

Lincoln Electric Holdings, Inc.

Fourth Quarter & Full Year 2020 Earnings Call

February 12, 2021

Christopher L. Mapes

Chairman, President & CEO

Gabriel Bruno

EVP & CFO



Safe Harbor and Regulation G Disclosures

Forward-Looking Statements:

Statements made during this presentation which are not historical facts may be considered forward-looking statements. Forward-looking statements involve risks and uncertainties that could cause actual events or results to differ materially from those expressed or implied. Forward-looking statements generally can be identified by the use of words such as “may,” “will,” “expect,” “intend,” “estimate,” “anticipate,” “believe,” “forecast,” “guidance” or words of similar meaning. For further information concerning issues that could materially affect financial performance related to forward-looking statements, please refer to Lincoln Electric’s quarterly earnings releases and periodic filings with the Securities and Exchange Commission, which can be found on www.sec.gov or on www.lincolnelectric.com.

Non-GAAP Measures:

Our management uses non-GAAP financial measures in assessing and evaluating the Company’s performance, which exclude items we consider unusual or special items. We believe the use of such financial measures and information may be useful to investors. Non-GAAP financial measures should be read in conjunction with the GAAP financial measures, as non-GAAP measures are a supplement to, and not a replacement for, GAAP financial measures. Please refer to the attached schedule for a reconciliation of non-GAAP financial measures to the related GAAP financial measures.

2020: Operating Responsibly While Servicing Customers' Recovery

- » **Focused on safety:** Implementing CDC and WHO best practice measures to protect employee health
 - Heightened hygiene and sanitation practices
 - Social distancing and safety protocols
 - Maximizing flexible and remote work arrangements
- » **Lincoln facilities are operating** as “essential businesses” focused on serving customers
- » **Achieved record safety and environmental performance**
- » **Safeguarding wages, benefits and bonus programs**
- » **Cautious on global COVID-19 cases and vaccine rollouts**



Full Year 2020 Highlights: Strong returns, cash generation, and cash conversion¹ while operating through challenging conditions

- » **Reported sales decreased 11.6% to \$2.7 billion; Organic sales declined 12.2%**
- » **Achieved \$88 million in benefits from cost reduction actions**
- » **Adjusted Operating Income of \$328.3 million; Adjusted Operating Income Margin down 50 bps to 12.4%**
- » **Diluted EPS of \$3.42, Adjusted EPS of \$4.15**
- » **ROIC of 17.7%**
- » **Cash flow from operations at \$351 million with 117% cash conversion¹**
- » **Returned \$232 million to shareholders (dividends and share repurchases)**

Recovery Momentum in the Fourth Quarter

- » **Q4 organic sales declines improved to -5.6%**
 - All regions improved
 - Consumable and Equipment organic sales declines improved; Automation weakened to trough levels
 - Consumables declined low-to-mid single digit percent; Equipment (non-automation) declined mid-single digit percent; Automation declined mid-teens percent

- » **Q4 global end sector performance¹**
 - Approximately 50% of revenue exposed to growing end sectors
 - General Fabrication and Automotive/Transportation sector sales increased versus prior year
 - Heavy Industries sales declines narrowed on early sector recovery
 - Energy sector declines accelerated on weakening oil and gas trends;
 - Construction/Infrastructure weakened on unfavorable non-resi construction trends

Returning to Topline and Earnings Growth in 2021

Expecting improved operating leverage

	Q2-20	Q3-20	Q4-20	FY2021 Assumptions
Consolidated Organic Sales (vs. prior year)	-24.8%	-8.3%	-5.6%	High single digit percent organic sales growth
Cost savings (Temporary & Permanent)	\$27M	\$27M	\$28M ¹	\$25 to \$30M incremental cost savings (primarily in H1-2021)
Labor Costs				
Raw Material Costs				Expect neutral-to-positive price/cost
Incremental Margin (Adjusted Operating Income)				Mid-to-high 20% incremental margin range

Net neutral

¹ \$16M in temporary and \$12M in permanent cost savings. Achieved \$88 million in total cost savings in 2020 (72% temporary).

