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LECO.OQ - Q3 2023 Lincoln Electric Holdings Inc Earnings Call

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## OVERVIEW:

Company Summary

## CORPORATE PARTICIPANTS

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

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

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

**Steven B. Hedlund** *Lincoln Electric Holdings, Inc. - Executive VP & COO*

## CONFERENCE CALL PARTICIPANTS

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

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

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

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

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

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

## PRESENTATION

### Operator

Greetings, and welcome to the Lincoln Electric's 2023 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. You may begin.

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

Thank you, and good morning, everyone. Welcome to Lincoln Electric's Third Quarter 2023 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's website at [lincolnelectric.com](http://lincolnelectric.com) in the Investor Relations section.

Joining me on the call today is Chris Mapes, Lincoln's Chairman, President and Chief Executive Officer; Gabe Bruno, our Chief Financial Officer; and Steve Hedlund, Chief Operating Officer. Chris will begin with quarterly highlights. Steve will provide a discussion of end market trends and Gabe will cover quarterly financial performance in more detail as well as comments on our 2023 assumption.

Following our prepared remarks, we are happy to take your questions. But before we start our discussions, please note that certain statements made during this call may be forward-looking, and actual results may differ materially from our expectations due to a number of risk factors. A discussion of some of the risks and uncertainties that may affect our results are provided in our press release and in our SEC filings on Forms 10-K and 10-Q.

In addition, we discussed financial measures that do not conform to U.S. GAAP. A reconciliation of non-GAAP measures to the most comparable GAAP measures found in the financial tables in our earnings release, which again is available in the Investor Relations section of our website at [lincolnelectric.com](http://lincolnelectric.com). 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. Turning to Slide 3. We maintained strong performance in the third quarter and continued to generate record sales, profitability, earnings and cash flow performance. We also maintained top decile returns and are positioned to continue to fund long-term growth and drive higher shareholder returns with our solid balance sheet profile. We remain well positioned in the market. What is unique in the quarter is the mix and drivers of our 10.5% sales growth.

Our automation acquisitions led by Fori Automation accelerated in the quarter and generated approximately 9% sales growth or \$83 million. This increased our global automation portfolio sales to \$238 million in the quarter as we work to exceed our \$1 billion Automation 2025 sales target.

The balance of our business delivered 40 basis points of organic growth, volumes compressed slightly at 70 basis points, and we achieved 110 points of higher price. Volume performance reflected a challenging prior year comparison in our Harris Products Group segment and fewer shipping days across our segments, which Steve and Gabe will comment on in more detail. In addition, Automation's volume performance was relatively steady in the quarter, ahead of a strong delivery schedule in the fourth quarter.

We generated superior value in the quarter with a high teens to low-20% increase in gross profit and adjusted operating income, respectively. This yielded a record 17.7% adjusted operating profit margin with a 31% incremental margin. 2 of our 3 reportable segments generated EBIT profit margins that exceed their 2025 higher standard strategy EBIT margin targets. In addition, our automation portfolio continued to advance its margin profile year-over-year. We also delivered an approximate 18% increase in our adjusted earnings per share achieving a record \$2.40 in the quarter.

These significant improvements in performance demonstrate our track record of effective price cost management through the cycle and our ability to successfully mitigate higher employee costs through continuous improvement programs and Lincoln business system initiatives. This also translated into record cash generation in the quarter with 141% cash conversion. Our team remains focused on growth and executing our strategic initiatives to continue to deliver compounding long-term value through the cycle. Now I will pass the call to Steve Hedlund to share more details on the third quarter sales performance.

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**Steven B. Hedlund** - *Lincoln Electric Holdings, Inc. - Executive VP & COO*

Thank you, Chris, and good morning, everyone. Turning to Slide 4. As Chris discussed, our reported 40 basis point organic sales growth rate does not fully reflect the more resilient welding end market trends we are seeing due to fewer shipping days in the quarter, which had a 230 basis point unfavorable impact to our organic sales growth rate.

Normalizing for this effect, our 2 welding segments would have reported low- to mid-single-digit organic sales growth in the quarter driven by growth in both consumables and equipment with relatively steady organic sales performance and automation due to project timing. Harris Products Group had unseasonably strong HVAC sales in the prior year, which was the primary driver of our consolidated 70 basis point volume decline.

