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LECO - Q1 2020 Lincoln Electric Holdings Inc Earnings Call

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Co. reported 1Q20 reported operating income of \$81.1m and diluted EPS of \$0.91.



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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Lincoln Electric Holdings, Inc. First Quarter 2020 Earnings Conference Call. (Operator Instructions) Please be advised that today's conference is being recorded. (Operator Instructions)

I would now like to hand over the conference to your speaker today, Amanda Butler, Vice President of Investor Relations. Thank you, and please go ahead, ma'am.

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

Thank you, Chris, and good morning, everyone. Welcome to Lincoln Electric's 2020 First Quarter Conference Call. We released our financial results earlier today, and you can find our release as an attachment to this call's slide presentation as well as on the Lincoln Electric website at lincolnelectric.com in the Investor Relations section.

Joining me on the call today is Chris Mapes, Lincoln's Chairman, President and Chief Executive Officer; Vince Petrella, Executive Vice President; and Gabe Bruno, our Chief Financial Officer. Chris will begin the discussion with an overview of our first quarter results, and together with Vince, will discuss Lincoln's management of COVID-19. Gabe will cover the first quarter performance in more detail. And following our prepared remarks, we are happy to take your questions.

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



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And with that, I'll turn the call over to Chris Mapes. Chris?

Christopher L. Mapes - *Lincoln Electric Holdings, Inc. - Chairman, President & CEO*

Thank you, Amanda. Good morning, everyone. Before we get started, I'd like to thank Vince for his outstanding contributions as CFO at Lincoln Electric. Vince has stepped down as our CFO, but is continuing to work with us to ensure a smooth transition.

I would like to formally introduce Gabe Bruno, our new CFO, who has been with Lincoln for 25 years and brings a wealth of knowledge and experience to the position. Vince and Gabe will be leading the call with me today.

Looking at the first quarter, we continued to operate through the quarter as an essential infrastructure sector business across substantially all of our facilities and achieved solid margin and return performance in an increasingly challenging environment.

Despite first quarter sales declining 7.5%, our adjusted operating income margin declined only 40 basis points to 12.6% on favorable mix, price/cost and benefits of our cost reduction actions. This resulted in an 18.2% decremental margin performance in the quarter.

Adjusted earnings per share decreased 14.5% to \$1 per share. Cash flow generation reflected seasonality, but free cash flow improved versus the prior year. Returns remained strong with ROIC at 19.7%.

We also returned \$140 million to shareholders through a combination of our 4% higher dividend payout rate and \$110 million in share repurchases in the quarter. As we ended the quarter, we benefit from a strong balance sheet and ample liquidity as we ready the business for more challenging conditions ahead.

Moving to Slide 4. Our employees have shown great resilience and perseverance maintaining operations during this time. Across the organization, our priority has been keeping our teams safe while we serve customers. We have aggressively implemented new procedures that include the CDC and World Health Organization recommended best practice hygiene and sanitation protocols, entry and exit screenings, social distancing, and have implemented flexible and remote working arrangements, in addition to many other actions. We continue to monitor guidance from federal and local authorities. We're actively adopting new measures as recommended.

Secondarily, the focus of first quarter operations was to maintain a steady supply of product, which we achieved. Our teams established local and regional operational contingency measures. We expedited select raw materials as needed and built excess inventory ahead of potential supply chain disruptions or mandated closures.

During the quarter, our 5 Chinese facilities were closed for approximately 1 month due to government-mandated shutdowns, but orders resumed to normalized levels by early March. The balance of our global business did not experience any material impact from COVID-19 until mid-March, when many of our global locations instituted aggressive new procedures to protect employee safety while continuing to serve customers.

As demand compressed significantly during the last 2 to 3 weeks of March, we're expecting more challenging operating conditions in the second quarter. An increase in customer facility closures and the continued risk of possible supply chain disruptions are expected to result in lower operating activity and higher inefficiencies in the business.

Moving to Slide 5. Looking at organic sales trends in the first quarter. Our 2 welding segments contracted, while Harris sales increased on higher retail channel and HVAC activity. All regions saw a further deceleration in demand as the COVID-19 impact late in the quarter compressed an already challenged industrial sector, which prompted an expansion in our cost reduction actions.

Looking at products. Both consumables and automation organic sales declined at a low double-digit percent rate, and equipment systems declined by a mid- single-digit percent rate. Generally, most end market sectors continued to compress at a double-digit percent rate. Since mid-March, we've seen a significant deceleration in demand. April month-to-date sales orders have trended in the low 40% range, primarily due to customer closures.



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Our order patterns appear to have troughed over the last 3 weeks. And while there is limited visibility and uncertainty from customers and government discussions around partial reopenings, the data suggests that the second quarter should be the trough in demand.

