about weakness in Europe and some of the international markets. I wonder if you just help us understand what your assumptions are?

Gabriel Bruno - *Lincoln Electric Holdings, Inc. - Executive VP, CFO & Treasurer*

Well, Walt, typically, we don't give a lot of detail from the full year assumption, but I'll give you a couple of points of color. So we do expect to lead in the Americas side and we have 75% of our automation business portfolio within Americas. So you can see that leading. We do expect continued pressure on residential construction in retail on the Harris side. So we've considered that. And in the international side, just a little bit of pockets of caution in Europe, a continued strength when you think about Middle East and parts of Asia.

Walter Scott Liptak - *Seaport Research Partners - MD & Senior Industrials Analyst*

Okay. Great. And then Harris, the revenue was down in 2023. But there might be some signs of things are going to start to turn, just so I understand, you're expecting that the volume and price are going to be down in 2024.

Gabriel Bruno - *Lincoln Electric Holdings, Inc. - Executive VP, CFO & Treasurer*

We put the volume while being down -- coming into 2024. So that's a bit of caution just on the retail and residential construction. But you're right, as things potentially open up, particularly on HVAC type demand that should be a positive for the Harris segment.

Walter Scott Liptak - *Seaport Research Partners - MD & Senior Industrials Analyst*

Okay. Sounds great. And then I think you've talked a little bit about this or alluded to it, but how is the January and February looking in terms of the trends of orders, et cetera?

Gabriel Bruno - *Lincoln Electric Holdings, Inc. - Executive VP, CFO & Treasurer*

Well, Walt, as I've mentioned in my prepared remarks, we expect coming into the year, first quarter to be flat to slightly down. It's based on the mix of some of the points that we've highlighted.

Walter Scott Liptak - *Seaport Research Partners - MD & Senior Industrials Analyst*

Okay. And if I recall, last year in March, you guys had a strong March. Are we thinking that we're going to see sort of that trend again? We're maybe weaker January, February, then a pickup in March?

Gabriel Bruno - *Lincoln Electric Holdings, Inc. - Executive VP, CFO & Treasurer*

Well, that is typical as we go into the spring season to see the strength of the end of the first quarter. But we've built that all in into our considerations of how we're beginning the year.

Operator

We'll take the next question from Steve Barger, KeyBanc Capital Markets.

Robert Stephen Barger - *KeyBanc Capital Markets Inc., Research Division - MD & Equity Research Analyst*

My question is around longer-term customer (inaudible) for automation investment. I think in the past, we've talked about how that's a CapEx decision that slowed down in soft patches. But going forward, do you think that could be more resilient as some customers may be more proactive about investing for productivity through the cycle?

Steven B. Hedlund - *Lincoln Electric Holdings, Inc. - President, CEO & Director*

Yes, Steve, I would agree with that assessment. And I would base that really just looking at our view of our own operations, right? We continue to be challenged with labor wage inflation. We continue to be challenged with the need to make the hard jobs easier in our factories so we can reduce the demands on our employees. And when you look at the interest rate environment, yes, it's elevated from where it was 2 years ago, but it's not an obscenely high interest rate environment.

So a lot of the projects that we look at for our own factory and I'd say in parallel that our customers look for in their factories are still very high-return investments. It's really the ability to absorb those investments into your factory that becomes the rate limiting factor.

Robert Stephen Barger - *KeyBanc Capital Markets Inc., Research Division - MD & Equity Research Analyst*

Understood. And Steve, I know you're just settling into the role, but are you thinking about any changes to organizational incentives for the sales teams or any other initiatives that you want to pursue? Or do you like how things are organized now and it's running the way you like it?

Steven B. Hedlund - *Lincoln Electric Holdings, Inc. - President, CEO & Director*

Well, Steve, there's always room for improvement, right? We have a continuous improvement mindset. So we'll make tweaks to various elements of our organizational model as the business continues to grow and evolve. And in particular, as we look to capitalize more on our global scale and scope, particularly in things like R&D.

And as I alluded to in my comments, global procurement. But as we sit today, we've got very solid momentum. We've got many opportunities and catalysts for growth in front of us. We've got a strong and experienced team that can capitalize on that. So I really like the position we're in, and it's really just fine-tuning our approach to a few things to enable us to take the next step forward.

Operator

And next up, we'll go back to Robert Jamieson, UBS.

Robert Gregor Jamieson - *UBS Investment Bank, Research Division - Analyst*

So just incrementals are really solid. It was above the high end of the guidance you gave for full year '23. Just curious if you could give us or provide us what incrementals would have been ex-Fori and that would just be kind of helpful to kind of gauge how that looks versus what's baked in your guidance for next year?

Gabriel Bruno - *Lincoln Electric Holdings, Inc. - Executive VP, CFO & Treasurer*

Yes. So Robert, you're right. I mean we did progress strongly on incrementals in this fourth quarter with and without Fori, I think we'd be mid-30s without Fori. But Fori, we just have executed very well. And the assumptions for 2024 being in that low to mid-20s, that's within our traditional range, and that is with the Fori business. We do expect to continue to drive improvements in our operating model for automation business.