Geographically, we saw the greatest growth in the non-European portions of our International Welding segment particularly in India, Turkey and the Middle East. In the Americas, demand remained strong, while demand in Europe continued to be soft from an end market perspective, 3 of our 5 end markets energy, heavy industries and general industries, which represent approximately 2/3 of our revenue continued to grow in the quarter. Energy-related demand was up globally led by strong midstream project activity. Looking at consumable demand as a barometer of factory activity, 4 of our 5 end markets were up, representing approximately 85% of our revenue.

Organic sales and construction infrastructure remained soft due to challenging prior year comparisons and weak market conditions as reflected in benchmarks such as the Architectural Billings Index. Excluding Fori's strong growth in automotive sales in the quarter, organic sales in the automotive transportation sector were down due to timing of deliveries in our automation businesses.

We continue to see growth in automotive consumable volumes globally as the OEMs and their suppliers maintain production activity to restore inventory levels. The labor disruptions in the U.S. automotive sector did not have a significant impact on consumable demand in the third quarter, and we continue to see solid demand in this sector for our standard equipment and automation solutions.

Looking ahead, we expect a strong finish to the year despite increasingly dynamic environment. We are seeing solid momentum in Americas Welding October order rates given the resilience in many of our end markets and continued strength in capital spending. In fact, we were pleased to see strong orders for our new equipment and automation solutions showcased at the recent FabTech trade show with record orders for our new Cooper [Cobot] solution. We will also see an acceleration of scheduled automation deliveries in the fourth quarter that will lift Automation's organic sales performance compared to the third quarter, and we continue to maintain high backlog levels.

This positions us for mid-single-digit percent organic sales growth in the fourth quarter. The fourth quarter will also be a milestone for our newest growth initiative as we will officially start up production and launch our new Velion DC fast charger at a national EV charging testing festival, which we are proudly hosting at our Cleveland headquarters in late November. And now I will pass the call to Gabe Bruno to cover third quarter financial results in more detail.

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

Thank you, Steve. Moving to Slide 5. Our consolidated third quarter sales increased 10.5% to \$1.033 billion. The increase reflected an 8.8% benefit from acquisitions, 1.1% higher price and a 70 basis point decline in volumes. Foreign exchange translation was favorable by 1.2% versus the prior year. Gross profit dollars increased approximately 18% or \$56 million versus the prior year on price/cost management and acquisitions. We also recognized a \$1.3 million LIFO benefit in the quarter.

Our third quarter gross profit margin increased 230 basis points to 35.4% on operational improvements and effective price/cost management, which is now slightly positive for the first 9 months of the year. Our SG&A expense increased approximately 18% or \$28 million primarily due to higher incentive compensation and employee-related costs and acquisitions. SG&A as a percent of sales increased 110 basis points to 18.1%.

Reported operating income increased approximately 21% to \$171 million. Excluding approximately \$12 million of special items from rationalization charges and the amortization of step-up of acquired inventories, our adjusted operating income increased 20% to \$183 million. Diligent price cost management and contributions from acquisitions drove profit dollar growth.

Our adjusted operating income margin increased 130 basis points to 17.7%, generating a 31% incremental margin. Our incremental margin reflects solid performance from operational improvements and easier prior year comparisons in International Welding and the Harris Products Group segment. Moving to earnings. Our third quarter diluted earnings per share increased 19% to \$2.22. Excluding special items, adjusted diluted earnings per share increased 18% to \$2.40. Favorable foreign exchange translation provided a \$0.04 benefit to EPS. Moving to our reportable segments on Slide 6.

Americas Welding segment's third quarter adjusted EBIT increased approximately 15% to \$136.5 million. Their adjusted EBIT margin increased 60 basis points to 19.7% on effective price cost management in a LIFO benefit, which was partially offset by higher employee costs and acquisitions. Americas Welding sales increased 14% in the quarter, driven by an approximate 12% benefit from our automation acquisitions and a 1% increase in organic sales. Organic sales incurred a 280 basis point impact from fewer shipping days in key areas of the segment. Excluding this impact, Americas Welding organic sales growth would have increased approximately 3.8%, with consumables up low single-digit percent and standard equipment up low double-digit percent.