While each down cycle is unique and the shape of the recovery is unknown, we've outlined some of the recent prior peak-to-trough historical performance across our main end markets to provide perspective. Generally, declines have been in the mid-30% range and have compressed over 12 to 18 months with an equivalent recovery time frame.

And now I will turn the call over to Vince to outline the actions we have taken to mitigate the impact of lower demand in our business.

Vincent K. Petrella - *Lincoln Electric Holdings, Inc. - EVP*

Thank you, Chris. Turning to Slide 6. We expanded our cost reduction actions in the quarter and are benefiting from prior actions that eliminated travel, discretionary spending and froze new hiring and wages. In the first quarter, we achieved approximately \$7 million in benefits, primarily from temporary actions.

In April, we significantly reduced hours to 32 hours per week in our main U.S. operations, eliminated overtime, and we have deferred all wage increases. In the quarter, we commenced the rationalization and closure of 3 manufacturing facilities and further reduced headcount to align with demand.

Our actions are now expected to realize \$40 million to \$45 million in annualized cost savings in 2020, of which 45% is expected to reflect permanent cost reductions. We expect to exit 2020 generating between \$6 million and \$7 million in permanent cost savings per quarter. We incurred \$6.5 million in pretax rationalization charges in the first quarter, and anticipate incurring an additional \$10 million to \$15 million in rationalization charges through the balance of the year.

We are prepared for further cost reductions and will determine the appropriate timing of implementation as the second quarter progresses. The lack of visibility on timing and the shape of the recovery has led us to carefully phase-in cost reduction actions over time.

Turning to Slide 7. We are confident in our ability to navigate through this challenging period. Disciplined, conservative management of our balance sheet provides us with an investment-grade profile at 1.85x gross debt-to-EBITDA, which positions us well below our 3.5x gross debt-to-EBITDA debt covenants.

We have ample room to endure a severe contraction in demand and are confident in our current liquidity position. We benefit from ample liquidity of \$477 million in cash and available credit lines and expect to generate cash flows from reductions in working capital.

As in past cycles, cash flow generation remains strong, and we expect greater than 100% cash conversion. In addition, our long-term debt maturity -- our first long-term debt maturity is in August 2025.

Moving to Slide 8. We have made temporary adjustments to our capital allocation plan. We are now prioritizing capital investment spending to cost reductions, new products and growth initiatives. This reduces our 2020 CapEx plan by approximately 15%, which is now estimated to be in the \$55 million to \$65 million range.

We do continue to evaluate M&A activity opportunistically, focused primarily on tuck-in assets. We're also maintaining our dividend program, but we have temporarily suspended share repurchases after spending \$110 million in buybacks in the first quarter. We expect to resume repurchases when we start to see business conditions improve.

Before I pass the call to Gabe to cover the first quarter results in some more detail, I would like to extend my thanks to our investors and analysts who I've worked with over the years. It has been a pleasure and an honor to work with all of you. I would also like to congratulate Gabe on his new role, and I am confident that he will build upon the accomplishments Lincoln has achieved and will successfully help navigate the organization through this period, while staying focused on our long-term strategic goals. Gabe?



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Gabriel Bruno - Lincoln Electric Holdings, Inc. - Executive VP, CFO & Principal Accounting Officer

Thank you, Vince, and hello, everyone. Moving to Slide 9. Our consolidated first quarter sales decreased 7.5%, led by an 8.6% decline in volumes from lower demand in our welding segments. Our first quarter gross profit margin was generally steady with prior year due to positive price/cost, favorable mix and the benefits of cost reduction actions.

Our SG&A expense declined 6.7% in dollar terms, driven by lower employee costs and discretionary spending. The SG&A ratio increased 20 basis points to 21.3% of sales.

Reported operating income decreased 14.2% to \$81.1 million or 11.5% of sales. Operating income results included approximately \$7.3 million in special item charges related to rationalization and asset impairments, primarily from severance related to our International Welding cost reduction activities. Excluding these special items, adjusted operating income decreased 10.5% to \$88.4 million or 12.6% of sales, a 40 basis point decline versus the prior year.

Acquisitions had a 40 basis point dilutive impact to our adjusted operating income margin in the quarter. Solid margin performance reflected favorable mix, lower costs and the benefits of cost reduction actions.

Our first quarter reported and adjusted effective tax rate was 26.8% compared with 23.1% in the prior year period or 22.9% on an adjusted basis. The increase in the first quarter's effective tax rate was primarily due to discrete items and mix of earnings. We expect the balance of our average 2020 effective tax rate to be in the mid-20% range, considering the future mix of earnings and anticipated extent of discrete tax items.

First quarter diluted earnings per share decreased 18.8% to \$0.91 compared with \$1.12 in the prior year. On an adjusted basis, diluted earnings per share decreased 14.5% to \$1, benefiting \$0.05 from share repurchases.

