PRELIMINARY TRANSCRIPT

Nathan Jones, Stifel: Welcome to Lincoln Electric's Fireside Chat. Very pleased to have CEO Steve Hedlund with us today. So a few questions. Management reduced guidance in May after seeing incremental weakness in a number of your end markets and geographies. Can you talk about what you saw in those markets, what you attribute the weakness to, and what your views are for improvement or not, in those markets?

Steve Hedlund: Sure. Thank you Nate for having me. When we were looking at the business earlier this year, particularly around the end of the first quarter, we saw a number of different factors impacting the business. The first and most obvious was the slowdown in production rates in agricultural equipment, which impacts our heavy industry segment. The second was a general weakening in the general industries market, reflecting the continued deterioration in the PMIs. And then the third was a slowdown in automotive, which was a product of two factors: slightly lower build rates that were impacting consumables of equipment, and then also the automakers starting to rethink their product plans as the EV sell through, particularly north of America, hadn't been as robust as they'd anticipated. And so they were starting to rejigger the product portfolio and looking at substituting EVs for iso-hybrid. And that was creating a pause or a slowness in the decision-making around automation investments that we described at the time as an air pocket.

So we saw a slowing in the business and we thought it was appropriate to update the expectations and assumptions around that business. And the second quarter materialized largely in line with what we had anticipated. As we started the third quarter in July, we saw continued deceleration in the business. In July, August is a very difficult month for us to call. As you know, a lot of vacations and holidays in Europe. There's a lot of shutdowns in other parts of the world. So August is very tough for us to read. If September were to continue at the same pace though, we would be looking at a further slowing in the business that would drop our full year organic growth estimates to be now in the mid to high single digit declines for the business. So that's what we're seeing as we sit today.

Nathan Jones, Stifel: So I guess September probably makes up, at least in Europe, probably at least half of the quarter. So there is still that ahead. I guess, where have you seen the slowing in August? What parts of the business have continued to decelerate? Any kind of incremental initiatives.

Steve Hedlund: Yeah, so the softening in the business in July through August has really been broad based. There are a few pockets of the business that are performing well. Products that are energy-related are generally hanging in there. We see some regions of the world, particularly the Middle East, India and other parts of Asia, doing well. But beyond that is a very broad based softening in the business.

Nathan Jones, Stifel: Yeah, I think we're seeing estimates for machinery production, ag production, and generally U.S. industrial production and European industrial production continue to get worse. So I guess the macro indicators have continued to deteriorate, plus some of your larger customers have continued to talk about lower output as we head through the back half of the year. And I guess what you're saying is that you're seeing similar kinds of things.

Steve Hedlund: Yeah, we have a very broad exposure to a wide variety of different industry and segments and geographies. So we generally reflect what's happening in the broader industrial economy and what you're reading and seeing in the numbers is consistent with what we're seeing in our business. I'd also say that a large part of our business is very short-cycle, where we take orders for products that are in stock, we ship next day or within the next couple of days. So our ability to see the future is somewhat limited. And that's why I frame my comments around if September were to continue at the same rate, we're still early enough in September that it's too early for us to call what that's going to look like.

Nathan Jones, Stifel: So I think in some of these markets, you're having additional headwinds from some inventory de-stocking that your customers are doing, particularly in things like construction machinery, ag machinery, they're producing below what is real demand. So does that portend for potentially some improvement as we go into 2025 as de-stocking comes to an end for your customers and they actually are increasing production even if they're not selling anymore?

Steve Hedlund: Yeah, it's hard for me to specify or to guess or pretend when that might actually occur. Some of the larger heavy industry customers have told us not to expect a significant change in their production rates till the end of 2025, but really as you described it, what they're trying to do is manage their inventories in their dealer channel to match eventual production to consumption. And right now they're in a position where they have to take production down below consumption rates to make that happen.

Nathan Jones, Stifel: Maybe just a follow-up question in the U.S. Obviously your business is over-exposed in the U.S. in terms of the global macro-economy. Impact that you think is having from customer uncertainty around the U.S. elections?

Steve Hedlund: Yeah, I think there's just several sources of uncertainty, interest rate policy clearly being one of those. The elections and what impact that's going to have on industrial policy and trade policy, I think, is pretty significant. The Biden administration has been very aggressive at using regulations to try to change the direction of industry. Some of that's being challenged in the courts. And the thing that industrial manufacturers like the least in the world is uncertainty. And so I think until we get through the election and until we start to see a general trend in the macroeconomic indicators to be more favorable, we're probably going to continue to see the kind of demand profile we see today.