This demand reflects strength in factory activity and industrial capital spending in the region. These increases were partially offset by a slight decline in automation due to project timing. Moving to Slide 7. The International Welding segment's adjusted EBIT increased approximately 20% to \$30 million. Their adjusted EBIT margin increased 110 basis points to 12.2% on higher volumes, effective price cost management and productivity improvements in the region. Organic sales increased approximately 3% despite a 160 basis point impact from 1 less day, led by 3% volume growth and 20 basis points of price.

Consumable automation and standard equipment organic sales increased in the quarter led by strong equipment demand. Moving to the Harris Products Group on Slide 8. Third quarter adjusted EBIT increased approximately 41% to \$20 million. Their adjusted EBIT margin increased 530 basis points to 15.9% reflecting effective price cost management mix and operational efficiencies in the business as well as a favorable prior year comparison.

Harris' organic sales declined approximately 6.5% and on approximately 11% lower volumes and 5% higher price performance. Soft volume performance reflected a challenging prior year comparison with moderating demand in several end markets. Retail channel sales inflected positively in the quarter on improving prior year comparisons and some select restocking activity. We remain cautious on retail channel performance through year-end. Harris' price performance reflects higher metal costs, primarily from silver and copper. Given current metal commodity pricing trends, we expect Harris to report relatively steady price performance on a year-over-year basis in the fourth quarter.

Moving to Slide 9. Cash flows from operations increased 71% to a record \$223 million in the quarter resulting in 141% cash conversion ratio on free cash flow to adjusted net income. Our average operating working capital to sales ratio continued to improve to 18.3% as inventory levels moderated.

Moving to Slide 10. We invested \$26 million in CapEx in the quarter and returned \$82 million to shareholders through approximately \$45 million of share repurchases and our higher dividend payout. We maintained a solid return on invested capital of 23.6%. And given the strength of cash generation and confidence in the business, our Board recently announced an 11% increase in the 2024 dividend payout rate.

Turning to Slide 11 in our full year assumptions. Given 9 months of strong performance, solid order rates into the fourth quarter and better insight to the interim impact of labor disruptions in the U.S. auto industry, we expect full year sales growth to be at the low double-digit percent range with a mid-single-digit percent increase in organic sales, driven largely by volume in Americas Welding. We estimate a \$5 million to \$10 million sales impact in the fourth quarter from the current list of impacted auto plants. This estimate could change as labor negotiations progress. These assumptions reflect an expected mid-single-digit percent increase in organic sales in the fourth quarter.

We are outperforming operationally on a year-over-year basis and expect incremental margin assumptions in the high teens percent range on a consolidated basis. Excluding the Fori acquisition, we expect to generate high-20% to low-30% incrementals on mix and improved execution in the business. We expect to be at the lower end of both our interest expense and tax rate ranges. The outperformance in cash conversion year-to-date at 118% gives us confidence in achieving greater than 100% cash conversion this year, which aligns with our long-term track record and strategic targets.

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

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) Our first question will come from the line of Bryan Blair with Oppenheimer.

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

Very solid quarter. Thank you. appreciate all the color on UAW impact being negligible in Q3 that is understandable just given the timing of the start of the strike. With Q4 \$5 million to \$10 million top line headwind. Just to clarify on that. I assume that's all consumables. So we wouldn't expect much of an impact, if any, on the equipment side. And exactly what is factored in, in terms of the timing of resolution so we can try to calibrate whatever (inaudible) to that?

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

Yes, Brian. So as we've talked in the past, short-cycle type activities what we would expect to be impacted by the labor disruption, and that's primarily consumables. So as the quarter progresses and we monitor hopefully, resolution to what we've just seen, but that's driven by consumables, and that's a full quarter type of view.

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

Okay. Appreciate that. And I appreciate you giving us a figure just in general. That's very helpful. And I said it for automation, and I believe you said \$238 million in contribution for the quarter. That will step up into Q4. Based on that run rate and jumping off point, the backlog that you now have in place and just overall visibility. Is it reasonable to expect to that your 2025 target of \$1 billion plus, you're going to hit that in 2024?

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

Well, we're certainly excited about the execution we've had on that strategy and certainly, the trending that we see, obviously, that would look like we would be able to achieve that milestone for the business. I think one of the things that you said there though Bryan, I'd like to provide maybe a little bit more context on is that, look, the backlog in the business is very solid. But when we think about the business, we think our backlogs have really normalized. And what I mean by that is that over the last several quarters, we, like many individuals have been working through supply chain challenges. And most of those have eliminated or they're very de minimis within the business.

