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# EDITED TRANSCRIPT

LECO.OQ - Q4 2025 Lincoln Electric Holdings Inc Earnings Call

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## OVERVIEW:

Company Summary

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

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

## CONFERENCE CALL PARTICIPANTS

**Angel Castillo** *Morgan Stanley & Co Ltd - Equity Analyst*

**Nathan Jones** *Stifel Nicolaus & Company Inc - Analyst*

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

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## PRESENTATION

### Operator

Greetings, and welcome to the Lincoln Electric 2025 fourth quarter financial results conference call. (Operator Instructions) And this call is being recorded. It is my pleasure to introduce your host, Amanda Butler, Vice President of Investor Relations and Communications. Thank you. You may begin.

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

Thank you, Coby, and good morning, everyone. Welcome to Lincoln Electric's fourth quarter 2025 conference call, where we will be covering our fourth quarter and full year 2025 financial results as well as our new 2030 targets. We released our financial results earlier today, and you can find our release and this call slide presentation at [lincolnelectric.com](http://lincolnelectric.com) in the Investor Relations section.

And joining me on the call today is Steve Hedlund, Chairman and Chief Executive Officer; as well as Gabe Bruno, our Chief Financial Officer. And following our prepared remarks, we're happy to take your questions. But before we start our discussion, please note that certain statements made during this call may be forward-looking, and actual results may differ materially from our expectations due to a number of risk factors and uncertainties which are provided in our press release and in our SEC filings on Forms 10-K and 10-Q.

And in addition, we discuss financial measures that do not conform to US GAAP. A reconciliation of non-GAAP measures to the most comparable GAAP measure is found in the financial tables in our earnings release, which again is available in the Investor Relations section of our website at [lincolnelectric.com](http://lincolnelectric.com). And now I will turn the call over to Steve Hedlund. Steve?

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

Thank you, Amanda. Good morning, everyone. Turning to slide 3. I am proud to report record 2025 performance. Despite challenged end markets, our sales increased 6% to a record \$4.2 billion from acquisitions and price. We maintained last year's record adjusted operating income margin, increased adjusted EPS to a record \$9.87 and generated strong cash flows from operations. This resulted in record cash returns to shareholders.

Disciplined cost management and the agility of our supply chain team mitigated unprecedented levels of inflation, finishing the year at our neutral price/cost target. In addition, our savings programs generated an incremental \$31 million of permanent savings. These achievements, combined with solid commercial and operational execution culminated in top quartile ROIC and total shareholder return performance versus our peers.

On behalf of the Board and leadership team, I would like to thank our global team for delivering these superb results. Their commitment, focus and agility continue to position the company to outperform in the years to come.

Turning to slide 4 to cover demand trends in the fourth quarter. Organic sales grew 2.5% from price, which was largely offset by weaker volume performance. As discussed on earlier calls, we faced a challenging prior year comparison in our automation portfolio, which magnified volume declines. Excluding automation, organic sales would have increased approximately 8%. The growth reflects price contributions in consumable and equipment as well as relatively steady volume performance in our welding consumables in Americas and International Welding.

2025 was a challenging year for automation due to lower capital spending and project deferrals. Automation sales were \$240 million in the quarter, an 11% decline versus a record prior year. And on a full year basis, we achieved \$870 million, which is a mid-single-digit percent decline. We are encouraged by strong order rates and a solid backlog in our automation business in the fourth quarter.

This is expected to drive growth in 2026. Due to seasonality and the timing of revenue recognition, we expect first quarter sales to be steady with prior year levels and then pivot to growth starting in the second quarter.

This follows the typical seasonality cadence of a 40%, 60% split between the first and second half of the year. Looking at end markets in the quarter, three of our five sectors grew with an acceleration in December, notably in Americas Welding. And excluding automation due to its challenging prior year comparison, all five end markets were flat to up. This momentum, combined with a return to more normalized customer production activity, OEM announcements of higher capital spending plans for 2026 and the manufacturing PMI pivoting to growth in January are all encouraging signs that we may be in the early stages of an industrial recovery.

