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EDITED TRANSCRIPT

LECO.OQ - Q3 2026 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 2026 third-quarter financial results conference call. This call is being recorded.

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

Amanda Butler - *Lincoln Electric Holdings, Inc. - Vice President, Investor Relations & Communications*

Thank you, Melissa, and good morning, everyone. Welcome to Lincoln Electric's third quarter 2026 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, our Chairman and Chief Executive Officer, as well as 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 as well as in our SEC filings on Forms 10-K and 10-Q.

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

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

Steven Hedlund - *Lincoln Electric Holdings, Inc. - Chairman of the Board, President, Chief Executive Officer*

Thank you, Amanda. Good morning, everyone.

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Turning to slide 3, we reported record third quarter sales and earnings performance with adjusted EPS increasing 21% to $2.98. Our results highlight two important trends we navigated in the quarter. First, accelerating demand in core areas of the business and second, challenging operating conditions that we are diligently managing.

Our strong earnings were driven primarily by operating leverage from mid-teens percent organic sales growth led by 9% volume growth. This is the first quarter in over 2.5 years that volume growth has outpaced price and volume momentum remains robust through October.

However, energy, logistics and electronic component costs continue to increase with unprecedented AI data center demand creating spot shortages for some raw materials. While our supply chain and operations teams demonstrated great teamwork and agility in managing these supply challenges, the additional cost impacted our gross profit margin.

We implemented price actions during the quarter in all three segments, which will enable us to achieve price-cost neutrality in the fourth quarter.

We improved our adjusted operating income margin by 60 basis points to 18% at a 22% incremental margin, which was in line with our September update and delivered top quartile ROIC at 23.9%, up 170 basis points compared with the prior year.

We also focused on long-term growth and returns as we executed our capital allocation strategy. We invested $41 million in growth and returned $143 million to shareholders in the quarter.

We remain focused on serving our customers, advancing our RISE strategy and positioning the company for long-term success.

Turning to slide 4 to cover growth drivers in the quarter.

Organic sales growth was broad with growth across all three reportable segments, product areas and in all five end markets. Organic growth was largely driven by higher volume demand in the Americas region and Asia Pacific and in select product areas in the Harris Products segment.

Sales in the U.S. increased over 20%. Asia Pacific continued to expand with growth in China, India and North Asia.

Core Europe was relatively steady versus prior year and we are starting to see benefits from European import tariffs and some defense spending.

The Middle East was more resilient than expected with a $1 million sales headwind in the quarter.

Capital spending continued to improve with high-teens percent organic sales growth and automation, resulting in $232 million in automation sales in the quarter.

Equipment organic sales growth also accelerated to a low-teens percent rate in the quarter. Strong order rates in both automation and equipment in the third quarter have elevated our backlog to new record levels, which positions us well for 2027.

Consumable volumes increased at a mid-single-digit percent rate on a consolidated basis and performed higher in Americas and Asia Pacific, where we are seeing the strongest level of industrial and infrastructure activity.

Looking at end sector trends on a consolidated basis, all five end markets grew in the quarter.

General fabrication organic sales grew mid-20s percent with the outperformance reflecting solid industrial production activity in the Americas as well as data center related projects and rising HVAC demand in Harris.

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Energy and non-residential structural steel organic sales increased mid-teens percent. With energy outperforming in Americas Welding and oil and gas due to strong project activity given the region's optimal positioning in the energy market.

Heavy industries and transportation both grew at a low double-digit percent rate.

Heavy industries continue to see strengthening in construction and mining to support infrastructure, data center and mineral investments, while agricultural demand appears to be stabilizing.

Transportation automotive growth benefited from easier prior year comparisons in both production rates and in timing of automation shipments. We expect growth to continue in the fourth quarter as well. Separately, the October domestic auto industry survey indicated a pickup in the 2029 and 2030 model launches following two years of unprecedented compression.

That outlook is consistent with the increase in quoting activity we are seeing for long lead time automation systems for transportation customers.

Moving to slide 5, at the FABTECH trade show last week, we launched over a dozen new solutions that address customer pain points and expand the addressable markets we serve.