As we think about the company, the company is really running at more of a normalized backlog level now. And that backlog level is significant, but we're not seeing that backlog as the mechanism that's driving those mid-single-digit organics that we're talking about in Q4. We really have a normalized backlog level that is really coming in within 10%, 15% of the peak backlogs that we experienced a few quarters ago. So we like the backlog position, but it's kind of a normalized backlog position. We did have a very strong Fab Tech show here in North America. We had record orders in right after Fab Tech for our Cobot technologies that we launched out in the marketplace as well as several other very nice orders across our product portfolio. But when I look at our backlog today, it's pretty normalized as it relates to the way we think about the business.

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

So just to add, so as we've talked, our run rate currently is \$900 million in automation, in our long-term organic assumptions into that -- are into that mid- to high-single digits. So we're very much on pace to our 2025 target of \$1 billion in revenue.

**Operator**

Our next question will come from the line of Saree Boroditsky with Jefferies.

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

So you referenced a strong capital spending environment a couple of times in the remarks. Are you seeing any impact from higher interest rates and the macro uncertainty on spending plans? I know we've seen a few announcements from auto companies pushing out investments. So just what are you hearing from customers? And how do you think about the investment cycle going forward?

**Steven B. Hedlund** - *Lincoln Electric Holdings, Inc. - Executive VP & COO*

Yes, Saree, this is Steve. We see a lot of interest in the solutions that we have in the marketplace in terms of both welding equipment that offers higher productivity, greater ease of use as well as automation that helps address a lot of the labor concerns that our customers have. So we're continuing to see a lot of request for quotation, we're seeing a lot of good strong order intake. So we haven't seen a very significant impact of higher interest rates on the capital equipment side of our business.

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

And then I guess, maybe coming to on that framework, Americas volume it did step down sequentially, although not as much adjusting for the fewer shipping days. Just can you talk through the cadence of demand through the quarter and provide a little bit more color on what you saw in October? Where did you see demand soften and anything surprised to the positive?

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

So Saree, as we talked, as we reported our second quarter results. We had strong orders to end the quarter and then into July. And then as we've talked about in the markets in September, we did see some moderation in consumable activity to essentially flat year-over-year. And so I think on balance, what we saw in the third quarter is what we've been discussing in the markets.

Now as we wrap-up the third quarter now into the fourth, we've seen now strength again in order activity to wind down the third quarter and into the beginning parts of this fourth quarter. And that's what gives us confidence in maintaining that mid-single-digit organic assumption. So we've also talked about and it's going to be a larger component of the Americas progression in this fourth quarter, but the automation projects that we've pointed to have positioned for the fourth quarter cycle.

And so we have a strong backlog and in automation, and we see the progression of projects coming to revenue recognition in this fourth quarter. So that's what gives us confidence in the strength of volumes into the fourth quarter, particularly in the Americas side and the overall assumptions for the fourth quarter in mid-single-digit growth.

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**Operator**

Our next question will come from the line of Nathan Jones with Stifel.

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

I guess I'll start off on the EV charger side of the business. You guys have previously talked about adding capacity for that and being able to deliver \$600 million of revenue, but you've been pretty cautious on giving us any detail on what you expected to deliver in 2024. Maybe now that we're a little bit further along, you've signed a contract to deliver the first few year net. Any color you can give us on what you're looking at for incremental revenue from that business in 2024?

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**Steven B. Hedlund** - *Lincoln Electric Holdings, Inc. - Executive VP & COO*

Sure, Nate. This is Steve. We have mentioned consistently, right, that the pacing of that business relies a lot on factors outside of our control or outside of our customers' control in terms of permitting and grid hookups and substation transformers and the like. So we've been very cautious not to provide a revenue forecast for that business just because we don't know exactly how that will all unfold. You've seen the news that some of the OEMs are starting to slow the rollout of their vehicles really because the charging infrastructure is not really there to support it yet.

So we see that as a positive in the sense it will put continued pressure for building out the charging infrastructure. And we're currently in what we would call the alpha stage of production. We're building the first units using the engineering teams that design the product to assemble on to check all the work instructions and tie out all the details so that, when we do launch in the volume production, we'll have a very robust, high-quality, reliable product to sell to the market. The feedback that we've been getting from prospective customers is very encouraging, and they're all waiting for the first LP units to come off the line, go through testing and for us to send out product samples for people to deploy and test themselves. So we're still very optimistic about it, but we're cautiously optimistic given the uncertainties in the market.

