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LECO.OQ - Q3 2024 Lincoln Electric Holdings Inc Earnings Call

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OVERVIEW:

Company Summary

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PRESENTATION

Operator

Greetings, and welcome to the Lincoln Electric 2024 third-quarter 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, and you may begin.

Amanda Butler - *Lincoln Electric Holdings Inc - Vice President - Investor Relations and Communications*

Thank you, Kayla, and good morning, everyone. Welcome to Lincoln Electric's third-quarter 2024 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're happy to take your questions.

But 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 and uncertainties, which 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 US 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.

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

Steven Hedlund - *Lincoln Electric Holdings Inc - President, Chief Executive Officer, Director*

Thank you, Amanda. Good morning, everyone. Turning to slide 3, we generated solid third-quarter results with strong profit performance, cash generation, and a 134% cash conversion rate despite a broad deceleration in demand due to challenging end market dynamics and our mix profile.

All results highlight the resilience of our business model through the cycle, through the strong execution of our strategic initiatives, disciplined cost management, adjustments made to employee-related costs, which now align incentive compensation with business conditions, and the initial benefits of our temporary cost-saving measures. As a result, we achieved a slight increase in our gross profit margin and a 17.3% adjusted operating income margin, which is modestly lower versus prior year and relatively steady sequentially. The incentive compensation adjustment had a 70 basis point favorable impact to our adjusted operating income margin.

While not an easy quarter, I am extremely pleased with our performance as we are holding margins above our higher standard average target of 16% despite top-line challenges. We are also maintaining our balanced capital allocation strategy despite the weaker cycle, investing in both internal growth projects and acquisitions, and continue to return \$91 million in cash to shareholders in the quarter through our dividend and share repurchases. ROIC at 21.4% remains strong, and continues to reinforce our disciplined capital stewardship.

Turning to slide 4. The 8% decline in organic sales in the third quarter reflects broad weakness among a large mix of our customer base, impacting all product areas. We continue to see a more cautious posture from our general industry customers given macroeconomic uncertainty, which is delaying discretionary equipment purchases. Our heavy industry customers continue to curtail their production levels to rightsize inventories in their dealer channels, which continues to impact consumables demand. And automotive sector customers continued to delay capital projects despite high quoting activity as they rebalance their product plans across ICE, EV, and hybrid powertrains.

We are seeing very different sales trends by channel mix, which has impacted our sales performance relative to the market as a whole. Our OEM sales declined at double the rate of our distribution channel sales. Most notable is in Americas welding where our distribution channel organic sales performance was steady year over year, demonstrating the strength of our brand, products and programs and the region's relative resilience.

Given slowing OEM customer orders and industrial weakness in key regions like Europe, we remain cautious through the first quarter of 2025 as we expect these trends to persist in the short term. And given the long cycle nature of automation, the current shifts in the automotive sector's plans could impact automation portfolio sales through the first half of 2025. As we progress through the fourth quarter, we will be monitoring industrial production rates, PMI sentiment, and sector-specific announcements to better gauge when the market will pivot back to growth and when automation orders will accelerate.

In the interim, I am pleased by the margin performance that our teams are delivering through the strong execution of our Lincoln Business System and strategic initiatives. And we are aggressively deploying our cost savings playbook, which has a track record of mitigating the impact of lower volumes, and reshaping the business for superior profit performance once end markets recover.

Turning to slide 5. During the third quarter, we initiated both temporary and permanent cost savings actions, which expected to generate \$40 million to \$50 million in combined annualized savings, with approximately three quarters in the Americas welding segment and the balance primarily in international welding. The savings will be approximately half temporary and half permanent, and run at \$10 million to \$14 million per quarter, starting to ramp at the low end of the range in the fourth quarter. We recognized approximately a \$2 million benefit in the third quarter.

We have aggressively implemented temporary cost savings through a significant reduction in discretionary spending by aligning productive hours with demand and by maintaining net attrition through slower replacement hiring of voluntary turnover. We will maintain this posture until conditions improve. We expect substantially all of the temporary cost savings benefits will be in Americas welding.