For example, ArcTracker AIR provides customers with an easy-to-deploy platform that enables them to track productivity across their welding operations, regardless of the mix of brands or type of welding equipment in use.

We also launched a hotwire submerged arc welding solution for our heavy industry sector customers that delivers up to 50% improvement in deposition rates using their existing installed base of Lincoln equipment with only modest incremental investments.

Our new InstructArc extended reality welding trainer supports workforce development and training by providing a more realistic simulation of the welding experience.

And finally, I am most excited about the launch of XpertLINC, our physical AI solution that will revolutionize welding automation.

Featured initially on our Cooper Cobot, XpertLINC enables a welding robot to adapt on the fly to real world conditions like an experienced human welder would.

This capability significantly reduces barriers to adoption and broadens the market for cutting and welding automation.

We will be integrating XpertLINC technology across our automation portfolio over the next few years, which will further differentiate the value of our innovation and support our Rise growth objectives.

I will now pass the call to Gabe Bruno to cover third quarter financials and outlook.

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

Thank you, Steve.

Moving to slide 6, third quarter sales increased 15% to $1,221 million.

Sales growth reflected approximately 9% higher volumes and 6% higher price.

We anniversaried the acquisition of Alloy Steel in August, which contributed 50 basis points to sales growth.

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Gross profit increased 9% to $425 million on higher sales.

Our gross profit margin compressed 190 basis points to 34.8%, primarily due to the timing of our new price increases, which went into effect late in the quarter an unfavorable mix. On a year-to-date basis, we are lagging on neutral price-cost target by 100 basis points and expect to achieve a neutral price-cost position in the fourth quarter.

SG&A expense was relatively steady versus prior year at $206 million, while SG&A as a percent of sales improved 260 basis points to 16.9% as a result of sales leverage.

SG&A expense included an additional $5 million in corporate investments related to the rollout of our RISE strategy and related initiatives.

Given current RISE investment activity and business performance, we are maintaining our quarterly SG&A estimate at $210 million to $215 million with corporate expenses likely in the $4 million to $5 million range in the fourth quarter.

Reported operating income increased approximately 20% to $211 million, primarily on higher sales leverage. Adjusted operating income increased 19% to $220 million and our adjusted operating income margin improved 60 basis points to 18% with a 22% incremental margin.

Third quarter diluted earnings per share increased 19% to $2.63.

Adjusted earnings per share increased approximately 21% to a record $2.98.

We recognized a $0.04 benefit from share repurchases, and there was no impact from foreign exchange translation.

Moving to our reportable segments on slide 7, Americas Welding sales increased approximately 16% to $801 million, primarily from 13% higher volume and 2.4% higher price.

Americas volume growth was broad-based across all product groups and end markets and in key market channels. Equipment and automation each delivered high-teens percent volume growth supported by strong capital spending.

Consumable volume growth increased to a mid to high single-digit percent rate as industrial activity accelerated.

Price reflects the benefit of the May price action. We expect price in Americas to be in the low to mid single-digit percent range in the fourth quarter, reflecting third quarter price actions.

Americas adjusted EBIT increased approximately 27% to $167 million.

Adjusted EBIT margin expanded 190 basis points to 20.1%.

The increase was driven by higher organic sales and improved automation performance, which was partially offset by price-cost headwinds.

We expect Americas welding margins to perform in a 20% to 21% EBIT margin range for the fourth quarter given sales momentum and improved price-cost performance.

Moving to slide 8, international welding segment sales increased 3% to $227 million on 1% lower volume, 2.4% higher price and approximately 2% benefit from acquisitions.

Within international welding, continued strength in Asia Pacific was offset by weak capital spending across Europe and lower sales to the Middle East.

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The ongoing conflict reduced segment sales by approximately $5 million in the quarter.

We continue to expect a $6 million to $7 million sales headwind in the fourth quarter.

Adjusted EBIT decreased 7% to $24 million. Adjusted EBIT margin compressed 100 basis points to 10.3% primarily due to lower volumes and automation performance.

Sequential performance versus the second quarter was better than seasonal trends due to a pickup in demand in our alloy steel acquisition and incremental structural savings.