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

Yes. I think one other comment, and I think Steve just gave an exceptional update on, where we're at with the business. I think one of the other important things I just always want to reiterate when Gabe talked about our extensive application of capital in the business in 2023 for the really reinvestment in capabilities that we have, the EV charger piece is actually a small portion of that. It's probably only maybe 10% of that capital.

The rest of the capital we're deploying within the company is doing the things that we need to do to be able to meet the demands that we're seeing both of across our consumable line and our equipment line. As well as us continuing to invest in automation and productivity across our platform. So that we can accelerate and mitigate some of the inflationary impact as well as drive the productivity that we're looking for inside our own manufacturing facilities around the world.

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

A follow-up question I wanted to ask was around the backlog and the backlog burn in 2023 obviously saying most companies burning backlog off this year as supply chains have normalized. Can you talk about the magnitude of the backlog that you've burned down in 2023 and whether we should think of that as a headwind to volume in 2024?

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

Nathan, that's a great question. I look at our business, particularly core welding to be largely normalized. Still some pockets, I would say, supply chain challenge and our standard equipment offering, but I see that normalize. The backlogs that are inherently structured within our automation business is where we see a more stable progression and growing progression as we continue to build out the business. So going to 2024, it's going to be largely about active orders, order to ship type business in core welding and then the normalization of kind of what we see on the automation side for backlog.

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

So you do or do not have a headwind from a backlog burn off in 2023. Just trying to frame that up how we should think about '24?

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

Yes. We should not see the backlog as a headwind at the end of the day. Look, it's a great question, and you're right. There are many companies out there that are having to talk through this particular issue. But when I think about Q4 and when I think about the business and the backlog normalizing, we do not see the utilization of the backlog as a tailwind to 2023 or a headwind to 2024. We really see this as the backlog that we have within the business and do not see that impacting the discussions we'll eventually have around our volume expectations for 2024.

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**Operator**

Our next question will come from the line of Mig Dobre with Robert W. Baird.

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

I guess I have to apologize because I'm a little bit confused in terms of what the messaging is here on demand. It sounds like demand was good in the summer, then it kind of slowed through September. I guess that would be consistent with some of the stuff that we turned up in our own channel checks, but you're saying that there's been reacceleration in October, yet we're talking about a \$5 million to \$10 million hit in the fourth quarter from auto, which is obviously a negative. So I'm sort of trying to parse these things out. I mean, if you're seeing reacceleration, where exactly



is this reacceleration materializing? And what's exactly driving that? And again, is this just a function of timing for automation that's coming out of your backlog? Or is this the sort of booking ship business?

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

Yes. So Mig, think about the core welding business being relatively steady, when you normalize for shipping days. So good activity broadly in the third quarter and that steady pacing into the fourth quarter. And as we talked about over the last couple of quarters is that we have a mix of project business and automation that's planned for execution and wrap up and completion in the fourth quarter. So we know on the organic side of the automation business that we have a step up than what you've seen in automation in the third quarter. So we were essentially flattish in the third quarter for automation. That's all timing of projects. You saw the mix of automation being driven by acquisitions we'll see a strengthening in organic sales driven by the automation component of our business.

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

And I guess I understand that part. The part that I'm trying to figure out is the order commentary, right? Because we're not talking about deliveries, we're talking about orders accelerating. So how do we square that with the comment on auto, that's obviously weaker.

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

But think about the core welding business being the activity level you saw a little choppiness, strength in July, a little softening in August, back up a little bit in September, strengthen in October. So think about that as balanced in core welding overall. And then you've got the component that is driven by the labor disruption in that \$5 million to \$10 million range, that's all built into what we're talking about in the fourth quarter as an organic assumption in that mid-single digits. So we've considered that in how we've addressed the sales assumption for the year and the fourth quarter.

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**Steven B. Hedlund** - *Lincoln Electric Holdings, Inc. - Executive VP & COO*

Yes, Mig, this is Steve. I would just add that we're still seeing very good demand for standard equipment and consumables in the Energy segment, Heavy Industry segment, General Industry segment even in Automotive, even though there's going to be a headwind of volume for consumables in the fourth quarter, we're still seeing automotive customers invest in our standard equipment to drive productivity for their operations. So when you mix that hold stew together and you look at the impact of the labor disruption and then the offsetting of continued good performance in the rest of the business, that's where we are.