² Higher wage costs and incentive compensation expense will be incurred starting Q2-2021.

Income Statement – Q4 2020

\$ in Millions	Q4 2020	% of Sales	Q4 2019	% of Sales	YoY % Change <i>Fav/(Unfav)</i>
Net Sales	\$ 693.8		\$ 736.3		(5.8%)
Gross Profit	229.3	33.0%	240.9	32.7%	(4.8%)
SG&A	136.4	19.7%	149.4	20.3%	8.7%
Special item charges ^{1,2}	9.5	1.4%	8.9	1.2%	(6.8%)
Operating Income	83.4	12.0%	82.7	11.2%	0.9%
Adjusted Operating Income¹	92.9	13.4%	91.6	12.4%	1.5%
Interest Expense, net³	5.1	0.7%	5.8	0.8%	12.3%
Income Taxes⁴	16.1	2.3%	16.6	2.3%	3.1%
Effective Tax Rate⁴	19.8%		20.6%		80 bps
Net Income	\$ 65.1	9.4%	\$ 63.7	8.7%	2.1%
Special Items ⁵	9.9	1.4%	7.3	1.0%	(36.2%)
Adjusted Net Income¹	\$ 75.0	10.8%	\$ 71.0	9.6%	5.6%
Diluted EPS	\$ 1.08		\$ 1.03		4.9%
Adjusted Diluted EPS¹	\$ 1.24		\$ 1.15		7.8%

Sales Mix ⁶	
Volume	(7.6%)
Price	2.0%
Acquisitions	-
FX	(0.2%)
TOTAL	(5.8%)

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

² Special items include Rationalization and asset impairment charges of \$9.5 million in 2020 and \$8.9 million in 2019.

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

⁴ Q4 tax rate excluding special items was 18.7% in 2020 and 20.4% in 2019.

⁵ Special items include the charges noted in footnote 2 and a \$1.6 million pension settlement charge and a \$1.1 million tax effect of Special items in 2020 and a \$1.6 million tax effect of Special items in 2019.

⁶ Figures may not sum due to rounding.

Americas Welding Segment

(\$ in Millions)	Q4 2020	Q4 2019	% YoY Change		Sales Mix ¹
Net Sales	\$ 386.6	\$ 437.9	(11.7%)	↓	Volume (12.4%)
Adjusted EBIT	\$ 69.2	\$ 75.0	(7.7%)	↓	Price 1.2%
Adjusted EBIT Margin²	16.7%	16.1%	+60 bps	↑	Acq/Div -
					FX (0.5%)
					Total (11.7%)

Volume declines narrowed as regional demand continued to improve. Margin higher from benefits of cost reduction actions and positive price/cost.

¹ Figures may not sum due to rounding

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

International Welding Segment

(\$ in Millions)	Q4 2020	Q4 2019	% YoY Change		Sales Mix ¹	
Net Sales	\$ 214.8	\$ 218.6	(1.7%)	↓	Volume	(3.4%)
Adjusted EBIT	\$ 15.3	\$ 11.6	31.7%	↑	Price	0.5%
Adjusted EBIT Margin²	6.9%	5.2%	+170 bps	↑	Acq/Div	-
					FX	1.1%
					Total	(1.7%)

Volume declines narrowed as portions of Asia Pacific increased and Europe continued to recover. Margin performance reflects improved demand and benefits of cost reduction actions.

¹ Figures may not sum due to rounding

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

The Harris Products Group

(\$ in Millions)	Q4 2020	Q4 2019	% YoY Change		Sales Mix ¹
Net Sales	\$ 92.4	\$ 79.8	15.8%	↑	Volume 7.4%
Adjusted EBIT	\$ 13.4	\$ 10.7	25.4%	↑	Price 10.6%
Adjusted EBIT Margin²	14.2%	13.1%	110 bps	↑	Acq/Div -
					FX (2.2%)
					Total 15.8%

Volumes higher on retail channel strength and price reflects rising commodity costs. Margin performance reflects strong growth in the retail channel, price management, and cost reduction actions.