We expect international welding margin performance to be in the 12% to 13% range for the fourth quarter.

Moving to the Harris Products Group on slide 9.

Third quarter sales increased 29% to $193 million, primarily from a 3% increase in volumes and approximately 26% higher price.

Price primarily reflects higher metal input costs in consumables, particularly silver.

HVAC and gas equipment demand supported volume growth, while the retail channel remained challenged on soft housing trends.

We expect HVAC demand to remain strong in the fourth quarter, further aided by an easier prior year comparison.

Adjusted EBIT increased 21% to $34 million on higher sales.

Adjusted EBIT margin declined 100 basis points to 17.3%, which was below our expected range due to unfavorable mix and operational inefficiencies. We expect the Harris segment to operate at approximately an 18% margin in the fourth quarter at current metal prices.

Moving to slide 10.

Cash generation was strong with $216 million in cash flows from operations.

Working capital improved to 16.6% of sales on higher sales levels as well as improved inventory positions.

We achieved 107% cash conversion for the quarter and are at 99% on a year-to-date basis, which is in line with our 100% target for the year.

Moving to slide 11, we invested $41 million in capital expenditures and returned $143 million to shareholders, including $43 million in dividends and $99 million in share repurchases. Adjusted return on invested capital improved to 23.9%. Our dividend is an important component of our capital allocation strategy.

The Board recently announced the company's 31st consecutive annual increase in the dividend payout rate, raising the annualized rate by 10% to $3.48 per share.

The increase reflects confidence in the execution of our RISE strategy. The strength of our cash generation and our commitment to return value to our shareholders.

The first payment at the increased rate is payable in January 2027.

Moving to slide 12 to discuss our 2026 operating assumptions.

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We are raising both our full year sales growth rate and our capital expenditure range to reflect stronger demand trends and higher RISE strategy investments.

We now expect net sales growth to be in the low-teens percent range for the full year, which aligns with our performance year-to-date.

We are maintaining the updated assumptions we provided in September for price-costs and our adjusted income incremental margin.

We expect price-costs will be neutral in the fourth quarter. which will support year-over-year gross margin expansion in the period, as well as a mid-20s percent incremental adjusted operating income margin.

We are increasing our 2026 capital expenditure range to $140 million to $150 million as compared with our initial assumption of $110 million to $130 million.

We have invested $112 million in the first nine months and are continuing to invest to upgrade operating capacity and capabilities in the fourth quarter.

Our full year interest expense, tax rate and cash conversion assumptions are unchanged.

Looking ahead, our priorities are to execute on our RISE initiatives, serve demand in growing areas of the market and invest for long-term returns.

We continue to expect strong earnings performance as we advance those priorities.

Now I would like to turn the call over for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Bryan Blair, Oppenheimer.

Bryan Blair - *Oppenheimer & Co Inc - Analyst*

Good morning, everyone.

Hoping you could offer some more color on the momentum and outlook for your automation strategy. It seems like demand is broadening.

You mentioned kind of the medium-term outlook with changeover activity in the automotive space. Maybe touch on quoting activity across other end markets there.

And then given your backlog position current reads, where do you see automation revenue shaking out for 2026? And what's the preliminary outlook to the extent you're willing to speak to that for 2027?

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

Yeah. So, Brian, so I just would reiterate the level of growth we've seen, very active quoting activity and broad-based. And we pointed to the mix.

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Of end market progression, including the automotive market. So we're pleased to see the long-term trajectory of model launches turning positive in 2029 and in 2030, which leads us to believe that a lot of the quoting activity that we've seen along the lead time items will progress into orders as the months progress. So we're really keen on a continued progression of growth. In our automation business and think about that in the high single-digits organic type growth, very much positioned to continue to expand the margin profile of our business. We exited the third quarter at a low double-digit type EBIT profile and we expect more of the same in the fourth quarter.

Steven Hedlund - *Lincoln Electric Holdings, Inc. - Chairman of the Board, President, Chief Executive Officer*

Brian, I would just add that Gabe's comments really apply to the historical base of the business, which has been a large portion of automotive automation projects, some for heavy industries, particularly supporting mining, construction, agricultural equipment. We're seeing improvement across the legacy base of the business. We're also very excited about the opportunity to grow the addressable market, particularly in the general industries, general fabrication space by making the technology more easy for customers to adopt.