Nathan Jones, Stifel: I'll give you my opinion on it. I think the finalization of the election result doesn't really matter. Doesn't matter who wins, will remove some of that uncertainty and will allow your customers and industrial customers in general to have better inputs into their decision making and will be a catalyst for improving capital spending. That's my opinion. Wondering what you think about that.

Steve Hedlund: Well, I hope you're right. Again, I think uncertainty is the greatest enemy of capital investment. Whatever the rules tend to be, once the party that wins is clearly identified, I think business will adjust and adapt to whatever that new set of rules are. But it's the uncertainty around what the rules are going to be and how they're going to be enforced, that creates this uncertainty.

Nathan Jones, Stifel: Yeah. moving on from that. So growth of the automation portfolio at Lincoln through acquisition has been a priority for capital allocation over the last several

years. Talk about the completeness of that portfolio, the company's capabilities and how you believe you're differentiated from the competition.

Steve Hedlund: Yeah, we're very excited about our automation portfolio. We believe we are the market leaders for welding and cutting applications. We cover the gamut from very small entry level, easy to use systems for a general fabricator, all the way up to complete factory-line builds that would be in the 20 to $50 million range. So we cover a wide gamut of budgetary ranges as well as a wide variety of industries. We're very heavily into automotive as an early adopter of automation. We do a lot of work in heavy industries where the repetitive nature of welding lends itself to being automated. And we've been hard at work at solutions that make automation more approachable for the general fabricator that has a high mix low volume per part sort of setup. So it's things like the cobot that are much easier for someone to program. And now we're starting to pull together some of the technologies of the different acquisitions we've done. So specifically Inrotech and RedViking, to create much more of a self-programming welding robot that would dramatically reduce the setup time for somebody to be able to use a welding robot.

We believe the continued shortage of skilled labor, the push for reshoring and nearshoring, will continue to create long-term tailwinds for the business. And we're very excited about the position we've got.

Nathan Jones, Stifel: So I think over the years the technology has improved and it's increased the parts of the welding market that can be automated both on the software on the welding robot side of it and the material handling side of it on the other side. Can you talk about, and you're seeing technology accelerate rather than decelerate. Do you believe that the addressable market for automation is going to continue to expand and expand at an accelerating rate, given the evolution of technology and then how that puts you in an advantaged position?

Steve Hedlund: Yeah. Well let's start with the industry as it is today. So the automation industry is larger than the welding industry. We put the welding industry about $25 billion globally. We put the automation portion that we participate in more of the 35 billion, and growing twice the rate of the welding business. So already it's got a secular tailwind to it that we really like. And then as you mentioned with technology, we're really trying to grow the addressable market to bring automation to companies that thought, mix of business really isn't suited for automation, which historically has had very high upfront setup costs. So it makes a lot of sense if you're making 300,000 or 400,000 seat frames for automotive, to automate. But if I'm making 10 or 20 of something, boy, the cost to do that is just too high. And what we're seeing now is a much more flexible approach to automation that really is reducing those barriers to adoption and growing the total addressable market. So we think it's going to be a very long term and very attractive growth driver for the company, and we really think we've got an enviable position that is a leader in the industry.

Nathan Jones, Stifel: Cobots have been a hot topic for investors and for welding companies out there. Can you talk about, I mean, I think it's still a pretty small market at the moment, still on its ramp up, but the evolution of that, what you think the adoption curve can look like and how big the market for Cobots can end up being?

Steve Hedlund: Yeah, I mean, you're right. Right now, Cobots are a relatively small part of the overall automation business. We were very happy that earlier this year we had sold our thousandth Cobot. So we believe we are orders of magnitude larger than any of the other competitors in this space. Largely on the back of the software that we've developed, the Cobot is very easy to program from a position standpoint.

You drag, click, drag, click, you show the robot where to go. But the dirty little secret in our industry is once you've done that, there's at least 12 other parameters you have to set to get a good weld based on the material you're using, the thickness, the type of weld you want, travel speed and the like. And we've developed software called the Cooper app that really automates that process, makes it much more pictorial for the customer. Are you making a thick weld or a thin weld? Does your joint look like this or like that? And then the Cooper app sets the rest of it for you. So we see tremendous adoption of our solution. That is one of the segments though, that's been hit in this general economic slowdown, particularly with higher interest rates and the uncertainty. You've got the small fabricator that maybe is all holding onto their money a little more tightly than they have been in the past.