A few highlights to note are the continued outperformance in energy, which is due to strong project activity in both Americas and Asia Pacific. General industries achieved double-digit growth in Americas, but was impacted by lower HVAC activity in the quarter. We are seeing HVAC demand start to normalize in January, and our non-resi structural steel sector was flat globally, but up mid-teens percent in Americas on strength in both North and South America from a range of projects.

The two challenged sectors were automotive and heavy industries and both were impacted by automation's prior year comparison. Transportation, excluding automation, grew at a mid- to high-single-digit percent rate, largely from consumable demand for vehicle production. Heavy Industries organic sales, excluding automation, was modestly higher year-over-year as construction and ag sector production activity continued to improve, resulting in solid consumable volume growth. So we are well positioned with strong backlog levels and broadening pockets of growth in Americas and Asia Pacific to drive growth in the year ahead.

Now I'll now pass the call to Gabe Bruno to cover fourth quarter financials in more detail.

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

Thank you, Steve. Moving to slide 5. Our fourth quarter sales increased 5.5% to \$1.079 billion from 8.9% higher price, 1.9% favorable foreign exchange translation and a 1.1% benefit from acquisitions. These increases were partially offset by 6.4% lower volumes. Gross profit dollars increased approximately 1% to \$374 million and gross profit margin compressed 140 basis points to 34.7%.

A \$3 million benefit from our savings actions as well as diligent cost management and operational initiatives was offset by lower volumes and a \$3 million LIFO charge in the quarter. SG&A expense decreased approximately \$3 million versus the prior year from the benefit of

\$5 million of permanent savings and lower employee costs, which were partially offset by unfavorable foreign exchange translation and higher discretionary spending.

SG&A expense as a percent of sales declined 130 basis points to 17%. Reported operating income increased 4% to \$184 million. Excluding special items primarily related to acquisitions as well as rationalization and asset impairment charges, adjusted operating income increased 4% to \$194 million.

Our adjusted operating income margin declined 20 basis points to 18%, reflecting a 15% incremental margin. We reported an effective tax rate of 21.2%, which is 510 basis points higher versus prior year. Our effective tax rate reflected an approximate \$3 million special item tax expense from the election of provisions for the One Big Beautiful Bill Act. This election also reduced tax payments by approximately \$25 million in the quarter, which we expect to realize again in the first quarter of 2026.

Excluding special items, our effective tax rate was 19.8%, which was 300 basis points higher versus the prior year's adjusted effective tax rate, which benefited from a favorable mix of earnings and the timing of discrete items. We reported fourth quarter diluted earnings per share of \$2.45. On an adjusted basis, earnings per share increased 3% to \$2.65. Our earnings per share results include a \$0.07 benefit from share repurchases and a \$0.01 favorable impact from foreign exchange translation.

Moving to our reportable segments on slide 6. Americas Welding sales increased approximately 4%, driven by 10.4% higher price and 60 basis points of favorable foreign exchange translation. Volumes declined approximately 7%, primarily from the automation portfolio, which had a challenging prior year comparison. While automation order rates accelerated in the fourth quarter and the segment has a strong backlog entering into 2026, revenue recognition is not expected to begin to ramp until the second quarter.

The price increase reflects prior actions taken to address rising input costs. We anticipate price levels to hold sequentially in the first quarter prior to substantially anniversary in the second quarter. We will continue to monitor trade policy decisions and take appropriate actions as needed.

Americas Welding segment's fourth quarter adjusted EBIT increased 7% to \$141 million. The adjusted EBIT margin increased 90 basis points to 20%, primarily due to effective cost management, favorable mix and \$5 million in permanent savings. We expect Americas Welding to continue to operate the mid-18% to mid-19% EBIT margin range in 2026.