One of the big problems those customers have is their parts aren't entirely consistent lot to lot due to upstream variation and historically that's made it hard for them to adopt. Robotic solutions, whether that's an industrial robot or a cobot. And we're really excited about the launch of the XpertLINC platform that's going to address that pain point and significantly open the market up for the long-term.

Bryan Blair - *Oppenheimer & Co Inc - Analyst*

That's encouraging. Appreciate the color. And then in terms of your Middle East exposure, we know the headwind that has been there and you framed anticipated Q4. In fact, looking forward to the hopeful resolution of the war.

How should we think about how much of a catalyst rebuild efforts and redundancies/security investments may be for your business, at least over the medium term?

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

Just in general, Brian, you saw that while in the international segment, we had a headwind of $5 million overall, we were down 1%. We saw strength in exports coming out of the Americas and Harris segments.

So we're well-positioned. You can think about the headwinds turning into volume opportunities for us as projects progressed in their investment trajectory as well as any rebuilding. So we're well-positioned in the Middle East and we look to. To growth as the conflict is resolved and the markets return to some basis of what is normal.

Operator

Angel Castillo, Morgan Stanley.

Angel Castillo - *Morgan Stanley - Analyst*

Hi, good morning, and thanks for taking my question. I wanted to touch on the pricing power a little bit, maybe just to unpack the price-cost dynamic in a bit more detail. Just you noted passing through a little bit more price toward the end of the quarter. So just curious, as you're having discussions with customers, OEMs or distributors, just can you kind of update us on what you're seeing or hearing in terms of overall kind of elasticity to kind of price? Given the organic volumes, it would suggest that you're not really seeing any deterioration there.

Given how much inflation we've been having, would be curious to say your thoughts on your ability to continue to kind of push price?

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Steven Hedlund - *Lincoln Electric Holdings, Inc. - Chairman of the Board, President, Chief Executive Officer*

I would say that our channel partners and our end users are experiencing the same inflationary pressures that we are. So this isn't coming as a shock to them.

Nobody likes talking about pricing because it takes your attention away from other matters, but we're not getting a tremendous amount of pushback.

In either case because people understand certain parts of the economy are running hot with the AI data center build out and it's a constant surprise the breadth of commodities and products that are impacted by that. So it's never a dull moment and we're doing our best to be agile and stay on top of it, but it's.

It's a constantly chasing target that we're going after.

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

I would add and affirm what we've updated the market since September is we expect in the welding business about 100 basis points of incremental pricing impact that would lead us into a price-cost neutral posture in Q4. So we've maintained that posture, but as we'll continue to monitor the persistent inflationary dynamics and respond as appropriate.

Angel Castillo - *Morgan Stanley - Analyst*

That's very helpful. And maybe just on that note, as we think about kind of your preliminary thoughts or what you're able to see into 2027, can you talk about the kind of key kind of cost buckets and what you're seeing across all of those? I think you noted earlier maybe some pockets of kind of shortages of supply, so just any kind of thoughts on what kind of inflation or cost inflation you're kind of anticipating into next year?

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

Well, I would say just not get into specifics about inflationary type conditions into 2027, but I would say that we're very well postured with what we're seeing in the market for what our strategic framework on organic sales are, which I would just reiterate it's mid to high single-digit type organic growth of which would lean on an acceleration in automation growth in the high single-digits. So we're very well postured for that kind of trajectory as we get into.

Operator

Neal Burk, UBS.

Neal Burk - *UBS - Analyst*

Hey, good morning. Thanks for the question.

Maybe another way to kind of ask about automation growth trends. I mean, is there any way to kind of bifurcate between.

More cyclical improvement on one hand, but also more secular growth from increased automation adoption?

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I ask because the comments about the automotive end market seem more cyclical. I'm not sure if that quoting activity is hitting revenue yet, but automation sales are broadly outperforming your other product categories despite low double-digit growth broadly, outperformance of automation on top of that. So just trying to get at how. How much of this high-teens automation growth is cyclical versus more kind of automation adoption driving secular growth?