Nathan Jones, Stifel: Yeah. You guys have invested a lot over the last few years in building out that portfolio. Do you view it as complete now or there still gaps within the automation portfolio that you need or would like to fill?

Steve Hedlund: Well, I'd say the work is never done Nate. We really like the portfolio we've got now. We're constantly looking for technology acquisitions that would allow us to scale and deploy technology like they have at Inrotech with AI-based vision systems to deploy that across our portfolio. We'd like to build up our presence in more geographic countries. So we're very North American-centric today in the automation business. We have to be careful in doing that, and we're very disciplined acquirer. There are some geographies where the market structure really isn't that conducive to being a general integrator. So Europe for example, we've made the decision to focus on specialty applications where we can get paid for the value and to stay away from some of the more general industry applications there. But we continue to look to shape and accelerate that portfolio in that strategy over time. Our strategy is to grow three to 4% per year through acquisitions and to be very disciplined about strategic fit, the price that we pay and the value creation opportunities we bring.

Nathan Jones, Stifel: So hot topic with investors around Lincoln, you've developed a DC fast charger for the EV market, which could provide material new revenue stream as the company has said, you have the capacity to do up to $600 million in revenue. Talk about the opportunity and challenges for the product and in these markets. I know it's a rapidly developing market and some of the government funding has been a little challenging, but maybe you can just talk about where you are in the evolution of that. I know it's very early for you guys yet, but just talk about the opportunities there.

Steve Hedlund: Sure. Yeah. First of all, I'm really proud of the team and the work that we've done in a very short period of time to stand up our first DC fast charger, which we intentionally designed around the NEVI or the New Electric Vehicle Initiative. The Biden administration's push to try to build out the highway charging network in the US to address the barrier to adoption around range anxiety. So we chose that

first product, which is a single car, single pedestal, 150 kilowatt charger is the place to start. We've developed the product, we've gone through all the certifications. It's getting rave reviews from customers. The problem is the market is evolving. It's a very dynamic market. The government, US government, and the states have not spent the money at nearly the clip that anyone anticipated they would. At the same time, the vehicle manufacturers are introducing vehicles that can accept much higher power charging levels.

So a lot of the customers we've talked to love our value proposition, love the product, just don't want to buy that product and are asking for things that are different than what we have to sell today. They're things that were on our roadmap. They're things that we know how to do. They're just future products, not things that are available for sale today. So we anticipate that we'll be launching a next set of products by the end of the year, but we really think that any material revenue ramp for the business is going to happen in late 2025 at the earliest.

Nathan Jones, Stifel: So it's not a different technology. You need to re-engineer the product so that it charges faster, takes a higher power rating for the car.

Steve Hedlund: No, the architecture we have is very modular and scalable. So it can go easily from 50 kilowatts up to one megawatt. There are some differences in how you handle that amount of power, whether you have liquid cooled cables or not. A lot of customers are not looking for dynamic power sharing. So if you show up at a pedestal and your car is almost fully charged and it only wants 40 kilowatts, can I take the power that I would've normally allocated to you and sell it to somebody else? So there's a piece of hardware we need to design and develop, we're working on right now that goes in between the various charging pedestals, the dynamic power load. That was something on our road map. We know how to do it, we just hadn't done it yet. So it's designing and manufacturing those additional pieces of equipment.

Nathan Jones, Stifel: And maybe just talk a little bit about the NEVI funding and what's delaying that getting out into the market other than the government's in charge of dispensing.

Steve Hedlund: Well, I think you hit on a big reason right there. No, I mean it was a big push that I think a lot of the states really weren't prepared for the amount of work that had to go into the contracting process, the site selection process. There's also a lot of delays around the electrical infrastructure in the US isn't really suited to handle all these additional charging points. So you have long lead times on site permitting other capital equipment that goes into it. So there's just a lot of factors that complicate it that is making it go a lot slower than anybody thought it would go.

Nathan Jones, Stifel: Yeah. And I guess it's a brand new market, so people are not sure how to handle all of that kind of stuff, which makes it take longer. Let's go on to margins. EBITDA margins in 2019, were about 15 and a half percent and should be about 400 basis points. Basis points higher in 2024 despite significant inflation and some dilutive acquisitions. Talk about the inputs for the margin expansion and how sustainable those margins are in your view, particularly in a more prolonged, weaker demand environment, as you've talked about a little bit today for the back half of the year.