In addition, we are implementing structural changes to align the business to market conditions, strengthen our ability to serve customers, and improve our cost structure to outperform in the next growth cycle. We launched our structural cost savings initiatives in the third quarter and incurred \$20 million in rationalization charges, and expect an additional \$6 million of noncash charges in the fourth quarter. These initiatives include streamlining our organization to better align with business conditions and the consolidation of several manufacturing and warehouse facilities across North America and international locations. Both our temporary and permanent cost savings do not include changes to incentive compensation expenses. Despite short-term cyclical headwinds, we remain focused on innovation and long-term profitable growth, which is also a hallmark of our playbook.

Turning to slide 6. I'm pleased to report that we launched over 35 new products at a recent industry trade show. This represents our largest launch of new products in the last five years, and I'm confident that our R&D investments and acquisitions will continue to differentiate our brand, extend our leadership position, and generate superior returns.

Our portfolio of new solutions focused on driving higher productivity and customer operations as well as strategically expanding our presence in underpenetrated areas like TIG, laser, plasma and thermal heating, including the launch of our Flex Lase handheld laser. We also showcased how we are integrating technologies from recent acquisitions, including Zeman, Fori, RedViking, Vanair, and Inrotech, to deliver unique solutions to the market. This included a fully automated production line featuring four different automated functions highlighting the breadth of our in-house capabilities as an automation system integrator. Lastly, we emphasize sustainability and how improved safety, ergonomics, recyclability as well as energy efficiency, and lower emissions are integral to our product designs.

Before I pass the call to Gabe to cover third-quarter results and discuss our outlook for the balance of the year, I would like to reiterate the confidence we have in our business, our strategic initiatives, and our long-term growth prospects. The strong execution of our strategic initiatives have positioned the company to outperform in the up cycle and exceed profit performance goals.

And now I will pass the call to Gabe Bruno.

Gabriel Bruno - *Lincoln Electric Holdings Inc - Chief Financial Officer, Executive Vice President, Treasurer*

Thank you, Steve. Moving to slide 7. Our third-quarter sales declined 5% to \$984 million, primarily from 8.7% lower volumes. Pricing was 1% higher, and acquisitions contributed 3% to sales. Gross profit dollars decreased approximately 4% to \$352 million, with a 35.8% gross profit margin, which increased 40 basis points versus the prior year. Margin improved on effective cost management and operational efficiencies, which offset the unfavorable impact of softer volumes. We also recognized a \$1.2 million LIFO benefit in the quarter.

Our SG&A expense held relatively steady at \$186 million as higher SG&A from acquisitions was largely offset by lower employee-related costs. Employee-related costs include a reduction in variable labor costs and related profit sharing programs and an approximate \$7 million adjustment to other performance-based incentive programs, which are largely recorded in corporate. SG&A as a percent of sales increased 80 basis points versus prior year to 18.9% on lower sales. Looking ahead to the fourth quarter, we do not expect another significant adjustment to our performance-based incentive programs, and would expect corporate expense to be closer to \$3 million.

Reported operating income declined 15% or \$26 million to \$146 million. The decline was substantially due to \$24 million in special item charges, primarily from a \$20 million rationalization charge, which Steve previously discussed, and a \$3 million charge for the step-up in the value of acquired inventories.

Excluding special items, adjusted operating income declined approximately 7% or \$14 million to \$170 million, and our adjusted operating income margin declined to a modest 40 basis points to 17.3%. The margin includes a 70 basis point benefit from the incentive compensation adjustment. Interest expense net in the quarter increased 11% to \$12 million, reflecting the \$150 million of debt issued in August. We continue to expect our interest expense net for the full year 2024 to be relatively flat versus the prior year.

We reported a net \$1.6 million of other expense in the quarter, primarily due to a \$4 million noncash pension settlement charge from the termination of a non-US pension plan which offset other income. Excluding special items, other income was \$2.3 million as compared with \$800,000 in the prior year.