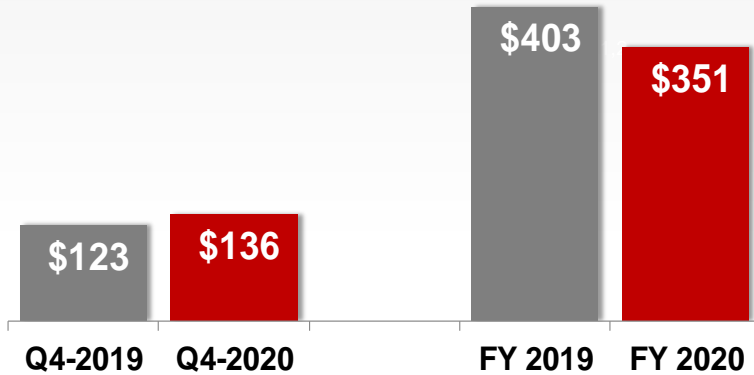
¹ Figures may not sum due to rounding

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

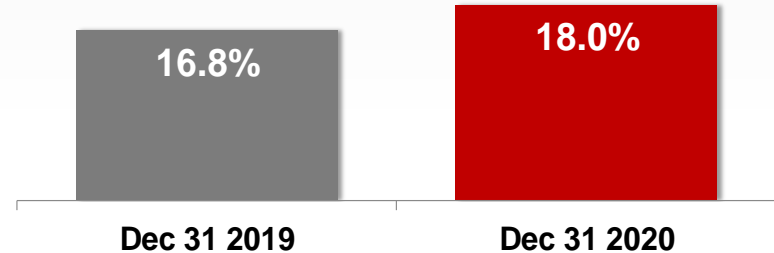
Cash Flow From Operations Metrics

Cash Flow from Operations

(\$ in Millions)



Average Operating Working Capital to Net Sales Ratio



Record Q4 cash flow from operations with 152% cash conversion¹ in the quarter. Working capital reflects strategic inventory build to service recovery demand.

Solid Balance Sheet and Increased Liquidity in Q4

(Data as of December 31, 2020)

» Investment grade profile balance sheet

- Total debt/EBITDA: 1.96x
- Net debt¹/EBITDA: 1.26x

» Total debt: \$718M // Net debt: \$461M

» Debt Covenant: 3.5x Total Debt/EBITDA²

» \$700M in private Notes

- 3.3% interest rate with 13-year tenor
- First maturity August, 2025

» \$25M annual interest expense in 2021

» Ample Liquidity of \$737M

- Cash: \$257M
- Available lines of credit: \$480M

» Expect strong cash flow generation in 2021

» >90% cash conversion expected in 2021

¹ Net Debt is defined as Total debt less Cash and cash equivalents

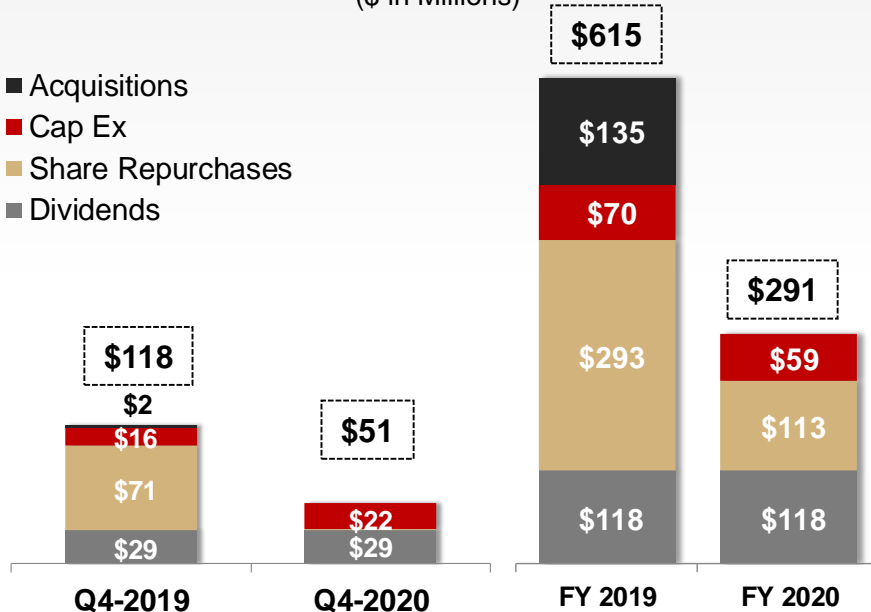
² Debt covenant ratios use a credit agreement adjusted EBITDA definition which differs slightly from standard EBITDA calculations