Steve Hedlund: Great. Well first of all, Nate, thanks for noticing the improvement in our margin progression over time. It's the result of a lot of hard work of the team on a number of different fronts. One on pricing discipline. We're very focused on ensuring that we pass through inflationary costs rather than absorbing that as a hit to the bottom line. So a lot of work by the teams on maintaining our price cost neutral at the margin line position. A lot of work on productivity in the business to make our factories more productive, to reshape our factory network, particularly in Europe, looking at SG&A efficiency, trying to get business process standardization, simplification so we can do the same things more efficiently, drive more money to the bottom line. There's been a lot of work in reshaping the automation portfolio to be more profitable. A lot of work on the Harris Products Group.

So we view this as the culmination of a lot of little things rather than one big silver bullet. We believe it is very sustainable, and we look to continue to extend that trajectory in a more normal market environment going forward. In the environment we find ourselves in now, we've got a well-defined playbook that Lincoln's run over many generations of going through economic cycles to control costs. Some of that is automatic as part of our unique compensation programs in Cleveland with piecework and profit sharing bonus and the like. But we're also now really taking a hard look at all of our discretionary spending, looking at the strategic initiatives. We want to make sure we continue to fund around growth and innovation, but really tightening the belt on a lot of the other areas in the business where we can afford to delay some projects and defer some spending.

So we're looking to trim costs out of the business. We think a lot of that will happen more in the fourth quarter than the third quarter because it just takes some time for those actions to come to fruition. In addition, in the third quarter, we've got some challenges around revenue recognition and businesses that we've acquired, the automation businesses, some of which are on completed contract basis, where you don't recognize the revenue in the margin until the very end of the project. And so if the project's ending in Q4, Q3, we're carrying all those costs but not getting any of the revenue recognition. So when all is said and done, if the current demand conditions were to continue, we talked about earlier needing to getting a look at September, we think that we're going to be able to come in with a margin degradation from where our previous guidance was of around 50 basis points, right, with more pain in the third quarter, more of the benefit in the fourth quarter.

Nathan Jones, Stifel: So if September continues the way August was and then the rest of the year I guess continues at that kind of pace as well. I think the guidance, the current guidance in 2Q is for four-year margins at 17.5, operating margins.

Steve Hedlund: 17.5 organic, 17.2 including acquisitions. So we're saying fifty-ish basis points,

Nathan Jones, Stifel: Impression on that. So there's 50-ish basis points, often compression on that. So there's some cost levels that you'll pull, but you still get the operating deal.

Steve Hedlund: And we feel like we're starting to look a lot like the 2015, 2016 mini industrial recession that we went through, and relative to that we'll be 200 to 250 basis points better than we were then. So we feel pretty confident about the progress we've made, and our results would reflect decremental margins in the mid-20s, which we feel is pretty good for that level of volume decline.

Nathan Jones, Stifel: Is pretty good, mid-20s decremental is pretty good for a manufacturing business. So the welding industry has put through a lot of price over the last few years in response to inflation, with steel being the biggest input for your business, and having seen very significant inflation in 2020 and 2021. More recently, steel has seen some pretty significant deflation. Historically, the welding industry has been pretty good at not giving back deflationary price. Talk about what the business is seeing from a price perspective and a net price perspective, and how pricing in the market's reacting to the softer demand.

Steve Hedlund: So steel is a very visible element of our cost structure, but it's really only one component. And we believe, and we feel like we're still in an inflationary environment when we look at all the other cost inputs, chemicals, freight, energy, labor, et cetera. So we're maintaining price discipline. We're not conceding price because our costs are not declining at the level you might expect, and we can just at one input cost. We're willing to give up some very low margin commodity business on the margin to maintain that price posture, but our goal is to remain price cost neutral at the margin line throughout the year.

Nathan Jones, Stifel: So are you saying that the business is not seeing aggregate cost deflation?

Steve Hedlund: Correct.

Nathan Jones, Stifel: Okay. So one of your competitors at least, has talked about some price downs in Europe specifically.

Steve Hedlund: Yeah, Europe in particular is challenging. The market and competitive structure there is different than in other parts of the world. Very fragmented, a lot of privately owned companies that are not managing for margin percentages, they're managing for cash flow.