Moving to slide 7. The International Welding segment sales increased approximately 7%, as a 5% benefit from our Alloy Steel acquisition, a 5% favorable foreign exchange translation and 50 basis points of price were partially offset by 4% lower volumes. Volume compression reflected the continued challenges in European industrial demand trends, which were partially offset by pockets of growth in Asia Pacific and in the Middle East.

Adjusted EBIT decreased approximately 4% to \$31 million. Margin compressed 100 basis points to 11.8% as the benefits of our Alloy Steel acquisition, effective cost management and a \$3 million of permanent savings were offset by the impact of lower volumes. We expect International Welding margin performance to be in the mid-11% to mid-12% margin range in 2026.

Moving to the Harris Products Group on slide 8. Fourth quarter sales increased 11%, driven by 18% higher price and 170 basis points of favorable foreign exchange translation. As expected, volumes compressed 9% due to the decline in HVAC sector production activity in the quarter. Price continued to increase on metal costs and price actions taken to mitigate rising input costs. Adjusted EBIT increased 8% to \$23 million as margin declined 30 basis points on lower volumes and mix.

The Harris segment is expected to operate in the 18% to 19% margin range in 2026. Moving to slide 9. We generated solid cash flows from operations in the quarter, aided by lower tax payments. Average operating working capital rose 100 basis points versus the comparable prior year period to 17.9%, primarily due to higher inventory levels and reflects top quartile performance compared to peers.

Moving to slide 10. We continue to execute on our balanced capital allocation strategy with high quartile returns. In the quarter, we invested \$44 million in growth, reflecting an acceleration in CapEx investments and returned \$94 million to shareholders. We generated an adjusted return on invested capital of 21.3%.

Moving to slide 11 to discuss our operating assumptions for 2026. While conditions remain dynamic in many of our regions from ongoing trade negotiations and geopolitics, we are encouraged by recent OEM commentary on capital spending plans and growing infrastructure project commitments. This gives us cautious optimism that we may be in the early stages of an industrial sector recovery that would translate to broader demand momentum in our business in the second half of the year.

While domestic distribution channel demand and consumable volumes have remained resilient, demand for our equipment and automation portfolios has been choppy. We will be looking for consumable volumes to inflect to consistent growth, which is typically followed by an acceleration in capital spending after one to two quarters. Once we see those drivers, we are confident that our channel mix, diversified end markets and portfolio of solutions positions us well to capitalize on accelerating growth.

Our full year 2026 operating framework assumes a sales growth rate in the mid-single-digit percent range with organic sales split 50-50 between volume and the 2025 price actions that carry over to 2026. We expect volume growth rates to improve starting in the second quarter and through year-end. Price is expected to be strongest in the first quarter, especially in the Americas Welding segment before largely anniversarying last year's price actions in the second quarter.

Our price assumption does not include dynamic metal price adjustments in our Harris Products Group segment due to the volatility of metal markets. Our 2025 Alloy Steel acquisition is expected to provide an approximate 7 basis point contribution to sales. These assumptions support a first quarter sales estimate that is similar to fourth quarter sales results. We will continue to pursue a neutral price/cost posture and expect a mid-20% incremental operating income margin from volume growth and enterprise initiatives, which will result in a modest improvement in our operating margin for the full year.

In the first quarter, we expect a seasonal sequential increase of approximately \$10 million in incentive costs as we reset incentive targets and issue long-term incentives. This will impact margins and cash flow performance as we start the year. For the full year, we are confident in strong cash flow generation, which supports our capital allocation strategy and helps compound earnings performance through the cycle.

We will continue to maintain an elevated level of capital spending with a target range of \$110 million to \$130 million as we invest across a range of safety, growth and productivity-oriented projects to drive long-term value. Our expected tax rate and interest expense are generally in line with last year at a low to mid-20% rate and in the range of \$50 million to \$55 million, respectively.

And now I'll pass the call back to Steve to cover our RISE strategy and new 2030 targets.

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

Thank you, Gabe. Turning to slide 13. Our next strategy builds upon the success of our Higher Standard Strategy, which concluded in 2025. And despite a volatile five-year period that no one could have predicted, we are proud to have advanced the business and achieved most of our strategic targets, reaffirming our strong Say-Do reputation and our commitment to deliver on our goals.