Capital Allocation

Capital Allocation¹

(\$ in Millions)

- Acquisitions
- Cap Ex
- Share Repurchases
- Dividends



Q4 2020 Highlights

- » Capital Expenditures: \$22.1M
- » Dividend Rate Increase: +4.1%
- » Return on Invested Capital: 17.7%

Capital Allocation Outlook

- » 2021 prioritized uses of cash:
 - » Growth investments
 - » Dividend
 - » Share repurchases

¹ Figures may not sum due to rounding

Contact:

Amanda Butler

Vice President, Investor Relations & Communications

✉ Amanda_Butler@lincolnelectric.com

📞 216.383.2534

Non-GAAP Information

Adjusted operating income, Adjusted net income, Adjusted EBIT, Adjusted effective tax rate, Adjusted diluted earnings per share, Organic sales, Cash conversion, Return on invested capital and Earnings before interest, taxes, depreciation and amortization ("EBITDA") are non-GAAP financial measures.

Management uses non-GAAP measures to assess the Company's operating performance by excluding certain disclosed special items that management believes are not representative of the Company's core business. Management believes that excluding these special items enables them to make better period-over-period comparisons and benchmark the Company's operational performance against other companies in its industry more meaningfully. Furthermore, management believes that non-GAAP financial measures provide investors with meaningful information that provides a more complete understanding of Company operating results and enables investors to analyze financial and business trends more thoroughly. Non-GAAP financial measures should not be viewed in isolation, are not a substitute for GAAP measures and have limitations including, but not limited to, their usefulness as comparative measures as other companies may define their non-GAAP measures differently.

Non-GAAP Financial Measures

Non-GAAP Financial Measures: Reconciliation of Operating Income, Net Income, Effective Tax Rate, and EPS to Non-GAAP Adjusted Operating Income, Adjusted Net Income, Adjusted Effective Tax Rate, and Adjusted EPS

(In thousands, except per share amounts)

(Unaudited)

	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2020	2019	2020	2019
Operating income as reported	\$ 83,440	\$ 82,702	\$ 282,071	\$ 370,910
Special items (pre-tax):				
Rationalization and asset impairment charges ⁽²⁾	9,452	8,851	45,468	15,188
Acquisition transaction and integration costs ⁽³⁾	—	—	—	1,804
Amortization of step up in value of acquired inventories ⁽⁴⁾	—	—	806	3,008
Gains on asset disposals ⁽⁵⁾	—	—	—	(3,045)
Adjusted operating income ⁽¹⁾	\$ 92,892	\$ 91,553	\$ 328,345	\$ 387,865
As a percent of total sales	13.4 %	12.4 %	12.4 %	12.9 %
Net income as reported	\$ 65,078	\$ 63,716	\$ 206,115	\$ 293,109
Special items:				
Rationalization and asset impairment charges ⁽²⁾	9,452	8,851	45,468	15,188
Acquisition transaction and integration costs ⁽³⁾	—	—	—	1,804
Pension settlement charges ⁽⁶⁾	1,597	—	8,119	—
Amortization of step up in value of acquired inventories ⁽⁴⁾	—	—	806	3,008
Gains on asset disposals ⁽⁵⁾	—	—	—	(3,554)
Gain on change in control ⁽⁷⁾	—	—	—	(7,601)
Tax effect of Special items ⁽⁸⁾	(1,131)	(1,567)	(10,594)	(7,386)
Adjusted net income ⁽¹⁾	74,996	71,000	249,914	294,568
Non-controlling interests in subsidiaries' income (loss)	(8)	—	29	(26)
Interest expense, net	5,082	5,794	21,973	23,415
Income taxes as reported	16,062	16,578	57,896	75,410
Tax effect of Special items ⁽⁸⁾	1,131	1,567	10,594	7,386
Adjusted EBIT ⁽¹⁾	\$ 97,263	\$ 94,939	\$ 340,406	\$ 400,753
Effective tax rate as reported	19.8 %	20.6 %	21.9 %	20.5 %
Net special item tax impact	(1.1)%	(0.2)%	(0.4)%	1.4 %
Adjusted effective tax rate ⁽¹⁾	18.7 %	20.4 %	21.5 %	21.9 %
Diluted earnings per share as reported	\$ 1.08	\$ 1.03	\$ 3.42	\$ 4.68
Special items per share	0.16	0.12	0.73	0.02
Adjusted diluted earnings per share ⁽¹⁾	\$ 1.24	\$ 1.15	\$ 4.15	\$ 4.70
Weighted average shares (diluted)	60,301	61,710	60,248	62,658