Now moving to the segments on Slide 10. Americas Welding segment's first quarter adjusted EBIT dollars declined 13.5% to \$70.7 million. The adjusted EBIT margin declined 90 basis points to 15.9% as positive price/cost, favorable mix, lower costs and the benefits from cost reduction actions helped mitigate lower volumes and acquisitions. Excluding acquisitions, the EBIT margin would have declined 20 basis points.

Looking at the top line, Americas Welding sales declined 8.6%, primarily due to 8.2% lower volume. Both equipment and consumable organic sales declined at a high single-digit percent rate and automation declined at a mid-teens percent rate.

Moving to Slide 11. The International Welding segment's adjusted EBIT decreased 50.4% to \$6.6 million, and the adjusted EBIT margin declined 270 basis points to 3.3%. Volume declines in Europe and Asia Pacific offset benefits of cost reduction activities and lower discretionary spending.

Moving to the Harris Products Group. First quarter adjusted EBIT increased 18.8% to \$12.5 million. The adjusted EBIT margin increased 200 basis points to 14.3% on higher volumes from the retail channel, favorable mix and from continued improvement in operational excellence.

With that, I would like to turn the call over to Chris before we take questions.

Christopher L. Mapes - Lincoln Electric Holdings, Inc. - Chairman, President & CEO

Thank you, Gabe. We're managing the business with tremendous flexibility and agility, given the need to ensure the safety of our employees, customers and communities, while continuing to operate and serve customers who have mission-critical applications. We've also acted swiftly to align our business to lower demand and are prepared to implement further measures as we monitor the progress of the second quarter.

Our product development and commercial initiatives have continued to advance as well in the quarter. Our Harris Products Group team designed, developed, manufactured and delivered a customized gas distribution system in 5 days that delivers oxygen to individual patient beds at a New

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York City field hospital. The Harris team continues to provide gas, oxygen regulators and systems to help health care and government agencies respond to the COVID-19 threat.

In a new era of social distancing and travel restrictions, our North American commercial team rapidly deployed a new digital platform to engage our customers in live product demonstrations and educational webinars. Year-to-date, we've engaged over 5,000 customers worldwide online and will be using digital solutions to support the launch of 30 new products this year.

We are confident in our ability to navigate this unprecedented challenge with the strength of our balance sheet, strong cash flow generation and the continued commitment and dedication of our global teams. Thank you, and I will now pass the call back to the operator for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question comes from the line of Rob Wertheimer with Melius Research.

Robert Cameron Wertheimer - *Melius Research LLC - Founding Partner, Director of Research & Research Analyst of Global Machinery and Cannabis*

Really just trying to -- and I know this gets a little bit granular, but you gave some good commentary on orders. I'm trying to figure out whether this is the bottom and how that compares to kind of your worst months or worst weeks or whatever in '09? Can you sort of compare and contrast the 2 time periods and depth of order downturn? And then really how you're trying to manage through it? It seems as though you're doing a nice sort of look at staged responses, depending on how things play out. But are you anticipating as deep and as long a downturn?

Christopher L. Mapes - *Lincoln Electric Holdings, Inc. - Chairman, President & CEO*

Yes, Rob, this is Chris. Look, I appreciate the question. As you can imagine, it is -- it's a challenging window to try to evaluate the data and be able to understand how we think we may trend here over the next several weeks. But as I compare it to '08 and '09, the -- certainly, the change that we saw in the dynamic in the business was the swiftness of the downturn. So when the business globally started to turn down, and we saw that in the middle part of March, it turned down pretty materially. And then as we shared with you today, down in the low 40% from a global welding perspective, where we sit today. We've been tracking this data pretty diligently, I'd say, for the last 60, 90 days. We were seeing the impacts of COVID-19 very early with our China operations. Our 5-day, 10-day and 15-day trend appears to show a bottoming at this level. I'd like to see some more of that data to get more confidence in it. That's why I'd like to see this data over the next 2 to 3 weeks, maybe trend that data in towards the middle part of May to see if we've got some confidence that we have bottomed and beginning to see an upturn from the data. Certainly, this time versus '08 and '09, the drop was more swift, more material. And that certainly is a change from that prior pattern. But I've got a lot of confidence in our ability to navigate through the cycle. We've got a great balance sheet. Our teams have done a great job in a very challenging environment. Certainly, one of the differences for the leadership team this time versus '08 and '09 is, quite frankly, managing the importance of employee health. And that creates a different dynamic when you're trying to operate as an essential business around the world. Certainly, as we continue to watch the data here over the next few weeks, we'll keep that front of mind. We've got to make sure we're continuing to invest in all processes to ensure that employee safety. We'll continue to watch the data here over the next 3 to 4 weeks and hopefully see some improvements in that data as we're migrating through Q2.