Nathan Jones, Stifel: Cash flow.

Steve Hedlund: And so that's where we've seen a lot of the pricing pressures in Europe, and that's where, particularly at the commoditized undifferentiated products, that's where we're seeing some share erosion as we hold price to maintain our margins. On more highly engineered proprietary solutions, you don't see the same level of price pressure, so it really depends on which part of the product portfolio we're talking about.

Nathan Jones, Stifel: But this strategy from your perspective, would be on that more commoditized stuff where steel is a bigger percentage of the input, you're prepared to lose that revenue rather than to lose margin on that business.

Steve Hedlund: Yeah, because if you look at the math at an overall profit maximizing, that it's-

Nathan Jones, Stifel: Strategy. It's low margin business to begin with.

Steve Hedlund: Right.

Nathan Jones, Stifel: And if you cut prices on it'll be no margin business, and it doesn't matter if you lose it anyway.

Steve Hedlund: It doesn't matter. We're looking at using our full global network to see if there's alternative ways we can service some of that demand. We have a large factory in Turkey. We've got factories in China. One of the challenges becomes the constantly shifting trade policy to come back where we started the discussion. So having some more clarity around the rules of the game that we could plan around would be helpful. But right now it feels like a little bit of a changing dynamic as various countries look at is of protecting their domestic industries.

Nathan Jones, Stifel: So the balance sheet has considerable capacity on it. You're about one tone of net leverage at the moment. Automation's been a big focus for acquisitions over the last few years that maybe you've rounded out most of that portfolio. Talk about the priorities for the next few years. Does automation continue to be the focus or does it shift to somewhere else?

Steve Hedlund: Yeah, maybe to describe it as the focus of our acquisition strategy, a little bit of a misnomer. We've had a very balanced strategy of looking at all parts of the business. Our goal is to invest first and foremost in organic growth internally, that has the highest return for us. Then to look at M&A, where we can generate mid-teen IRR and ROIC, which we've historically done with all of our acquisitions. And then to the degree that there's surplus cash after that and after paying the dividend, then we look at share buybacks as a way to burn off that cash.

The automation part of the business has really just been the most actionable part for us over the last couple of years based on the fragmented nature of the business. But as you know, we recently acquired Vanair to strengthen our position and the service truck channel in the US to sell our welding equipment through their relationships as well as to broaden our product portfolio of their battery powered field equipment. We've done some smaller acquisitions to support the Harris products group and the HVAC seed business there. So we really continue to look at all opportunities in front of us, and it's really disciplined about executing our strategy and generating the kind of financial returns that our shareholders expect that drives our capital allocation.

Nathan Jones, Stifel: Maybe we could talk a little bit about Harris. It's a little bit of a different business to the overall welding business and sometimes gets overlooked in Lincoln's portfolio. So maybe you can talk about the demand dynamics you're seeing at Harris specifically, and we'll start there.

Steve Hedlund: Sure. Yeah. So there's really three components of the Harris business. First is it is the channel of distribution for the big box home centers in the US. Think of Lincoln branded welding equipment and consumables being sold to Home Depot and Lowe's managed by and reported through the Harris products group just because there's a different rhythm and dynamic to that channel. Second part of the business is gas equipment, largely regulators for industrial gases for cutting and welding. And then the third part of it is brazing and HVAC, sub-assemblies to service air conditioning modules and the like. When we look at that business overall and the second quarter had some favorable tailwinds to it, generating an 18.2% EBIT margin, which I think is a high water mark for us.

That'll probably come back a little bit in the third and the fourth quarters. But the Harris group is operating at the high end of its range. So we're continuing to press that leadership team to do even more for us going forward, and we continue to look at ways to try and expand that business organically and

inorganically now. The markets that it serves, retail, obviously very exposed to the US consumer, which isn't feeling the healthiest at the moment. So we do have some challenges there we're trying to manage through. And then with the housing market being challenged by high interest rates, the HVAC portion of the business has some headwinds to it as well. But overall, I think the team's doing a very good job of managing that business and want to continue to see them do more.

Nathan Jones, Stifel: What do you think has enabled Harris in what's not necessarily the most favorable demand environment to post these margins that have been... You had maybe a little bit of a flip in the second quarter, right? But the margins have been towards the high end of your target range for quite a number of quarters. It's not just that one quarter. So despite maybe not the best demand conditions, still operating at a very high level of execution, producing really good margins.