Our third-quarter effective tax rate was 23.6% due to the mix of earnings, which compares with an adjusted effective tax rate of 19.5% in the prior year. Year-to-date, our adjusted effective tax rate is 22.2%, and we continue to expect our full-year 2024 adjusted effective tax rate to be in the low to mid-20% range, subject to the mix of earnings and anticipated extent of discrete tax items. Third-quarter diluted earnings per share was \$1.77. Excluding special items, adjusted diluted earnings per share was \$2.14. EPS results include a \$0.10 benefit from the incentive compensation adjustment.

Moving to our reportable segments on slide 8. Americas welding sales decreased 4% in the quarter, primarily due to 8.6% lower volumes with compression across all three product areas, reflecting slowing production rates among many large end customers in heavy industries and transportation as well as lower equipment and automation orders. Price and the benefits of our RedViking and Vanair acquisitions contributed approximately 5% sales growth. We expect to be price positive and recognize an uptick sequentially in acquisition sales in the fourth quarter.

Americas welding segment's third-quarter adjusted EBIT declined approximately 8% to \$126 million. The adjusted EBIT margin decreased 90 basis points versus prior year to 18.8%, reflecting the impact of lower volumes and acquisitions, which were partially offset by effective cost management, lower employee-related costs, and operational improvements in automation. As discussed in September, we expect the segment to generate an EBIT margin in the 18% to 19% range for the year.

Moving to slide 9. International welding sales declined approximately 11% on 12% lower volumes. Regional automation sales growth and relatively steady demand in Asia Pacific was offset by persistent weak industrial demand in Western Europe and Turkey.

Price declined 60 basis points in the quarter. The adjusted EBIT margin of 9% reflects the impact of lower volumes and mix in a seasonally weaker quarter due to holiday schedules. The team is effectively managing costs, and recognize the initial benefits of their cost savings measures. Given the extent of volume compression, we expect the segment's full-year 2024 EBIT margin performance to be in the 10% to 11% range.

Moving to the Harris Products Group on slide 10. Third-quarter sales increased approximately 4%, led by 7% higher price on rising metal costs, predominantly silver, which was partially offset by 3% lower volumes. Volume declines reflect relatively steady HVAC sector demand, which was offset by a challenging prior year comparison in the retail channel and softer industrial sector demand.

Adjusted EBIT increased approximately 8% to \$22 million. The adjusted EBIT margin increased 50 basis points to 16.4%, primarily due to effective cost management and operational efficiencies. We continue to expect the team to generate EBIT margins in the 16% to 17% range for the balance of the year.

Moving to slide 11. We generated \$199 million in cash flows from operations in the quarter, resulting in a 134% cash conversion. Our average operating working capital increased to 19.1% from higher working capital from acquisitions as well as lower sales levels. Moving to slide 12. We invested \$136 million in growth in the quarter from \$36 million in CapEx and \$100 million in acquisitions. We returned \$91 million to shareholders through our higher dividend payout and approximately \$50 million of share repurchases.

For the first nine months, we have demonstrated the disciplined and balanced approach to our capital allocation strategy through the cycle, which continues to generate strong returns at 21.4% at quarter end. We remain confident in our strong cash flow generation, in our long-term value creation, and recently announced our 29th consecutive annual dividend rate increase to \$3 per share in 2025. As we look to the balance of the year, we continue to expect our full-year 2024 organic sales to decline mid- to high single-digit percent as outlined in September.

Given the deceleration in the third quarter, we expect fourth-quarter organic sales to decline in the high single-digit percent range. We have updated our assumption on profit performance, and are now expecting our full-year 2024 adjusted operating income margin to be relatively steady versus prior year at around 17.1% and at a high teens decremental margin. This reflects the benefits of our cost savings playbook and reductions in employee-related costs. We are maintaining all other assumptions.

While we navigate this portion of the cycle, we will continue to monitor risk, and are confident in our ability to adjust our operating posture to changing market conditions as well as maintain ample liquidity and a strong balance sheet to continue to invest in growth, operational excellence, and return cash to shareholders.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Bryan Blair, Oppenheimer.