This is a testament to our incredible global team, the agility of our operations and the tremendous support of our customers, partners and shareholders. So on behalf of the leadership team and the Board of Directors, thank you for your support.

Turning to slide 14. Each reportable segment made progress during the higher standard strategy, most notably in profit contribution without the benefit of significant operating leverage. Diligent cost management, savings programs and operational improvements were all drivers to segment improvement.

Key highlights are the doubling of our automation sales and EBIT margin over the five years, the outperformance of Harris Products Group's margins and the groundwork we laid in leveraging the scale and scope of our enterprise to drive higher returns. The persistent drive for continuous improvement has delivered superior returns for our shareholders, as highlighted on Slide 15, with a 122% total shareholder return rate, which is over double proxy peers in the last strategy cycle.

Turning to slide 16. For 130 years, we have consistently operated with a value framework that balances being people-focused with growth, continuous improvement and financial discipline. Our unwillingness to trade off one element for another is what sets us apart and is foundational to our culture and success. It has also delivered superior returns for our shareholders.

What has evolved over time is the how the work gets done in each of these areas. This is driven by changes in technologies, processes and organizational structures. In the next five years, we will further evolve how we operate under a new strategy named RISE. This next phase of our development is focused on structurally aligning the global organization to drive even greater efficiency and agility in our operations, further differentiating our technologies and solutions, exposing the business to broader growth opportunities and generating value for our employees, customers and shareholders.

Let's walk through the key themes of RISE on slide 17. The R stands for reimagining how work gets done over the next five years. We will be completing the transition from regionally led businesses to center-led functions that will drive higher levels of efficiency across one standard enterprise. I stand for innovating to differentiate.

We are challenging our R&D, product management and M&A teams to further differentiate our portfolio to accelerate wins. Whether that's through internal development, external partnerships or techisitions, we see great opportunities to expand our market impact by amplifying the value we bring to customers' operations.

Inrotech is an excellent example of a recent techisition. Their technology is being integrated into our first autonomous automation solution that uses vision and AI to weld with precision while adjusting the variables just like a human welder would. We believe this, among other innovations, will redefine productivity expectations for customers in the years ahead. S stands for serve. Today, many customers tell us that our service outperforms industry peers, but we know that we can do better.

We have identified opportunities to improve supply and service levels across the business, which can be a growth driver for us in the next five years. And finally, we will be investing to elevate our team. We are renowned for our industry-leading technical sales reps, engineers, application experts, automation specialists and a strong operating and supply chain organization. But we want to achieve best-in-class engagement with our employees. New development programs, combined with more proactive career planning will help ensure our team is engaged, upskilled and that we are attracting and retaining industry-leading talent to help us grow.

Looking at the 2030 financial targets starting on slide 18, we are maintaining a high single-digit to low double-digit percent sales growth rate framework. Our growth stack consists of organic sales increasing at a mid-single-digit percent rate. We are well positioned to benefit from cyclical growth and key secular growth drivers. Our customers need partners that can offer the expertise and the solutions to address the shortage of skilled welders that support greater safety and productivity in their operations, enable reshoring and capacity expansions and deliver the right engineered solutions for electrification and infrastructure investments, whether for energy, AI data centers or for civil infrastructure projects.

We also have a long-standing position servicing defense contractors, predominantly in the maritime industrial base and have added some exposure to aerospace through recent acquisitions. So favorable macro trends, coupled with innovation, a targeted expansion of our TAM where we can add value, share gains and 300 to 400 basis points of sales growth from acquisitions are all catalysts that give us attractive growth opportunities to leverage. During the next five years, we expect higher contribution from growth at an average high 20% incremental operating income margin. This compares with a mid-20% rate in our prior cycle.