Operator

And our next question comes from the line of Saree Boroditsky with Jefferies.



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

Sorry, can you hear me?

Christopher L. Mapes - *Lincoln Electric Holdings, Inc. - Chairman, President & CEO*

Yes.

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

Congratulations to Vincent Gabe on your new role.

Gabriel Bruno - *Lincoln Electric Holdings, Inc. - Executive VP, CFO & Principal Accounting Officer*

Thank you.

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

You mentioned order levels reaching normalized levels in China in early March. Do you think you can apply what you saw in China to other regions? And if so, when would you expect order levels to normalize?

Christopher L. Mapes - *Lincoln Electric Holdings, Inc. - Chairman, President & CEO*

Well, it's difficult for us to imply that the order dynamics that we saw in China are going to replicate across our larger businesses in Europe and United States. Certainly, in China, within 30 to 45 days, we saw those order numbers move back to a more normalized level, more normalized level being plus or minus 5% versus prior year. And certainly happy that we have seen that business provide that type of recovery.

If you were to imply that across the rest of the business, that would say we should probably have over the next 30 to 45 days, recovery back in our European businesses, our EMEA business as well as our U.S. business. But at this point, it's just too challenging for us to extrapolate that across our portfolio at Lincoln Electric, and that's why we're going to continue to evaluate the data, determine whether we start to see that improvement or if we need to take further actions to mitigate a longer downturn in demand in those markets.

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

I appreciate that. And then just within the 40% order decline in April, can you provide some color on what you saw by end market or region? And are you seeing any impact from destocking?

Christopher L. Mapes - *Lincoln Electric Holdings, Inc. - Chairman, President & CEO*

Well, I can't say that I've seen or we have enough context to know about any destocking levels. I would tell you that as you would expect, with the virus starting in Asia Pac, where we start to see that China business return to normalized levels, the impact was earlier in Europe, and we actually now have seen the Europe numbers be slightly more favorable than the average, and we'd see the Americas number slightly unfavorable to the average, but we certainly believe that's just more of the trending of the impact from the pandemic within those businesses.

And then from an end market perspective, obviously, when you've seen these demand numbers drop that swiftly, and with what we're seeing in the marketplace, not surprising that automotive and transportation and heavy industries have been significantly hit by the impact.

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Operator

And our next question comes from the line of Joe O'Dea with Vertical Research.

Joseph John O'Dea - *Vertical Research Partners, LLC - Partner*

Congrats and best wishes to you, Vince, and congratulations on your new role, Gabe.

Gabriel Bruno - *Lincoln Electric Holdings, Inc. - Executive VP, CFO & Principal Accounting Officer*

Thank you.

Joseph John O'Dea - *Vertical Research Partners, LLC - Partner*

The first question just related to margins. Of the \$40 million to \$45 million in 2020 cost savings, can you talk about how that flows through from a cadence perspective and anything you're willing to say in terms of expectations around decremental margins in the second quarter?

Gabriel Bruno - *Lincoln Electric Holdings, Inc. - Executive VP, CFO & Principal Accounting Officer*

So Joe, this is Gabe. As we've disclosed, 45% of their overall cost savings we've identified is permanent. So expect that -- more of an acceleration of temporary savings as we progress into the second quarter, and then the trajectory into the balance of the year. And that's going to be driven by our alignment to demand. So expect more, as Vince had identified \$7 million in the first quarter, expect that kind of trajectory into the second.

When you think about decrementals and assuming our current level of volumes, which Chris has mentioned, we've disclosed in the low 40s, we would expect decrementals in the 35% to 45% range. You saw the first quarter was pretty healthy at 18.2%. And we've been pretty aggressive in identifying and progressing with cost savings, but that's the framework that we're working towards.

Joseph John O'Dea - *Vertical Research Partners, LLC - Partner*

That's really helpful. And any thoughts then in terms of -- I mean, I know it's really tough to call the demand side of things, but based on what you're doing on the cost front, we go from 18% then into the 35% to 45% range and then how that could sort of look in the back half as more of the cost actions start to materialize?

Gabriel Bruno - *Lincoln Electric Holdings, Inc. - Executive VP, CFO & Principal Accounting Officer*

I think in general, it's so difficult, Joe, to project out with the volume assumptions we see. In that framework, we just believe that's a reasonable framework for us to monitor.

Joseph John O'Dea - *Vertical Research Partners, LLC - Partner*

Sure. No, I appreciate that. You gave some helpful context in terms of declines if we go back to the '08, '09 period and overall down 30%. When we look at sort of the 12 months post that trough, revenue was up 20%. And can you talk about kind of the trends that you have seen? And maybe what you would expect to see out of recovery with respect to equipment demand versus consumables demand? I think presumably consumables leading out, but generally, how long then equipment demands could lag that with maybe some CapEx sensitivity in the early days of a recovery?