Steven Hedlund - *Lincoln Electric Holdings, Inc. - Chairman of the Board, President, Chief Executive Officer*

Cyclical is an interesting word, important to realize that we had an unprecedented two-year period where the automotive manufacturers. Were walking back their commitment to the transition from ICE to EVs and then trying to figure out whether they were going to go headlong into the hybrid platform, whether they're going to return to ICE, et cetera. And that caused what we described as an air pocket of decision making among those end users. They knew they were going to do something, they didn't know exactly what they were going to do. And as a result, that really created a period. Where the end users were unable to make a decision regarding automation CapEx. We're now getting through that and we're seeing the resumption to more normal level of activity. So on a year-over-year basis, it does look like a significant step up. I would say it's more return to normalcy in the automotive market. In terms of.

Using technology to broaden the applicability of automation, I think we're still in the very early innings of that. It started first with the launch of cobots and the Cooper software that made a cobot easier to program. We got a lot of feedback from customers that.

And operators still had to have a fair amount of welding knowledge to be able to set the feeds and speeds on the welding procedure in order to make the cobot useful to them. So we were hard at work at trying to address that with the physical AI solution and we're very confident that that platform is going to significantly broaden the market going forward. But again, that's a product that was just launched last week. So I don't think we're seeing the benefit of that yet in our order book.

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

And just to add to that, when you think about the mix of our business, you've heard us emphasize the intentionality of driving more activity in small mid-sized fabricators in general industries in general and structural and heavy fab. So you're seeing a progressive mix in those end markets.

In a smaller percentage of the overall mix in automotive, although automotive is an important part of our mix of business.

So all the investments we're making in the technologies will progress our positioning in general industries.

Neal Burk - *UBS - Analyst*

Thank you. That's helpful. And one follow-up on margin.

You're expecting improvement from low to mid 20% incremental margins for the company in 4Q. I know there's a lot of. Moving parts around cost inflation, which continues, but based on where we are today, is kind of mid-20s the right way to think about incrementals going into next year or are there enough sort of price-cost tailwinds or normalization to maybe think about approaching your high-20 incremental target for the long-term?

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

Yes, I would start with that mid-20s as we exit Q4, but our line of sight is to drive to that high-20s incremental margin. So very much focused on expanding our margins, as part of our 2030 objectives, 300 basis points. That implies about 60 basis points per year of improvement.

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So that's really our focus. So you'll continue to see a level of execution that's anchored around that 60 basis points. Improvement on an annual basis.

Steven Hedlund - *Lincoln Electric Holdings, Inc. - Chairman of the Board, President, Chief Executive Officer*

I would say as pleased as we are with the performance of the business, particularly with organic growth resuming, we recognize that the incremental margins are a little shy of where we would like them to be. And the persistent inflation we've seen in the business has been a constant game of whack-a-mole in terms of being hit with surprise cost increases from our suppliers.

Who are seeing themselves increased demand from data centers. So we're competing for the same parts as people building data centers in many cases. And so we've been aggressive in taking price actions to cover that. We've just been constantly one step behind, which is not a position we'd like to be in. So. We believe that we've taken enough price to cover what we already know in the business. We'll be diligent about continuing to manage price going forward and we're very focused on driving productivity in the operations, whether that's manufacturing or the back office operations of the company to help us hit that incremental margin target.

Neal Burk - *UBS - Analyst*

Great. Thank you.

Operator

Mig Dobre, Baird.

Mig Dobre - *Robert W. Baird & Co., Inc. - Analyst*

Good morning, everyone.

Sorry, I want to go back to automation as well.

I guess that's what the focus of the day is.

But I'm just looking to make sure that I understand kind of what you're communicating here. It sounds like essentially you're pretty much.

At the beginning of the year, acceleration in automation in the back half that is happening.

What I'm hearing is incremental is your comment on auto and especially on '28 and '29. So I guess my question is, do you have enough near-term sort of visibility to shipments to suggest that automation can continue on this growth trend in 2027?