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

Okay. Then my last question. You talked about Fab Tech. It was a great show and the Cobots did seem to get a lot of attention. My question is related to Cobot, since you mentioned receiving sizable orders, what sort of an impact can this product have on your business as you think about whether it's the whole business or just automation specifically as you think about 2024. And related to this, maybe back to the interest rate question asked earlier, are you getting the sense that there's any slowdown in the way these automation projects are being considered by your customers? Or are we still going strong?

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

Yes, Mig, let's start with the Cobots, which is a great question. And I will share with you that as it relates to the financial profile of Lincoln Electric, the cobots are probably not going to have a significant impact. The bigger impact is the acknowledgment by the customer that Lincoln Electric is

a solutions leader and we're going to Lincoln Electric to assist us with these solutions, which many times our entry-level automation projects inside manufacturing force.

So it's the acknowledgment of us in our leadership position with this solution. That's what excites me about the Cobot piece. And then I will tell you, we've not seen any change in the activity level of interest on the automation side. Our activity has stayed very strong, and I think it's not that complicated.

At the end of the day, we're seeing an increase in the cost of capital. We're now where we see the 10-year at a near 5% rate. But we're also continuing to see inflation and a lot of that inflation on the labor side that you're seeing it near the 4% rate. And so quite frankly, the economics around the need to drive automation because of either a scarcity of labor or cost of labor has not diminished.

And I believe we'll continue to see that trend for the foreseeable future as we've been sharing with you and our thoughts on the automation business. So to date, not now the business because of the size of the business, it does have some choppiness to it at times because of the way you may have large orders that move through the business.

But as this business continues to grow, and we have enormous confidence an ability to achieve that 2025 higher standard target. And our willingness to continue to invest in this business, both organically and through acquisitions. We think we're well positioned really love the impact it can have on our portfolio, not just for our customers, but also the excitement it brings inside our organization.

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**Steven B. Hedlund** - *Lincoln Electric Holdings, Inc. - Executive VP & COO*

Hey, Mig, this is Steve. I can't resist the opportunity to give an advertisement for our product and the kudo to the teams. But you know at FabTech, everybody and their brother has a cobot out there in the market. And getting the torch to the workpiece by dragging the arm to it is the simple part and everybody can do that. The challenging part is once you have the torch in place, you have about a dozen welding parameters you need to set to get a good weld. And so you're still relying on the operator to have some knowledge of the welding process.

And our Cooper software app basically automates all that and allows you to pick a picture of the weld you want. Is it big or small? Is it thick or thin and then we do the rest. And that's what the market is really reacting to as Lincoln as the welding experts bringing solutions that makes their life easier to deal with these labor challenges. And it's not only the scarcity of labor is the quality of the labor that you can get in a factory these days. So you've got to make it simple for people to use and the market's reacting to that.

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## Operator

Our next question will come from the line of Steve Barger with KeyBanc Capital Markets. Our next question will come from the line of Walter Liptak with Seaport Research.

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

Congratulations on the quarter. I wanted to ask a clarifying question, too, about the Americas next automation and what you're seeing with the pickup in October. Maybe could you talk a little bit about, where you're seeing the pickup? Is it for consumables? Is it for machines? What sectors? Is it that are we ready to go through a channel restocking. Just to clarify a little bit.

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

Yes. So Walt, just think about the level of activity we're seeing to be broadly in both the standard equipment and consumable business. we've already commented on automation. Just think about the good pacing into the fourth quarter.

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

Okay. Fair enough. And then international, maybe thinking about that, some of the macro numbers are showing slowing. You had a good quarter this quarter and especially with the profits. But what are you seeing in October from your international sales?

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

Our teams are doing a great job in the international markets managing through certainly a more challenging demand profile than what we have in the Americas and certainly what we have here in the U.S. I wouldn't say we've seen any significant change relative to the trending in the international side of the business, Walt. Probably another comment to your first question. Just like you've followed Lincoln Electric for a really long time.