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Christopher L. Mapes - *Lincoln Electric Holdings, Inc. - Chairman, President & CEO*

Well, I think part of that will depend significantly about the shape of that recovery, which at this point in time is very difficult for us to estimate. We've been very committed to continuing to invest in our new product development at this point in the cycle and will continue to be.

I think if you go back and look at '08 and '09, one of the real success stories for Lincoln Electric was our ability to continue to invest in new products. And then when we were coming out of that cycle, bring those new products to the marketplace and even extend our positioning in the marketplace from a solutions perspective. But the swiftness down of this particular downturn could lead someone to believe that if it migrates out and whether you would say that -- forget about the shape of the recovery that when you are moving from that recovery, certainly, some of the support that's been provided out in the marketplace and certainly a continued low cost of capital, we should be able to see some of those investments in solutions, especially those investments that people are looking for productivity. So I'm still feeling very good about the fact when we do migrate into the recovery phase that the equipment portion of that should be able to migrate in more quickly than maybe what we've seen previously. I'm probably also feeling that way because of our positioning in the marketplace. We have 2 or 3 products that we brought into the marketplace in the last 6 to 9 months that are doing very, very well. I expect those to continue to do well. And again, as we mentioned in my prepared remarks, we have several new products that we intend to bring to the marketplace in 2020. And most of those new products are centered around the equipment portfolio.

Joseph John O'Dea - *Vertical Research Partners, LLC - Partner*

Got it. And then I just want to ask one more on oil and gas and down 33%, 14% to 16%, 15% of your revenue exposure. Can you just remind us with the breakout of kind of upstream, midstream, downstream, but then also how you think about this from a sort of structural perspective and risks to, in particular, upstream based on the regular volatility that we've seen in that market?

Christopher L. Mapes - *Lincoln Electric Holdings, Inc. - Chairman, President & CEO*

Well, when we think about our mix within oil and gas, we've got about 16% or 18% that's upstream; we've 55%, 60% that's around midstream and our downstream assets are somewhere around 20% to 25%. That's really the way we think about the mix within the portfolio. Obviously, the very recent shock within the global oil industry is just now permeating around the world. Certainly, they're experiencing some dynamics within the marketplace that they've never seen. We have seen some large projects that have already been postponed. We've seen some of that impact across our portfolio. But I would still say very early for us to understand what the longer-term dynamics may be in oil and gas. Other than generally, when they've had cycles, we've seen those cycles tend to be elongated versus what we would say a normalized cycle would be. So what I mean by that is we kind of think about those cycles being 12 to 18 months, when I tend to think about oil and gas, I think about them being slightly longer as it takes to return to more of a recovery. But very early in the oil price shock and what's going on in that marketplace for us to get more comfort about what the outlook appears to be for that segment.

Operator

And our next question comes from the line of Nathan Jones with Stifel.

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

I'd just like to start with a question on the potential for further cost reduction actions. I think you said as 2Q '20 progresses. Can you talk about maybe what the decision points are along the way there, what you would need to see to enact further cost cutting actions? And what kind of levers there are to pull there?



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Christopher L. Mapes - *Lincoln Electric Holdings, Inc. - Chairman, President & CEO*

Well, I would tell you that what we intend to do is continue to migrate this demand profile. I mentioned earlier, the 5, 10, 15-day trends that we're seeing within the global welding portion of the marketplace. We need to begin to see some improvements within that data as we're exiting May and some material improvements in that data as we migrate into the early portions of June. And that's the data that I'll be looking for in determining whether we've got to move forward with further actions within the business.

We have evaluated a couple of structural opportunities that we might look at accelerating as unfortunately, it would probably require us to take more employee cost actions across the business. And that would probably be the 2 levers that we would be reviewing at implementing. And as you can imagine, those would have very little impact in Q2 themselves, most of that impact would be improvements we'd be trying to drive in the business in Q3 and Q4 of this year.

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

Okay. And then a couple of questions around cash. Can you talk about the decision to repurchase shares in 1Q '20? I know you said you're suspending them going forward. And then just any other things that you're doing here to manage cash? I'm thinking particularly about receivables, collection, whether you've seen any extension on that side, whether you foresee any issues with your customers actually being able to pay their bills here at the moment?

Vincent K. Petrella - *Lincoln Electric Holdings, Inc. - EVP*

Yes, Nathan, this is Vince. So as far as our decision to purchase shares in the first quarter, we found the share price to be very attractive and very compelling from a repurchase perspective and decided to suspend that program temporarily until we have better visibility in terms of the recovery that we expect to occur this year from this COVID-19-imposed compression in the industrial space.