Bryan Blair - Oppenheimer - Analyst

I was hoping you could offer some detail on October order rates across major product categories, end markets, geographies. You mentioned a cautious posture through the first-quarter '25. So that on its own offers the big picture answer here. I'm just trying to get a sense of whether underlying trends in any of those key areas have diverged from Q3 experience and ultimately just get a better sense of the comping off point for next year?

Gabriel Bruno - Lincoln Electric Holdings Inc - Chief Financial Officer, Executive Vice President, Treasurer

Yes, Bryan, as I mentioned in my comments, we expect the fourth-quarter organic to be down in the high single digits. So that implies a continuation of the dynamics we saw, which decelerated in the third quarter. So the consumable profile, the equipment profile, and the automation profile, we see more of the same.

So nothing really is pointing to any different level of activity when you point to the external measures, such as PMI, such as industrial production. So from an internal standpoint, we're seeing more of the same and impressing on the high single-digit down for organic.

Bryan Blair - Oppenheimer - Analyst

Okay. Understood. And you mentioned the split of cost actions or cost savings by segment. I apologize if I missed this detail, but can you parse out temporary and structural savings specific to your automation strategy?

Gabriel Bruno - Lincoln Electric Holdings Inc - Chief Financial Officer, Executive Vice President, Treasurer

Well, specific to automation, we didn't comment on that, but I can -- we did comment on the operational improvements that we've seen, particularly in the third quarter with our automation business. We were tracking into the low teens on EBIT despite the pressures on integrating acquisitions within our business. So we continue on track to our target, as you know, Bryan, to be into that corporate average, which is at 16% on average through the cycle. So we're pleased with the performance of our automation business.

Operator

Angel Castillo, Morgan Stanley.

Angel Castillo - Morgan Stanley - Analyst

Just wanted to get a little bit more color. You reiterated the price cost neutral. How are you thinking about that heading into 2025, and just as you think about kind of price increases in this kind of environment and continue to kind of flow through? Just if you could talk about those two pieces, kind of the price and supply of the cost heading into '25?

Gabriel Bruno - *Lincoln Electric Holdings Inc - Chief Financial Officer, Executive Vice President, Treasurer*

Yes. So Angel, our posture strategically is to be price cost neutral. So we'll protect our business model and implement pricing as we see inflationary types of trends. But our posture generally right now, what we're seeing in the market, is to maintain a level of pricing that we see currently in the market. Our performance, being 1% up for the third quarter, is aligned to the actions that we took at the beginning of the year because of some of the inflationary pressures as well as the metals costs, as you saw for Harris. So we'll continue with that same posture.

Angel Castillo - *Morgan Stanley - Analyst*

Got it. That's helpful. And then maybe if you could just talk about the automation business and unpack that a little bit more. You mentioned it in -- again, so maybe the first question regarding the first half and the visibility there. And historically, you had kind of six months of visibility. Just how is that shaping up in terms of your visibility and what that implies for kind of year-over-year growth in automation in the first half of next year?

Gabriel Bruno - *Lincoln Electric Holdings Inc - Chief Financial Officer, Executive Vice President, Treasurer*

You saw that we pointed to our automation organic being down low double digits. So we're seeing more of the same. And driven by the air pocket that we have been talking about in capital decision making, particularly on the automotive side of the markets. One of the key things that we track is the progression of programs. And when you look at what has just been released into the market just in the last week or so, the comparison of the program years 2025, 2026 versus what they were in April, you're seeing about a mid-teens decline in the programs.

And while we're seeing a very active quoting activity and we've got strength in the level of engagement, just that continued delay in making decisions in terms of what is hybrid, what is ICE, what is EV type of an investment. So we're seeing that in our business, and that should extend into 2025. Now when you look at the program years, a lot of that seems to be moved out to 2027, 2028. But those are important indicators that our team is keeping very much focused on.

Operator

Mig Dobre, Baird.