Turning to slide 19. We expect varying rates of organic sales growth across our reportable segments, reflecting regional dynamics and segment strategies. Americas Welding will lead with a mid- to high single-digit percent organic growth rate. Strong regional positioning will

allow the team to capitalize on cyclical and secular trends. In addition, the majority of our automation portfolio is in region, and we continue to expect Automation's organic sales growth at twice the rate of the core business.

In international, we are pursuing a two-pronged approach to growth. We'll be pursuing accelerated growth in portions of the Middle East and Asia Pacific, which have high levels of project activity and where we can invest to expand our reach. In core Industrial Europe, we are assuming a low growth profile given macro trends, but we'll monitor European industrial trends to ensure we are aligned with customer needs and can capitalize on any growth opportunities, which could offer upside to our model.

We are expecting a mid-single-digit percent growth rate in Harris Products Group from ongoing HVAC sector growth, a strategic expansion of fabricated solutions for targeted industrial applications and expectations for an improvement in residential and retail channel trends. While operating leverage from volume growth is important to our strategy, enterprise initiatives are also a driver of higher incremental margin performance.

On slide 20, we highlight our four key enterprise initiatives that are being implemented in conjunction with local continuous improvement projects and our safety and environmental initiatives, which are highlighted in the appendix. Together, we expect all of these initiatives to drive approximately 1/3 of the improvement in our higher incremental operating income margin performance through the strategy cycle.

Our first key initiative is our shift from a more regional operating structure to a global enterprise of center-led functions. This allows us to align our work on standardized tools, data sets and establish highly efficient core processes. It will also enable us to leverage our scale and reduce complexity in our structure. In addition, standardization supports increased digitization, automation and the use of AI bots to drive improved supply chain and administrative efficiency.

Second, we will continue to invest in factory automation and modernize our production platforms to improve safety, productivity, sustainability and lower conversion costs in our operations. Third, we have piloted what we call our spotlight process over the last couple of years in our Harris business, and we will be deploying this process more broadly across the enterprise. We have demonstrated that modest adjustments to our operating posture can result in improved service for customers, helping us gain market share while also generating internal efficiencies and productivity.

And finally, we regularly shape our footprint to ensure utilization, quality and service are aligned with any shifts in demand. During the Higher Standard Strategy, we generated approximately \$60 million in permanent savings from optimization projects. And while the opportunity list is shorter, we will continue our disciplined approach, which will contribute to margin performance.

And now I'll pass the call to Gabe to cover margin targets, cash flow and capital allocation.

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

Turning to slide 21. As Steve mentioned, we expect a step-up in our incremental margins on average operating income to high 20% range. This is about 2/3 from volume leverage and 1/3 from enterprise initiatives. This will increase our average operating income margin to 19% across the cycle, which is a 300 basis point improvement compared to the 16% average in our last strategy. This is a step-up from our typical 200 basis point improvement that we have historically achieved cycle to cycle.

Our new framework targets a peak consolidated operating income margin of 20-plus percent. By segment, all segment target EBIT margin ranges have increased from their 2025 levels based on their growth plans, enterprise initiatives and segment-specific action plans. In addition, we are targeting a mid-teens percent EBIT margin contribution from our acquisitions and our automation portfolio, which is largely in the Americas Welding segment.

Moving to slide 22. We have improved our working capital performance over time to top decile levels. While our ratio increased in the last few years as we have strategically increased inventory during supply chain challenges, we continue to operate at top decile levels versus

peers. As we execute our RISE strategy, we will continue to optimize working capital and target a 16% to 17% ratio to sales over the next five years.

Cash flows from operations have also improved over each cycle with improved margin and working capital performance. We expect to generate over \$3.7 billion in cash flows from operations at a 100% cash conversion ratio through 2030. This will allow us to continue to fund growth and return excess cash to shareholders through the cycle.

Turning to slide 23 and our capital allocation strategy. We have followed a balanced capital allocation strategy, which you can see on the right side of the slide with approximately 48% invested in growth and 52% return to shareholders over the last cycle. We will be maintaining this balanced approach moving forward. Our growth investments include internal CapEx and R&D initiatives as well as acquisitions.