From a cash management perspective, we're very closely monitoring our working capital components, very carefully reviewing our receivable and DSO on a geographic and end market and customer basis. We're managing our payables carefully, and these are the times that we're reviewing our cash flows and cash management activities on a very close basis.

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

Have you seen any issues? Or are any stretching out of DSOs or anything like that so far?

Gabriel Bruno - *Lincoln Electric Holdings, Inc. - Executive VP, CFO & Principal Accounting Officer*

No. From a macro perspective, our DSOs are holding up very well. There are anecdotal and specific cases of issues, but nothing that has risen to the level of affecting the group in a material way.

Operator

And our next question comes from the line of Mig Dobre with Baird.

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

Just want to go back to your April comments. I want to make sure that I understand this properly. Americas maybe declining a little bit more than that 40% average. International, I think you mentioned a little bit less. Any color on how Harris is progressing in April?



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Christopher L. Mapes - *Lincoln Electric Holdings, Inc. - Chairman, President & CEO*

Mig, Harris has held up maybe just slightly a little bit better than the average, maybe a little bit better than our International business. Not surprising when you think about the segments that it is participating with. Obviously, it's got an element within that business, which is welding, but it's also got an HVAC component associated with that as well as a small component in medical applications, our oxygen regulators and some of the technologies that we've developed around that piece. So that portion of the business certainly has held up a little bit better, but we are seeing that downturn in demand also in the Harris business at this point.

Gabriel Bruno - *Lincoln Electric Holdings, Inc. - Executive VP, CFO & Principal Accounting Officer*

And Mig, I would just add that we're seeing the same kind of trending from a relative perspective. So Harris was holding up better than the welding businesses in the first quarter and into the latter half of March, but we're certainly seeing a step down year-over-year in Harris, but not quite to the levels that we've pointed out for the Welding segment.

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

Understood. And then you give us perspective on the decremental margins here, but I'm wondering if there is any variation from that average at segment level that you think is worth calling out?

Christopher L. Mapes - *Lincoln Electric Holdings, Inc. - Chairman, President & CEO*

No, I don't think anything that's really material, Mig. I mean certainly not at this point in the early part of April. I feel pretty comfortable with where we've positioned the business. I like the fact that I recognize that we've got further actions that we can take if we don't see improvements within the structure of the business or don't see the rate of improvements that we want to see in the structure of the business. Again, I think that will have very little impact as it relates to the decremental margins in Q2. But I do like where we've positioned the business, our ability to manage through the cycle and certainly believe that our -- certainly, our performance in Q1 should just amplify that confidence of our ability to manage through the cycle.

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

I see. Then lastly for me. Maybe a little more color on the automation business. I guess, looking at the first quarter, we're still seeing some pretty meaningful declines here. I'm wondering how that progressed into April? And I'm also sort of wondering what you're doing with this business in terms of adjusting the cost structure because, obviously, the decrements in Q1 in your Americas segment look pretty good. So I'm wondering how automation played into that and how you're thinking about this business going forward?

Vincent K. Petrella - *Lincoln Electric Holdings, Inc. - EVP*

I can start by telling you that the year-over-year performance from a top line perspective in automation was a double-digit year-over-year decline. So a little compression at a little higher level than the overall welding business, and I'll kick it over to maybe Chris for a comment on the cost reduction activities around people.

Christopher L. Mapes - *Lincoln Electric Holdings, Inc. - Chairman, President & CEO*

Yes. One of the -- I guess, you could say, one of the benefits associated with at least this point in the cycle, we'd had some challenges within that business, certainly, as we were exiting 2019 and already had taken quite a few actions to mitigate some of our cost structures in that area. So we saw some of the benefits associated with that in Q1.



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The other thing I would share with you, Mig, is that because that order book tends to have a longer cycle associated with it than our core welding products, I wouldn't tell you that when I look at their order book, as a percentage basis, it's down anywhere near the level that we're seeing in the core business. Now the concern is, if capital investments become more materially impacted, they may be a lagger as it relates to what we're seeing from an order perspective, and it could be more challenged out there in the May-June time frame, and we may need to look at taking some other actions within that business. But that business performed relatively close to expected. The orders held up more favorable than the core business. And we'll continue to see and monitor our automation activity as we're moving through Q2 and into Q3.

Although I will tell you, I still have great confidence in our investments in automation and the continued expectation that we will continue to see people migrate more and more towards automated solutions as it relates to driving productivity and quality improvements in their businesses across the world and here in North America.

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

But just to clarify, in terms of your cost savings actions, what you've done already and what you're contemplating going forward, is the automation business more or less impacted than the segment average?

Vincent K. Petrella - *Lincoln Electric Holdings, Inc. - EVP*

Right now, early on in this decline, automation has been more impacted than some of our other welding businesses.