Mircea Dobre - *Robert W. Baird - Analyst*

Yes. And just a follow-up on that discussion on automation. It sounds that the challenge in auto persists through 2025. So I guess I'm wondering, how do you think about running this business next year? Is it that you're going to have to maybe make some longer-term adjustments to it given the changes in automotive? Do you try to fill maybe some of that hole from automotive with additional M&A? Or are there some other opportunities in other end markets that could help us out as 2025 progresses?

Gabriel Bruno - *Lincoln Electric Holdings Inc - Chief Financial Officer, Executive Vice President, Treasurer*

Yes, Mig. So we're very confident in the long-term strategy for automation and the growth trajectory that we believe that the capabilities that we have presented to the market for automation within industrial markets. One of the dynamics that I just touched on a bit is despite the pressures on organic, our team is very much disciplined in developing our business model and achieving the higher margins that we've targeted in the long term.

So we're not going to make decisions that are going to compromise our ability to grow long term. But we need to navigate the cycle, and we're very much focused in driving the long-term strategy while navigating some of the short-term pressures we have. But we continue to improve the margin profile of automation. We're going to continue to look for opportunities through acquisitions as well to drive growth, and we're very excited about where we are at with our automation strategy.

Steven Hedlund - *Lincoln Electric Holdings Inc - President, Chief Executive Officer, Director*

Yes, Mig, I would just add that we've already been doing a lot of work to reshape the automation business into a higher-performing business in all parts of the cycle. And as you know, we've built this business largely through acquisition, and the team has been doing a lot of great work to enable us to scale the business across multiple sites, be able to share work across multiple sites. So one site is busy, another site's slow, we don't end up incurring a lot of overtime in the first site and a lot of dead labor in the second site.

So I think a lot of the work we need to do to be able to navigate the air pocket is work we've already been doing. And really, the question for us is when do we think we're going to start to see signs that the market is recovering and picking up. We're starting to see encouraging activity on -- particularly in Fori, which is the longest cycle part of our business that gives us confidence that the market will return. The question is just a matter of timing. And when will that improved order intake start to flow through the business.

Mircea Dobre - *Robert W. Baird - Analyst*

Okay. Understood. And then I guess my follow-up. You've obviously been very proactive on the cost front with temporary savings as well as the permanent ones that you've announced. And at least by my math, the decrements in the fourth quarter are looking okay in a tough environment.

What should our expectations be for 2025? If these challenges, say, continue a while, are you going to be able to maintain these sort of decrements or do we have either a mix problem or something else to be aware of as 2025 would progress?

Gabriel Bruno - *Lincoln Electric Holdings Inc - Chief Financial Officer, Executive Vice President, Treasurer*

Yes. So Mig, you do mention the decremental. So we're looking to high-teens decrements and maintaining our margin profile despite the pressures on organic, which I think you're pointing to the strength of our business model. We're pointing to key drivers to demand, whether it's in heavy industries or automotive or within our automation portfolio.

But think about long term. Long term, we're postured for high single-digit, low double-digit type of growth, including a very robust acquisition strategy. We're looking to navigate this portion of the cycle and come out of the cycle even stronger. We've had a track record of improving the margin profile by 200 basis points plus. And so that's where we're navigating towards long term. In the short term, as we go into 2025, we see a lot of pressure still and short cycle as well as a lot of uncertainty in the capital markets from an investment standpoint. But we're well postured in managing through the cycle.

Steven Hedlund - *Lincoln Electric Holdings Inc - President, Chief Executive Officer, Director*

Maybe I would just add, never say never, but it's hard to imagine the market conditions, particularly given our mix getting much worse in 2025 than they were in this year. If you look at it, for us, our three biggest industries, general industries, heavy industries and automotive transportation have all been off significantly, for the reasons we've discussed earlier on this call and on prior calls, which I'm sure you're well aware of in terms of the OEMs trying to destock their channel.

And so if the current market conditions persist in 2025, I believe we've taken the actions we need to, to defend the profitability of the business. If the other shoe drops somehow and it gets worse, we will take another set of actions. We've got more levers to pull.

Operator

Saree Boroditsky, Jefferies.