Or is this more 2028, 2029 business that you're booking, so our expectations really ought to be more about those out years.

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

Yes, Mig, we're talking about the next 12 months, so I'm talking about high single-digit type growth. We've seen enough in incoming orders and another record level of backlog that gives us confidence of strong momentum going to 2027. The long lead time items will also have an impact depending on how the orders progress.

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Fulfilling 2028 to 2029 build-outs still. So we have the confidence based on what we've seen in orders and our backlog levels that carry the momentum into 2027.

Steven Hedlund - *Lincoln Electric Holdings, Inc. - Chairman of the Board, President, Chief Executive Officer*

I think it's important to remember that for some of the very long cycle projects, we're on percentage-of-completion accounting. So as we do the work in 2027 to get ready for a project that might be supporting a '29 launch, we're recognizing some of the revenue in '27. We also have more confidence in the general industry, the general fabrication part of the business that is a little shorter cycle, right, so more standard weld cells and cobots that we would ship in several weeks, not several quarters. And given the demand trends we're seeing in the business right now, we have more confidence in that part of the business for 2027.

Mig Dobre - *Robert W. Baird & Co., Inc. - Analyst*

My follow-up.

Want to talk a little bit about Harris Products Group and here, obviously, pricing has been very strong, but silver prices have pulled back. So when should we expect negative pricing, if at all, presumably, we will have some based on current commodity prices?

Is there a rule of thumb to how that flows to EBIT in terms of the contribution to either incremental dollars or margin or EBIT dollars, however you want to frame it for us?

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

Yes, Mig, I think it's important to note that our discussions are all based on what we currently see in the market. So let's say you're tracking the high $50s, low $60s per troy ounce. On silver prices.

If you just use that kind of assumption in Q4, we're talking about low double-digit type price increases versus the mid-20s that we saw in Q3. That's the framework that gives us confidence at that 18% EBIT profile. And that's kind of what we see at this point in the model. We'll some positive impacts on the volumes. We're starting to see that. But right now we see our business model at Harris.

At that 18% type profile.

Steven Hedlund - *Lincoln Electric Holdings, Inc. - Chairman of the Board, President, Chief Executive Officer*

And then maybe we'll start anniversarying against some of the big run-up in silver earlier this year as we turn into 2027.

The way that we manage pricing in that part of the business is to try to maintain a fairly constant gross margin percentage on those sales. Obviously, if silver. Prices double, you have twice as many dollars running to the P&L, so you get some nice SG&A leverage.

And on an EPS basis, you get a little bit of a tailwind from that. So as we look forward in the Harris business, we're aware that there's a looming comp issue on silver pricing going into next year, but we're also seeing a strong pickup in demand. For people who are providing cooling systems data centers, and that's going to help that part of the business as we go forward. So some various puts and takes as we think about the Harris business in '27.

Operator

Chris Dankert, D.A. Davidson.

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Unidentified Participant

Hey, good morning. This is Peter on for Chris today.

Coming off FABTECH last week, our customers reacted to new product launches, including XpertLINC. And secondly, in regard to physical AI, are these new products a result of customer-specific requests? So the company trying to source new opportunities.

Steven Hedlund - *Lincoln Electric Holdings, Inc. - Chairman of the Board, President, Chief Executive Officer*

Yeah, great question, Peter. I would say the reaction to customers across the board to the products that we highlighted at FABTECH was extremely positive and very encouraging and I'd like to give kudos to the team that was working the booth there. I thought they did a tremendous job sharing their passion for our products and helping customers resolve their issues around productivity and quality and the like and all of the products we're launching. Are directly aimed against customer pain points, including XpertLINC, which was not necessarily customer driven in the sense of people asking specifically for it, more reflects our decades of experience in the welding industry and our knowledge of what tends to go wrong when people try to automate their cutting and welding processes. So you could say that at some level it reflected our understanding of customer needs, but it was primarily internally driven.

Unidentified Participant

That's helpful. And I guess for my follow-up in terms of the raised CapEx for the year, could you provide some additional color on that?