Operator

And our next question comes from the line of Chris Dankert with Longbow Research.

Christopher M. Dankert - *Longbow Research LLC - Research Analyst*

Just echo the hearty congrats to Vince, and welcome Gabe, certainly a dynamic task (inaudible) stepping into the role here. Obviously, you guys typically don't give a lot of granular detail by country, but just could we get a quick update on specifically China growth rate in the quarter and kind of what the EBIT loss might have been there in 1Q?

Gabriel Bruno - *Lincoln Electric Holdings, Inc. - Executive VP, CFO & Principal Accounting Officer*

You're breaking up. I don't know whether it's -- might be your phone because you're the first caller that we've had difficulty understanding. But I think I might have the gist of your question is what's happened in China on a year-over-year basis in top line and operating performance. And we would tell you that the year-over-year performance has stabilized. There was a rebound in March in that business as all of our manufacturing units became online again from being running in an erratic way during -- from the end of January into early March. So we would tell you that from a year-over-year perspective, relatively stable in both revenue and earnings from that part of our business.

Christopher M. Dankert - *Longbow Research LLC - Research Analyst*

Got it. Got it. And then just -- do you still expect a fairly even split in the cost saving between Americas and International with these new cost-out actions?

Gabriel Bruno - *Lincoln Electric Holdings, Inc. - Executive VP, CFO & Principal Accounting Officer*

Moved away. We can't make out -- I don't think anybody in the room understood that question.



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Christopher M. Dankert - Longbow Research LLC - Research Analyst

Previously, you had...

Christopher L. Mapes - Lincoln Electric Holdings, Inc. - Chairman, President & CEO

Yes, could you just give us the question again?

Christopher M. Dankert - Longbow Research LLC - Research Analyst

Sure. Sure.

Gabriel Bruno - Lincoln Electric Holdings, Inc. - Executive VP, CFO & Principal Accounting Officer

Why don't you --, Chris, could you just e-mail the question to Amanda, and then we'll move on and come back to your question?

Christopher M. Dankert - Longbow Research LLC - Research Analyst

Sounds good.

Gabriel Bruno - Lincoln Electric Holdings, Inc. - Executive VP, CFO & Principal Accounting Officer

If you have got any other questions, just e-mail and we'll respond before the end of this call.

Christopher M. Dankert - Longbow Research LLC - Research Analyst

Will do.

Operator

So our next question comes from the line of Walter Liptak with Seaport.

Walter Scott Liptak - Seaport Global Securities LLC, Research Division - MD & Senior Industrials Analyst

I'll say congratulations to Vince too.

Vincent K. Petrella - Lincoln Electric Holdings, Inc. - EVP

Thank you.

Walter Scott Liptak - Seaport Global Securities LLC, Research Division - MD & Senior Industrials Analyst

I wondered if you could talk a little bit about the additives business? And that -- I thought it was going to be a big growth business for you. I wonder if you saw growth in the quarter? Or if it's declining, how much it's declining by?



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Christopher L. Mapes - *Lincoln Electric Holdings, Inc. - Chairman, President & CEO*

Walter, we did not necessarily see the growth in the additive business in the quarter. I would tell you that we're continuing to invest in that area of the business. It's a long-term catalyst for us, but I would go as far as to tell you that even if we're successful in driving what we think we would drive from the business this year, it probably will not be material enough for us to call out from a revenue perspective. We continue to invest in the technologies. We've had a couple of articles that have been recently written and published about the technology that we're implementing here from a wire-based additive perspective. So it's progressing. But as you would expect, one of the challenges associated with the pandemic is, it's very important for us to have interaction with those engineers and customers and actually have them on our sites to be able to look at the parts and manufacture the parts. And all of that activity has been paused until we get beyond the stay-in-place orders that we have here in Ohio.

So we had stopped allowing visitors into our headquarters here in very early March. We're expecting to slowly start opening that up as we are exiting Q2, but I don't expect that we'll be able to have some of that activity here until the latter part of the second quarter. And that impacts not only our additive business, but other individuals that might be coming here for training or to talk to us about some of the solution activity we're driving. That's why in my prepared remarks, I'm so excited about our team's ability to be more agile in bringing those solutions to the customers through Webex and other types of technologies, those over 5,000 customer touch points that we had in Q1. We'll have to continue with that activity in Q2 until we can allow visitors back into some of our technical centers around the world as we're exiting Q2.

Walter Scott Liptak - *Seaport Global Securities LLC, Research Division - MD & Senior Industrials Analyst*

Okay. Got it. And if I could ask just kind of a follow-on. Just thinking about your own supply chain. It sounds like you didn't have it. You built some inventory that you didn't have any issues? And I wonder where you think you might have critical parts supply issues? And if you're doing anything to kind of shorten your supply chain?