Saree Boroditsky - *Jefferies - Analyst*

In the commentary, I think you talked about Americas margins being 18% to 19% for the year. This implies a big step down of 4Q margins. So could you just clear clarify if this is 4Q or the full year, and then help us bridge the 4Q margins in Americas.

Gabriel Bruno - *Lincoln Electric Holdings Inc - Chief Financial Officer, Executive Vice President, Treasurer*

Yes, Saree. So that 18% to 19% is for the full year, and it will be at the higher end of the range. And then you point to some of the pressures in Americas through acquisitions and that. So expect the fourth quarter to be more of what you saw in the third quarter.

Saree Boroditsky - *Jefferies - Analyst*

And then I think you cited steady demand in Americas distribution. Could you just more color on this? Is this related to industries served by distribution or automation investments? And what else drove the differential between distribution and OEM customers?

Steven Hedlund - *Lincoln Electric Holdings Inc - President, Chief Executive Officer, Director*

Yes. Sure, Saree. The distribution channel for us serves a broad variety of industries, primarily general industries, but also construction infrastructure. They pick up some of the Tier 2, Tier 3 suppliers into automotive or heavy industries. The direct business that we have is typically very large end users that are very concentrated in construction, ag, mining equipment, and automotive. And so that's why when we see the pressures in the business from those industry segments, it reflects more in the direct sales than it does in distribution.

So I believe that our position in distribution remains very strong. We've got a great set of relationships, a great set of distributor programs, a great set of products. And so for the broader market, the business is holding up relatively well. It's really in the end-use industries where we have a very concentrated position with some very large end users that we're feeling (inaudible).

Saree Boroditsky - *Jefferies - Analyst*

I appreciate that. And if I could just squeeze one last one. Given the election in a few days, maybe just talk about some of the policies that would impact Lincoln? Like what do you need to see to drive a pickup in investment from customers? And maybe how do you think if there are any additional tariffs or maybe the potential benefit to Lincoln if we saw a lower domestic production tax rate?

Steven Hedlund - *Lincoln Electric Holdings Inc - President, Chief Executive Officer, Director*

Saree, I'm just going to be so thankful that the election is over, then I'll worry about the implications after that. But it's hard to say. There's just a lot of uncertainty around what the actual policies to get implemented will be versus what our talking points on the campaign trail. So it's hard for me to give you a more definitive answer than that.

Operator

Nathan Jones, Stifel.

Adam Farley - *Stifel Financial Corp. - Analyst*

This is Adam Farley on for Nathan. I was wondering, are there any areas of relative strength, either by geography, end market or product area? I appreciate the commentary around the distribution.

Gabriel Bruno - *Lincoln Electric Holdings Inc - Chief Financial Officer, Executive Vice President, Treasurer*

In general, in terms of drivers for -- you said green shoots? I'm thinking I heard constraints. Did you say green shoots or?

Adam Farley - *Stifel Financial Corp. - Analyst*

Relative strength or relative (technical difficulty)

Gabriel Bruno - *Lincoln Electric Holdings Inc - Chief Financial Officer, Executive Vice President, Treasurer*

So while energy was down mid-single digits, we do see pockets of strength, particularly in investment in the Middle East and some of our automation types of business. And we also talked about HVAC and specialty gas holding pretty steady. So we're optimistic about those markets. And then there are other areas of trending positively in Asia Pac and Harris broadly that are more favorable. And that's been net navigating through the cycle, particularly on the Harris side. So they're underlying positives, but again, a lot of those are driven by either key investments in certain geographies or working through the cycle in many cases on the Harris side.

Adam Farley - *Stifel Financial Corp. - Analyst*

Okay. And then on new product introductions, how are those being received in the market, just given the end market headwinds? Do you expect any new products to maybe help buoy equipment sales in the near term?

Steven Hedlund - *Lincoln Electric Holdings Inc - President, Chief Executive Officer, Director*

Yes, Adam, the products were extremely well received by participants at the trade shows. So from the standpoint of hitting the mark in terms of feature functionality, price point, et cetera, we're very excited about that.