And I'll just remind you that our target is to be at the corporate average for automation. So we ended 2023 in the low teens in the EBIT profile of automation. So when you look at it holistically, 300 basis points of potential there. So we feel really good about our posture coming into 2024 with a continued focus on developing our business model.

Robert Gregor Jamieson - UBS Investment Bank, Research Division - Analyst

That's helpful. And then I guess one last one. I mean, automation, the margins there continued to expand, which is nice to see. I guess can you just talk about some of the drivers that are underlying that? I know a lot of it's probably LBS and some of the initiatives there on efficiency and productivity, but just curious what else you're working on and where you're seeing other benefits?

Gabriel Bruno - Lincoln Electric Holdings, Inc. - Executive VP, CFO & Treasurer

Yes. So I would point to our Lincoln business system in automation. And it is about that discipline on execution. When we think about Fori, if you remember, we were into low double-digit type of an EBIT profile, and we have a clear line of sight in developing the model that we acquired into our overall automation strategy. So it's about the discipline in managing projects and managing the cost and execution, the labor efficiency, the capacities around the group. So that's the driver. So we will continue to develop capabilities around our Lincoln business system that gives us confidence that we're going to drive to our long-term targets in our automation.

Operator

We'll now take a follow-up from Mig Dobre, Baird.

Mircea Dobre - Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst

All right. I figured since this is your first call, Steve, I can't let you get off the hook earlier than normal.

Steven B. Hedlund - Lincoln Electric Holdings, Inc. - President, CEO & Director

I thought you want to follow up. I'm surprised you want to use it up so early in our relationship, but that's fine.

Mircea Dobre - Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst

All right. I wanted to ask a question about Harris. So you had volume compression in '23 and can you talk about consumer being -- the consumer portion being weak and HVAC being an issue as well. But the margins were actually pretty good, at least relative to my expectation and arguably speaking relative to history, too. So how should we think about this segment going forward? I mean if we're getting back to volume growth, what's the margin potential here? Can we look somewhere above this high 14s, 15s, can this be a high teens margin business?

Gabriel Bruno - Lincoln Electric Holdings, Inc. - Executive VP, CFO & Treasurer

Mig, we're very pleased with how our Harris team has developed improvements within our model. And you're right, even despite the softness in volumes, we have held up towards the low end of the range, but you've seen us pushing the high end throughout 2023. So our team is focused on exceeding those ranges. And we're bullish that as we continue to shape our model that, yes, we'll be moving that range in the long-term strategic discussions we're having.

Mircea Dobre - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

I mean, have you had some structural cost takeout? I mean what happened here to essentially offset the volume compression? That's what I was really kind of trying to get at.

Steven B. Hedlund - *Lincoln Electric Holdings, Inc. - President, CEO & Director*

Yes Mig, the team in Harris has made a number of operational improvements in the business to make us more efficient. I would also point to you that there's different segments within the Harris business and the retail and consumable HVAC portions of the business that were down, tend to be the lower margin drag in that business. So the part that was performing gas equipment tends to be higher margin. So there's some favorable mix in there as well.

Operator

And we'll take our final question today from Angel Castillo, Morgan Stanley.

Zeyu Song - *Morgan Stanley, Research Division - Research Associate*

This is Grace Song on for Angel. So what drove the sequential increase in acquisition contribution for the international volume business? I think you mentioned those for international, but could you provide more color here? And was it just a onetime thing? And if so, will margins equally come off from the 4Q levels for 2024?

Gabriel Bruno - *Lincoln Electric Holdings, Inc. - Executive VP, CFO & Treasurer*

Grace, I want to make sure I understood the question. It seemed to focus on international acquisitions performance. That is driven by our Fori acquisition, as you know, and just very strong execution on projects within the backlog as we ended the year. So those are not onetime types of projects, but they're progressively the execution of outstanding customer projects. So that's just an ongoing development of our international business.

When you think about the acquisitions, and we expect that Fori will continue to perform well. We did have, as I mentioned in my comments, the 1-month lag we caught up in the fourth quarter, and as I mentioned, \$15 million of 1-month lag that we caught up. And I would estimate about 50-50 between international and in the Americas business, but that's a strong performance driven by level of business activity.

Operator

And at this time, there are no further questions. I would like to turn the call back to Gabe Bruno for closing remarks.

Gabriel Bruno - *Lincoln Electric Holdings, Inc. - Executive VP, CFO & Treasurer*

I'd like to thank everyone for joining us on the call today and for your continued interest in Lincoln Electric. We look forward to discussing the progression of our strategic initiatives in the future. Thank you very much.

Operator

Again, that does conclude today's conference. Thank you all for your participation. You may now disconnect.

DISCLAIMER

Refinitiv reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES REFINITIV OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2024, Refinitiv. All Rights Reserved.