Non-GAAP Financial Measures (continued)

Footnotes for Non-GAAP Financial Measures: Reconciliation of Operating Income, Net Income, Effective Tax Rate, and EPS to Non-GAAP Adjusted Operating Income, Adjusted Net Income, Adjusted Effective Tax Rate, and Adjusted EPS

- 1) Adjusted operating income, Adjusted net income, Adjusted EBIT, Adjusted effective tax rate and Adjusted diluted earnings per share are non-GAAP financial measures. Refer to Non-GAAP Information section.
- 2) Primarily related to severance, asset impairments of long-lived assets and gains or losses on the disposal of assets.
- 3) Related to the acquisition of Air Liquide Welding and are included in Selling, general & administrative expenses.
- 4) Related to an acquisition and are included in Cost of goods sold.
- 5) Primarily included in Cost of goods sold.
- 6) Related to lump sum pension payments and are included in Other income (expense).
- 7) Related to the acquisition of Askaynak and is included in Other income (expense).
- 8) Includes the net tax impact of Special items recorded during the respective periods, including tax benefits of \$4,852 for the settlement of a tax item as well as tax deductions associated with an investment in a subsidiary in the twelve months ended December 31, 2019.

The tax effect of Special items impacting pre-tax income was calculated as the pre-tax amount multiplied by the applicable tax rate. The applicable tax rates reflect the taxable jurisdiction and nature of each Special item.

Non-GAAP Financial Measures

Return on Invested Capital (ROIC) and Total Debt / EBITDA

(In thousands, except per share amounts)
(Unaudited)

	<u>Twelve Months Ended December 31,</u>	
	<u>2020</u>	<u>2019</u>
Return on Invested Capital		
Net income as reported	\$ 206,115	\$ 293,109
Rationalization and asset impairment charges	45,468	15,188
Acquisition transaction and integration costs	—	1,804
Pension settlement charges	8,119	—
Amortization of step up in value of acquired inventories	806	3,008
Gains on asset disposals	—	(3,554)
Gain on change in control	—	(7,601)
Tax effect of Special items ⁽²⁾	(10,594)	(7,386)
Adjusted net income ⁽¹⁾	<u>\$ 249,914</u>	<u>\$ 294,568</u>
Plus: Interest expense, net of tax of \$6,026 and \$6,477 in 2020 and 2019, respectively	17,933	19,465
Less: Interest income, net of tax of \$500 and \$631 in 2020 and 2019, respectively	1,486	1,896
Adjusted net income before tax-effected interest	<u>\$ 266,361</u>	<u>\$ 312,137</u>
Invested Capital	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Short-term debt	\$ 2,734	\$ 34,969
Long-term debt, less current portion	715,456	712,302
Total debt	718,190	747,271
Total equity	790,250	819,077
	1,508,44	
Invested capital	<u>\$ 0</u>	<u>\$ 1,566,348</u>
Return on invested capital ⁽¹⁾	17.7 %	19.9 %