I think your point, though, is when does enthusiasm translate into orders, particularly if a general industry customer is holding on to their cash to see what is going to happen with the election, with trade policy, with interest rates, et cetera. So how that excitement translates into orders and shipments and revenues, we have yet to see, but we're very encouraged by the strong positive reaction we got to the products that we introduced.

Gabriel Bruno - *Lincoln Electric Holdings Inc - Chief Financial Officer, Executive Vice President, Treasurer*

And Adam, I would add also just think about strategically, long term, we talk about new products, new technology initiatives contributing about 100 to 200 basis points of CAGR in the long term. So a lot of positive input that we've heard from the show, and we're excited about what it means to us long term.

Operator

Walt Liptak, Seaport.

Walter Liptak - *Seaport Global - Analyst*

I wanted to ask about the cost savings action. And what I was wondering about is you guys have been making improvements. You guys talked about automation. You've structurally been changing the business. I wonder if you can talk just a little bit about how this program, just targeting the slowdown that we've seen this year or is this part of maybe more of a structural change to make the whole business better in the future?

Steven Hedlund - *Lincoln Electric Holdings Inc - President, Chief Executive Officer, Director*

Yes. Walt, it's a combination of the two. So if you think about temporary cost savings, the general motto there is an approach to saying not now for certain initiatives or projects, where we were looking to either hire consultants or contractors to help us advance an initiative or adding additional staff to help us advance an initiative.

And what we've said is we're going to be very selective about which things we continue to fund and pursue. We don't want to come off our strategy or impact the ability of the business to grow and expand margins and recovery, but we're going to be selective about what things we continue to fund now versus what things we might postpone until market conditions are a little better.

When we look at the permanent cost savings, it's really taking the opportunity when the business is slower to be able to take some actions that we've been considering for a while. But when you're trying to keep up with demand and serve customers, don't really want to have the distraction and the potential disruption in the business.

So that's looking at some site consolidations, that's looking at some organizational structure changes, so we can address some spans and layers where maybe our management team can be a little more efficient, and it's really just taking the opportunity of a slower market to be able to pull the trigger on those without disrupting the business.

Walter Liptak - *Seaport Global - Analyst*

Okay. Sounds great. Wondering if you can talk a little bit just about the savings on it and the timing of when you expect those to start hitting? Getting a benefit, I mean. Getting benefit.

Gabriel Bruno - *Lincoln Electric Holdings Inc - Chief Financial Officer, Executive Vice President, Treasurer*

Yes. So what we've talked about is a range of \$10 million to \$14 million per quarter, but the ramping in this fourth quarter, we recognized \$2 million of the benefit in the third quarter. So we'll accelerate that in the fourth quarter. In total, \$8 million to \$11 million is the range we provided, and then that will mature in 2025 to a run rate of \$10 million to \$14 million a quarter until we anniversary.

Operator

Steve Barger, KeyBanc.

Steve Barger - *KeyBanc Capital Markets Inc. - Analyst*

When the auto OEMs do come to conclusions about platforms and mix, can you frame up the potential size of orders and how long it takes to deliver from purchase order to installation? Are those big projects typically book and ship or percentage of completion?

Steven Hedlund - *Lincoln Electric Holdings Inc - President, Chief Executive Officer, Director*

They're typically percent completion, and they really range, Steve, depending on what the project is from tens of millions of dollars over 18 to 24 months for a complete system that Fori might do versus something that might be in the single-digit millions in six months or less for individual stations within a factory. So if you think about seat frame manufacturing station, right? So it's a little bit hard to give you more precise numbers than that.

What we're really eager and anxious to see is that the automakers making decisions around, okay, it was going to be Model A, it's now going to be Model B, but I'm moving forward with Model B, and then moving forward with Model B in the same time frame that I was thinking of Model A.

And as Gabe alluded to earlier in the call, we're seeing a couple of instances where they're just canceling projects entirely or programs entirely or moving them out from the originally planned start of production to a later date. And when that happens, that's obviously a business that will evaporate from the funnel versus if they're just switching from one platform to another, but maintaining the same sort of cadence than that's relatively neutral to our business.