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

Yes, you've seen a trend, Peter, over the years of our continued investment in our operations and you point to the ROIC performance. So we will invest in capacity and any. Capabilities, including automation within our own facilities and new products to be able to drive organic growth. So we're very much focused on an increasing level of investment in our operations.

Steven Hedlund - *Lincoln Electric Holdings, Inc. - Chairman of the Board, President, Chief Executive Officer*

Peter, I would say that historically the rate limiting factor on organic internal CapEx, which is the highest returning investments we make in the business.

The rate limiting factor hasn't been our willingness to invest, it's our capacity to execute the projects and we've been working very diligently to improve our capability and capacity to execute these projects on time, on budget and to do more of them faster. So that's why you're seeing a pickup in the CapEx investment?

Unidentified Participant

Great.

Thank you. I'll pass it on.

Operator

Nathan Jones, Stifel.

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Nathan Jones - *Stifel Nicolaus and Company, Incorporated - Analyst*

Good morning, everyone.

I'm going to go back to a couple of questions on automation.

Steve, you talked about the automotive side of this getting back to a more normal level.

I think the planned model launches in '29 and '30 are anything but a normal level. They're significantly above a normal level. Now there's questions about whether or not they can get them all launched.

Can you talk about the opportunities that creates a little bit further out for the automation side of the business, just given the magnitude of those product launches?

And would that be a '28 event primarily? I know you said some long lead time stuff in '27, but that would primarily be running through revenue in '28 from that kind of thing.

Steven Hedlund - *Lincoln Electric Holdings, Inc. - Chairman of the Board, President, Chief Executive Officer*

And Nate, I would say if you think about automotive in particular, right, there's two drivers of CapEx related to automation. One is model changeovers.

Which historically have happened pretty much like clockwork, right? And we talked a little bit earlier on the call about the air pocket and the recovery from that.

The second is production rates, right? As production rates increase, we see investments in capacity to help those customers keep up with demand. And right now, automotive build rates are still fairly low, right? So we're benefiting from the pickup now in model changeover investments, but we're not really seeing. The big capacity-driven investment. So I think it's fair to say that we're encouraged by where the automotive portion of automation is headed.

It's still early innings and we're hopeful that we're going to continue to grow that business both in automotive and in the other end markets that we serve.

Nathan Jones - *Stifel Nicolaus and Company, Incorporated - Analyst*

The second one I wanted to ask was more around the AI-powered cobot.

Outlook and how that could change the growth profile. I think over the years, a lot of the automation increase in the addressable market has been improvements in the software that enabled more automation or material handling that enabled more parts of the market to be automated.

Can you talk about how you think this AI-powered cobot, something that can be a bit more flexible and well, something that's maybe a little less predictable.

Plays out over the next few years in terms of increasing the TAM that is addressable by automated welding that maybe isn't today, if that makes sense.

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Steven Hedlund - *Lincoln Electric Holdings, Inc. - Chairman of the Board, President, Chief Executive Officer*

Yeah, a fair question, Nate.

Look, I'm really excited about it because over the years, as I've talked to customers, their biggest frustration is my parts aren't perfect and I know my parts aren't perfect and if I had a human. Doing the welding operation, they would see, for example, the gap getting wider, they would slow down, they would weave, they would increase the wire feed speed. They know what to do to adapt to those parts. The problem with a robot or a cobot historically is you've given it one path and one set of parameters and it just repeats those. Irrespective of what the actual reality of the parts in front of it is. That's been a huge pain point for customers. Historically, your only real option was to invest in fixturing or tooling to force the parts back into tolerance, which automotive can afford to do given the production volumes. But if you're a high mix, low volume manufacturer, it's just been uneconomical and infeasible. For them to automate certain parts of their operation.

The feedback that we were getting at the show was this is an absolute game changer, it basically allows a robot to operate like a human would and adapt on the fly with no additional programming, no additional training.

And so people are really excited about it. How much it will increase the TAM, great question. And as we go through the course of 2027, we'll probably have a better perspective on that when we see what customers are how they're actually deploying XpertLINC and what applications they're using it for.

Nathan Jones - *Stifel Nicolaus and Company, Incorporated - Analyst*

I look forward to hearing about that next year. Thanks for taking the questions.