Steve Hedlund: Yeah, team's done a great job. There's no one silver bullet. It's a lot of things. We've done some restructuring in the manufacturing network to reduce our costs. We've gotten a lot more pricing discipline. We're not chasing a lot of very low margin export orders that fill the factory, but fill it with a bunch of crud. We've got some product innovation that we've launched in the market that comes at much higher margins. So the team overall is just doing a good job of executing the playbook.

Nathan Jones, Stifel: Maybe you can talk about what you view as the biggest opportunities for growth for the business over the next three to five years, over a longer term timeframe if we get out of current disruption and stuff.

Steve Hedlund: Yeah. I just think there's a lot of opportunity for our business, both in the core business, continuing to drive innovation, to make the welding process easier and more effective for our customer and surrounding them with better solutions. Continuing to mature the automation business, which is several hundred basis points below the company average, but clear path to get there through how we manage that business. Continuing to drive technology like the self-programming robots into the market. I think there's a lot more work for us to do on the cost side of the business, both on cogs, particularly looking at factory productivity and purchasing. We've restructured our purchasing organization, hired an external chief procurement officer to drive much more purchasing scale in the business, looking at business process simplification, standardization. We do a lot of the same things around the world, but we do it just differently enough that it's hard to automate it and to make it much more effective. So we're going through some sort of core business process redesign, not very sexy stuff, but hopefully we'll drop a lot of money to the bottom line. So we think that part of it's sexy.

Nathan Jones, Stifel: Everybody here thinks making money is sexy.

Steve Hedlund: Yeah. So we see that there's a lot of different levers that we can continue to pull to continue to grow the business and continue to expand margins.

Nathan Jones, Stifel: How do you view, or how do you think about geographic expansion for the business? Lincoln's historically been very US-centric, built a lot of the business with allocation. That acquisition into Europe doesn't participate a lot in the rest of the world. Is that something that you would look at doing to open new markets, or are they unattractive to Lincoln, or there's issues with the market structure that

you don't think makes other places geographically attractive for you? Just how you think about potentially moving into other markets.

Steve Hedlund: Yeah. Nate, it's really all of the above. There are parts of the market that are very attractive to us that I think we can be much more aggressive, particularly with organic investment, maybe supplemented by acquisitions. But I look at places like the Middle East, I look at India where I think we've got a long way to go to get to what I would consider to be as our fair share of the market. There are other places like China where the market structure and industry dynamics are just not very attractive to us outside of a couple little niche areas that we're in today. And so we're happy with the business we have in China, but we're not necessarily looking to expand it significantly. And you really just have to go almost market by market to decide what is attractive to us, where are we going to prioritize investment and where do we say thanks but no thanks.

Nathan Jones, Stifel: I've been around long enough to remember when you and all your peers tried to go into the Chinese market and everybody decided they couldn't make any money there.

Steve Hedlund: No, that was an interesting period in our history that we had a belief that we wanted to be the biggest in the industry. And to be the biggest in the industry, you had to be the biggest in the biggest market, which was China. And we stumbled in that market and eventually-

Nathan Jones, Stifel: And everybody else.

Steve Hedlund: Moved on.

Nathan Jones, Stifel: I think the entire industry decided that China was a huge market and they wanted to participate there. And then everybody realized that China didn't want to buy any quality products.

Steve Hedlund: Yeah, exactly. May be you could buy it. They just didn't want to pay for it.

Nathan Jones, Stifel: Well, there you go. Same thing, right? What do you view as the biggest opportunities for you to expand margins over the next several years?

Steve Hedlund: Yeah, I think it's just executing that multifaceted playbook, continuing to do a lot of things right, that each of which adds a little bit to the margin, but the compounding effect of all those together is quite powerful. I don't think there's any silver bullets. I think we've got a great team and I think the team's lined up around the challenge. The question for me is CEO is just pacing it. I always want to go faster. I always want it done yesterday. And it's really just trying to move at a pace that's sustainable for the organization and is acceptable to investors.

Nathan Jones, Stifel: What do you view as the biggest challenges or biggest threats to the business over the next three to five years?

Steve Hedlund: I mean, the cycle obviously is one. It just forces us to be fairly adept at managing our priorities and really ring-fencing those things that we will not sacrifice because they are key to the future and those things that maybe we can take a little bit more time to execute on and wait for better market conditions to do that.