Gabriel Bruno - *Lincoln Electric Holdings Inc - Chief Financial Officer, Executive Vice President, Treasurer*

Just to add to that. So the longer lead time items, like Steve mentioned, like in Fori, you should start to see that activity first. And as we progressively navigate, we'll talk about what we're (technical difficulty)

Steve Barger - *KeyBanc Capital Markets Inc. - Analyst*

I understand. To use the example of Model B, it was going to be model year '25, and that becomes model year '26, then you don't start to see that project to work until the middle of '25, meaning some of that extends into calendar '26 from a percentage of completion standpoint?

Steven Hedlund - *Lincoln Electric Holdings Inc - President, Chief Executive Officer, Director*

It will depend project by project, but the general idea, I think you're not far off of that, Steve. Now part of, I think, where we are in the decision-making cycle is they're running out of runway as it is anyway. So even if they say that's not a model year X, it's now a model year Y, it may not have as big of an impact because we may have gotten to the point where we couldn't have delivered it in model year X to begin with because they've delayed the decision-making so long.

Gabriel Bruno - *Lincoln Electric Holdings Inc - Chief Financial Officer, Executive Vice President, Treasurer*

But Steve, if you do (multiple speakers) say, if we have an 18-month project, right, and we booked the order because we're on percentage of completion, we'll start to recognize revenue as we initiate work on the project.

Steve Barger - *KeyBanc Capital Markets Inc. - Analyst*

Right. Understood, understood. And given the environment, the cost action is certainly understandable. But I also remember a period, maybe it was 2017, maybe it was coming out of the pandemic when LECO correctly leaned into inventory to focus on fill rates versus short-term cycle considerations. And Steve, just thinking about that in the context of you saying it's hard to imagine some of the business is getting worse, how are you balancing those two things?

Steven Hedlund - *Lincoln Electric Holdings Inc - President, Chief Executive Officer, Director*

Yes. We're trying to ensure, Steve, that we have sufficient inventory, finished goods, WIP, and raw material to be able to serve customer demand because the last thing that we want to do is miss a potential uptick in demand. Having said that, when you look at the slowing sales rate and the impact on working capital to sales ratios and days of inventory, there's opportunities for us to trim our working capital a little further and free up some of the cash without impacting our ability to serve customers.

Gabriel Bruno - *Lincoln Electric Holdings Inc - Chief Financial Officer, Executive Vice President, Treasurer*

Just to add, Steve, just when you consider just a change year over year in working capital to sales, which was 80 basis points, 50 basis points of that was from acquisitions, and that's just navigating inclusion of new business into our model. So a very modest increase considering the pressure we've had on organic sales.

Steve Barger - *KeyBanc Capital Markets Inc. - Analyst*

Got it. Yes. And I'll just ask one more, if I could. I know this is always hard to gauge when end markets are weak. But I have to ask, do you think there's anything going on with market share as it relates to volume declines? Or how are you thinking about market share in this environment?

Steven Hedlund - *Lincoln Electric Holdings Inc - President, Chief Executive Officer, Director*

Yes. We monitor our position, Steve, with particularly large end users in the distribution channel very closely. We do not see that there's significant or broad market share losses for us. There are pockets here and there, a few areas in Europe where it's a low-margin commodity product where maintaining pricing discipline has caused us to shed some business that wasn't very profitable for us in the first place.

I would say for us, the greater impact really is just the mix of our business. There are periods in the cycle when having a very high proportion of large end users is a great thing. And there are periods of the cycle, unfortunately, right now, where having a higher proportion of that mix isn't quite so helpful. But in the long run, we like the product, end customer, and channel mix that we've got, and we want to just keep managing the business to grow and expand margins over time.

Operator

And this concludes our question-and-answer session. I would now like to turn the call back to Gabe Bruno for closing remarks.

Gabriel Bruno - *Lincoln Electric Holdings Inc - Chief Financial Officer, Executive Vice President, Treasurer*

I would like to thank everyone for joining us on the call today and for your continued interest in Lincoln Electric. Thank you very much.

Operator

And this concludes today's conference call. You may now disconnect.

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