	<u>Twelve Months Ended December 31,</u>	
	<u>2020</u>	<u>2019</u>
Total Debt / EBITDA		
Net income as reported	\$ 206,115	\$ 293,109
Income taxes	57,896	75,410
Interest expense, net	21,973	23,415
Depreciation and amortization	80,492	81,487
EBITDA ⁽¹⁾	<u>\$ 366,476</u>	<u>\$ 473,421</u>

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Total debt	\$ 718,190	\$ 747,271
Total debt / EBITDA	1.96	1.58

- Adjusted net income, Return on invested capital and EBITDA are non-GAAP financial measures. Refer to Non-GAAP Information section.
- Includes the net tax impact of Special items recorded during the respective periods, including tax benefits of \$4,852 for the settlement of a tax item as well as tax deductions associated with an investment in a subsidiary in the twelve months ended December 31, 2019.

The tax effect of Special items impacting pre-tax income was calculated as the pre-tax amount multiplied by the applicable tax rate. The applicable tax rates reflect the taxable jurisdiction and nature of each Special item.



Segment EBIT

EBIT and Adjusted EBIT Reconciliation – Three Months Ended December 31, 2020

(In thousands)

(Unaudited)

	Americas Welding	International Welding	The Harris Products Group	Corporate / Eliminations	Consolidated
Three months ended					
December 31, 2020					
Net sales	\$ 386,571	\$ 214,782	\$ 92,441	\$ —	\$ 693,794
Inter-segment sales	27,734	4,827	1,658	(34,219)	—
Total	<u>\$ 414,305</u>	<u>\$ 219,609</u>	<u>\$ 94,099</u>	<u>\$ (34,219)</u>	<u>\$ 693,794</u>
Net income					\$ 65,078
As a percent of total sales					9.4 %
EBIT ⁽¹⁾	\$ 68,456	\$ 4,949	\$ 13,362	\$ (553)	\$ 86,214
As a percent of total sales	16.5 %	2.3 %	14.2 %		12.4 %
Special items charges (gains) ⁽³⁾	748	10,301	—	—	11,049
Adjusted EBIT ⁽²⁾	<u>\$ 69,204</u>	<u>\$ 15,250</u>	<u>\$ 13,362</u>	<u>\$ (553)</u>	<u>\$ 97,263</u>
As a percent of total sales	16.7 %	6.9 %	14.2 %		14.0 %
Three months ended					
December 31, 2019					
Net sales	\$ 437,899	\$ 218,606	\$ 79,802	\$ —	\$ 736,307
Inter-segment sales	28,042	4,853	1,650	(34,545)	—
Total	<u>\$ 465,941</u>	<u>\$ 223,459</u>	<u>\$ 81,452</u>	<u>\$ (34,545)</u>	<u>\$ 736,307</u>
Net income					\$ 63,716
As a percent of total sales					8.7 %
EBIT ⁽¹⁾	\$ 75,006	\$ 4,501	\$ 8,886	\$ (2,305)	\$ 86,088
As a percent of total sales	16.1 %	2.0 %	10.9 %		11.7 %
Special items charges (gains) ⁽⁴⁾	—	7,081	1,770	—	8,851
Adjusted EBIT ⁽²⁾	<u>\$ 75,006</u>	<u>\$ 11,582</u>	<u>\$ 10,656</u>	<u>\$ (2,305)</u>	<u>\$ 94,939</u>
As a percent of total sales	16.1 %	5.2 %	13.1 %		12.9 %

Non-GAAP Financial Measures (continued)

Footnotes for EBIT and Adjusted EBIT Reconciliation – Three Months Ended December 31, 2020

- 1) EBIT is defined as Operating income plus Other income (expense).
- 2) The primary profit measure used by management to assess segment performance is Adjusted EBIT. EBIT for each operating segment is adjusted for special items to derive Adjusted EBIT.
- 3) Special items in 2020 reflect Rationalization and asset impairment gains of \$849 and charges of \$10,301 in Americas Welding and International Welding, respectively and pension settlement charges of \$1,597 in Americas Welding.
- 4) Special items in 2019 reflect Rationalization and asset impairment charges of \$7,081 in International Welding and \$1,770 in The Harris Products Group.