But I really don't see any significant risks that cause me to lose sleep at night. It's really just the excitement over what the business has done and what it can do in the future. That's what really motivates me.

Nathan Jones, Stifel: So a few minutes left, so I'll ask some questions we typically get from investors around things like that. Laser welding, taking market share from traditional forms of welding, which Lincoln is a bigger participant in. I know you do some lasers. Can you talk about... I mean it's been probably years I've been listening to investors say laser welding is going to eat all the market share of traditional welding and it doesn't happen. But maybe you can talk about why that isn't so much of a threat and if it was how you would participate in it.

Steve Hedlund: Yeah, so laser welding, particularly the handheld laser welding, because Lincoln has been integrating as part of our automation business, high-powered lasers and industrial applications for a long time, and we're very good at it. I think really what you're referring to and what's exciting is the handheld laser that you would have an operator doing that. The physics of it really lend itself to thin gauge sheet metal, really replacing TIG welding, which is an artisanal process that's very hard for people to learn. Very slow, no offense to anybody, but TIG welders tend to be viewed as prima donnas. So it's a very hard position to keep employed.

And so the fact that laser welding, handheld laser welding is maturing, is an alternative to TIG welding, I think is really exciting. That's one of the areas that we particularly have not been very strong at in the past is TIG welding. That's something that's been dominated in the North American market by Miller. And so we view the potential disruption around laser handheld welding as a great opportunity for us to take share in that market. So we'll be launching at Fabtech a handheld laser solution that we're really excited about that uses some of our proprietary technology. They'll augment what is an otherwise plain vanilla offering. So we look at all forms of technology disruption like that, both as a risk and an opportunity for us.

Nathan Jones, Stifel: Maybe talk about the investments you're making from the laser side. We always get questions about IPG as a supplier and a competitor and how that dynamic balances out. So any commentary on that?

Steve Hedlund: Yeah, so if you look at the parts of a laser welding system, the generation of the photons is really becoming commoditized. And the prices on those are falling dramatically, and there's a lot of manufacturers in China that are jumping into that space. So we have almost no interest in vertically integrating to build machines that generate photons. Now what you do with the photons once they're generated in particular, a lot of the optical packages, particularly for high-powered lasers or of interest to us, because those are key to making the system work and tend to be more differentiated and proprietary, but just being a laser generator, not particularly exciting. Similar to us in our view of being a robot arm manufacturer, we believe the robot arms over time will be become more commoditized and it's just a device to move a work piece or a work tool from point A to point B, and that's not really where the magic is in the system.

Nathan Jones, Stifel: I guess I'll ask one more on automation. You mentioned not wanting to be an arm manufacturer. Lincoln's really the only welding supplier that does the integration.

Everybody else has chosen to partner with third parties. Personally, I think the way to go is this model that Lincoln chose for that. I know if I buying an automated piece of welding equipment, I'd want the one throat to choke that I'm going to call being the welding guy, not the-

Steve Hedlund: We prefer the one back to pat, but-

Nathan Jones, Stifel: Rather than the robot guy, if you're buying it from them. So maybe talk about the strategic decision to be the integrator and why you think that gives you an advantage in that market.

Steve Hedlund: Well, you're absolutely right, Nate. That's how we got into the business. We were selling welding equipment to third-party integrators to do a welding sell. And when it didn't work, they always blamed us and there would be all kinds of finger-pointing. Typically, the customer would put the wire consumable business at risk saying, if you don't come fix this Lincoln, we're going to yank the wire business. So we were doing all the work and bearing all the costs to fix these mistakes, and we thought we'd rather get the revenue for doing the operation ourselves.

We'd like to control the customer. We'd like to make sure we're not over-promising and under-delivering. So that's how we started stepping into automation integration was really just a defensive move. Once we were in it, and you could see the demographics of the shrinking aging workforce, the need for people to automate beyond automotive applications, the technology that might enable you to do that. We said, wow, this could be a great investment opportunity for us. A very long-term secular growth driver for the company. I don't know why nobody else saw that, but different companies make different decisions based on different criteria, so.

Nathan Jones, Stifel: It's worked out pretty well for you.

Steve Hedlund: So far, so good.

Nathan Jones, Stifel: All right. Well, thanks very much for your time today. Appreciate it and enjoy the rest of the day.

Steve Hedlund: Thank you for having me.