Christopher L. Mapes - *Lincoln Electric Holdings, Inc. - Chairman, President & CEO*

Well, Walter, and I will tell you, in great deference and appreciation to our supply chain professionals around the world, I recognize that we had challenges, but we just found ways to manage through those challenges. And I can't say that supply chain had any material impact in the business in Q1. However, we recognize that as the global economy starts to reopen, and we start to see more of that activity, that there will continue to be challenges around supply chains. And that's why we've called that out as one of the risks associated with being able to see improvements in the demand as we're moving forward. But as it relates to Q1, our teams did a spectacular job. We managed through the issues that we had. And we just recognize that there could be challenges in front of us as the global economy starts to reengage.

Operator

(Operator Instructions) Our next question comes from the line of Steve Barger with KeyBanc Capital.

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

It's been good working with you, enjoy your retirement.

Vincent K. Petrella - *Lincoln Electric Holdings, Inc. - EVP*

Thank you. Same here.



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

I'll follow up on the automation conversation. I know we're early in the virus-driven slowdown versus what we were already seeing last year in terms of things slowing down. But what is your team hearing from customers in terms of how automation fits into their cycle planning? Or how they're thinking about managing their own cost structure going forward, given what we've just been through with the coronavirus and tariffs before that?

Christopher L. Mapes - *Lincoln Electric Holdings, Inc. - Chairman, President & CEO*

Yes. I'll tell you, Steve, it's really a difficult question to give you much clarity to. I can tell you that as we were exiting Q1, many of the discussions and innovations that we were developing with customers in the automation space, they completed those discussions. And quite frankly, we had some of those matured orders. But I'll also tell you, we had a couple of projects where quite frankly the customers came back to us and said it was just too difficult for them to finish the evaluation and the discussions and decided to pause and said they would be coming back in, in Q2 and moving forward with those discussions. And I think that's what we're going to see over the next 2, 4, 5, 6 weeks as these businesses start to reengage and get started back up. But I still think that -- Steve, when I think about automation, I've got to go back to thinking about it from a structural perspective. And although we were seeing challenges associated with capital spending in 2019, and we made adjustments associated with that, we still feel very confident in automation and the structural improvements in industries that are made through automation and think that will be a really good piece of our business longer term. But I think we'll need to get through the next 30, 60, 90 days to see how some of the automation customers respond to the pandemic and respond to some of the challenges within their own business. But those organizations, especially those manufacturing organizations, are going to see a need to continue to drive productivity and quite frankly, at times, utilize automation to minimize employee requirements within their facilities. And I think the -- unfortunately, the challenges associated with the pandemic amplify those issues and certainly could be viewed as favorable for automation over the longer term.

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

Yes. And I appreciate all the tough decisions around the necessary cost actions you've taken given the speed of the decline. But how are you talking to the team about service levels or taking market share if your competitors stumble or if, say, 3Q or 4Q is not as bad as feared at this point?

Christopher L. Mapes - *Lincoln Electric Holdings, Inc. - Chairman, President & CEO*

Yes. I'm glad you asked that question because we're having as many conversations internally about being commercially offensive as we are anything else within the business. So we decided globally that as we saw the pandemic started to migrate around the world that we would manufacture products. So we had essential businesses, we had employees, we had raw materials. We didn't hesitate. We manufactured key products. Our inventory levels are very healthy, and I like that. Because I believe, quite frankly, as some of these markets globally start to spring back, there could be competitors that have challenges. And Lincoln Electric is going to be there prepared to service those markets and customers. And our service levels have stayed very strong, our inventory position is very strong. And that's what companies should do when they've been conservative with their balance sheet and have an ability to be prepared to service the market. And we are not going to miss that opportunity. It's also why, Steve, as we entered into early Q2 and exiting Q1, that we didn't apply all of the cost reduction activities that could have been available to Lincoln Electric. We decided that we were phasing those in. Because if there is a quicker recovery, I want those individuals prepared to ready to respond to customers in the markets. So we think we're in a very good position. And I can assure you, our service levels will maintain a very high level of performance, especially in our International business, which struggled with some of those performance measures over the last 18 to 24 months. Certainly, they've been very strong in the last 6 to 8 months, and we'll continue that level of performance as we migrate through the pandemic.

Operator

Thank you. And I'm not showing any further questions at this time. So this concludes today's question-and-answer session. I would now like to turn the call back to Gabe Bruno, Chief Financial Officer, for closing remarks.



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Gabriel Bruno - *Lincoln Electric Holdings, Inc. - Executive VP, CFO & Principal Accounting Officer*

Thank you, Chris. 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 actions and strategic programs in the future. Thank you very much.

Operator

Ladies and gentlemen, this concludes today's conference call. Thank you for participating, and you may now disconnect.

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