Operator

(Operator Instructions) Steve Barger, KeyBanc Capital Markets.

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

Steve, I just want to follow-up on that last comment.

End markets broadening out and automation looking like it's picking up, is the sales team focused now on adding customers who haven't automated because they've been scared of the programming or just the difficulty of getting it to work? Or are you more focused on increasing the number of automated applications with customers who already get it because they've already bought systems?

Steven Hedlund - *Lincoln Electric Holdings, Inc. - Chairman of the Board, President, Chief Executive Officer*

Great question, Steve. I'd say both, right? So if we look at some of the businesses we have within the automation portfolio, for example, Zeman that does structural steel welding, we're going to deploy XpertLINC into their systems to make them even more effective than they are already, right? So to create competitive differentiation with other solutions that are targeting existing automation customers. And then more importantly is to look at all those customers that have. Attended a demo of a cobot and decided that's neat, but I just can't use then my operations, right? I have too much part variability, I have too many changeovers, this isn't going to work for me. And we've had a lot of customers get excited about. What they believed the potential of a cobot was and then disappointed with the reality of what it actually took to make one work.

And so that's what we're trying to address with this technology platform is to really deliver on what the initial promise and premise of cobotic welding was, right, very easy to use, doesn't take a skilled or trained operator and significantly addresses real-world problems that our customers face.

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

Got it. Does XpertLINC have a subscription element to it or is it a one-time sale?

Steven Hedlund - *Lincoln Electric Holdings, Inc. - Chairman of the Board, President, Chief Executive Officer*

It has a subscription element to it. The way that we're pricing it is the first year subscription is included as part of the original purchase and then there is an ongoing subscription fee that is about $3,000 a year per user or per cobot or robot arm.

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

And then, Gabe, one quick follow-up.

I just want to make sure I understand. You get to neutral price-cost in 4Q.

How much temporary gross margin pressures remain?

And I guess what is the clean underlying incremental margin starting point for 2027? Are you back to mid- to high-20s?

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

Yes, I would say we would start off at mid-20s.

We do expect, I don't know if you picked up on my comments, Steve, that gross profit margin will exceed the prior year fourth quarter. So we do believe that we took the pricing actions necessary to get to neutral. And then as we progress into Q4 and into 2027 that we've achieved that mid-20s type incremental?

Operator

Walt Liptak, Seaport Research.

Walt Liptak - *Seaport Global Securities LLC - Analyst*

Okay, thanks and good quarter guys.

I wondered, you guys called out equipment being up really solid double-digits and coincidentally one of your competitors had a tornado and.

The market seems to have gotten impacted. Did you see a pickup related to that and help us understand if that's what happened, if it's like a one-timey thing or if there was a market share gain related to that?

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

Well, it's very difficult to assess that. What we do know is that we've seen consistent demand on standard equipment.

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To track at the high-teens level. So I won't comment on the competitive positioning, but we've got a robust level of activity and we see the same momentum going into Q4.

Walt Liptak - *Seaport Global Securities LLC - Analyst*

All right, great. And then just the last one.

You guys called out data center a number of times and the impact on the welding markets. I wonder, have you been able to quantify it either at Harris or at kind of the welding business overall?

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

Yeah. So Walt, at Harris, we estimate between mid to high single-digits of our Harris segment to be exposed to data center activity. And just to remind you, last year, there was a destocking progression.

In the fourth quarter 2025. So we've got easier comps, but we're seeing very good activity and we expect good momentum on the Harris side to progress into the fourth quarter.

On an overall basis, we do have pockets of projects on the automation side supporting data center activity, but a lot of the work we do is indirect into the markets. And so we estimate about less than 5% of our overall business that's tied into data center activity.

Walt Liptak - *Seaport Global Securities LLC - Analyst*

Okay, great.

Thank you.

Operator

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*

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

Our focus remains on converting demand into profitable growth, improving our price-cost performance and investing in differentiated solutions through our RISE strategy. We look forward to updating you on our progress.

Thank you very much.

Operator

Thank you, ladies and gentlemen. This concludes today's conference.

Thank you for participating. You may now disconnect.

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