And when you start thinking about those demand profiles that you understand our business pretty well. And when you start seeing 3 of our large 5 industrial segments that are moving favorably, especially when you're talking about energy and then seeing general industries turn in the quarter, those are very positive demand catalysts that we see and give us just another reason to give us confidence when we're talking about what we think will drive in the fourth quarter.

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**Steven B. Hedlund** - *Lincoln Electric Holdings, Inc. - Executive VP & COO*

Walt, this is Steve. I would say for the international, in particular, we'll expect to see more of what we saw in the third quarter, some weakness, some choppiness in Europe and the other parts of international performing given their exposure to the end markets that Chris talked about growing.

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

Okay. Great. And then maybe if I could sneak in the last one. You mentioned that there's still more inflation. I wonder if we can get an idea of what you're thinking about for pricing for next year? Are you still in a situation, where you can raise prices or that inflation? Or do you take a break for a while?

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

Well, look, we haven't made any determinations on that because we'll have to look and see really what the inflationary cost pressures are as we're moving into 2024. But we've been able to manage price cost effectively throughout a multitude of cycles here at Lincoln Electric. I can assure you if we have input costs that are material that require us to go to the marketplace and provide pricing in the market. We will do that. I am not concerned about there being some sort of headwind to our ability to effectively do that. We're just probably a little early in being able to understand what some of those larger input costs would be.

But let me assure you, we're expecting there to be inflation. And we're driving the organization to talk about identifying productivity programs and Lincoln business systems initiatives that we can drive across the portfolio to mitigate that inflation. And this morning, when Steve and I were talking to the organization and sharing with them our results in Q3, that was a focus point and will continue to be as we're trying to determine what our business expectations will be in 2024.

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

Okay. Sounds great. Congratulations again.

**Operator**

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

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

Steve, we may have to talk to him after the call. Sorry about that technical challenge that we're having.

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**Operator**

Our next question will come from the line of Robert Jamieson with UBS.

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

Just 1 to start on Fori. Is there any seasonality in that business that we should be aware of just with kind of like the increase in acquisition [the] quarter or is that partially due to Powermig as well. Just kind of wanted to unpack that a little bit?

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

So Rob, I think we got your question regarding Fori. And first, I'd like to say that I'm very excited about the work that our team has done in integrating the business. We are right on schedule with our integration plan and where we see the opportunities to continue to shape and grow the business, not only in terms of sales contributions, but the EBIT profile that we would expect longer term.

There is some choppiness as you could appreciate in this project-based business. You saw the significant uptick in the third quarter. That's all timing of projects. And so there is a pacing that very much in line to where we expect the business to be. And I would just expect a little bit of a different tasting in the fourth quarter. And that's why the overall sales assumptions are where they're at. So more strength on the organic side. You'll see some pacing on the acquisition side, that's particular to the Fori business into the fourth quarter.

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

No, no, that helps. I appreciate that. And then I guess just on margin cadence. Could you unpack it just a little bit more? It looks like for 4Q, it's a little step down in incrementals. And then also because kind of the way I read it, the impact ex-Fori on your incrementals went up. Just curious, is the Fori business still on target for the \$0.12 to \$0.15 accretion for your first year ownership. Yes, and just any other color there around what we should expect and what's embedded in 4Q.

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

Yes. So Robert, Fori is right in line to where our expectations are. So as you know, we talked at low double-digit EBIT profile before we were right on track with that. The fourth quarter just has the normal dynamic so progressively into the -- from the third to fourth quarter. You saw that we were above the range at Harris. So not to give any segment particulars, but in general, we would see Harris to maintain more on the higher end of the range versus over the range. And the strength of the incrementals, we expect that to continue to progress into the fourth quarter. So we did move up, as you saw in the assumptions, and we're confident in that profile in our business.

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**Operator**

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

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

Well, thank you. This is Chris. I just want to make a couple of final comments before Gabe close out the call for us. I just wanted to make sure I shared with our investor community and our listeners that our leadership transition here at Lincoln Electric is going exceptionally well.

Steve and the team are already ingrained in the transition as I finish up my time here as CEO at the end of the year. And very excited about the work and the opportunities the team has in front of them. But I just wanted to share that our transition and the work that we're doing around that is going exceptionally well. And confident about our continued success here at the company. And with that, I'll turn it back to Gabe.

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

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 strategic initiatives in the future. Thank you very much.

**Operator**

This concludes today's conference call. Thank you for participating, you may now disconnect.

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