Internal investments yield our highest returns, and we target M&A returns in the mid-teens percent by year three. We will also continue to return capital to shareholders. We expect to return approximately 30% of net income to shareholders through the dividend. And as a dividend aristocrat with 30 years of consecutive annual dividend increases, we remain committed to our dividend program. In addition, we will continue to repurchase shares to prevent dilution at approximately \$75 million a year, and we'll then opportunistically buy back shares using excess strategic cash.

Our capital allocation strategy allows us to effectively fund growth and generate superior returns for our shareholders through the cycle. To summarize our 2030 financial targets on slide 24, we are targeting growth that will position sales above \$6 billion in 2030. Profit margins will expand at high 20% incremental operating income margin, which will generate an average operating income margin that is 300 basis points higher than the last cycle's average. We are expecting a peak 20-plus percent operating income margin in this cycle.

Earnings per share is expected to grow at a mid-teens percent CAGR, reflecting improved performance and capital deployment. Cash flow from operations is expected to expand to over \$3.7 billion, which will fund growth and shareholder returns while allowing us to maintain a solid balance sheet profile. This strategy is expected to maintain top quartile ROIC performance and elevate Lincoln Electric to consistently higher levels of performance as we continue to shape the company for another 130 years of success.

And now we will pass the call to the operator to take questions.

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) Angel Castillo, Morgan Stanley.

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### Angel Castillo - Morgan Stanley & Co Ltd - Equity Analyst

I wanted to start a little bit more on the longer-term dynamic, particularly on the high 20s incremental margins. You laid out some very compelling factors as we think about, I think, slide 20 with how you continue to kind of drive towards those higher incrementals. Could you talk a little bit more about the time line of how we should think about these levers being achieved? Is this all starting out to drive the business in 2026? Or should we think about some of those investments in areas like automation or levers really starting to show through more over a longer period of time?

And then related to that, just how should we think about the push and pull of the role of M&A and innovation in driving faster kind of differentiated growth, but the potential kind of dilutive nature of that versus your portfolio and whether that's kind of essentially factored in and how we should think about that within the incremental margins?

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

Yes. Great question, Angel. So as you noted, when we talk about the improvement in our incremental margins, we pointed to a part of that being driven by volume growth and leverage on the volume growth and part of that being driven by the enterprise initiatives. So let me talk to the enterprise initiatives. We have a variety of initiatives in flight in various stages of maturation.

I think the transformation of our finance function is probably the furthest along and Gabe, the team have done a great job there, leveraging shared service and process bots and the like to make that function much more efficient. I'd say next behind that is probably IT and then HR.

And then if you look at things like purchasing and R&D, much earlier in their maturation cycle. So I think I would expect to start to see benefits from the enterprise initiatives flowing in fairly steadily over the course of the five-year period as each of those functional initiatives reaches their full potential. So it's not a big bang that all happens at the end of the strategy period. It's also not going to be very quick to get all the benefit at the front end. So I'd model it as being fairly smooth over the course of the five years.

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

Angel, just to add to your comment in terms of M&A and the impact on incrementals, and we've incorporated all that into our model. And when you look at our targets, as you point to on ROIC, I mean, we're at 18% to 20%.

So we don't want to limit our ability to grow by driving targeted ROIC above where we're currently at. We want to introduce acquisitions that are in that mid-teens type of returns by year three. And that kind of fits nicely for us. You've seen that historically. That's how we've performed, and we expect to continue to execute on that kind of dynamic.

**Angel Castillo** - *Morgan Stanley & Co Ltd - Equity Analyst*

That's very helpful. And then maybe just on the more near-term side, I wanted to talk about your guide for net sales of mid-single digits. Apologies if I missed this, but did you break down exactly, I guess, what your expectation is for organic growth within that?

And related to that, could you just maybe provide a little bit more color on the specific kind of order trends? I think you mentioned accelerating orders in automation. But just curious what you're seeing in quarter-to-date in January, February for the rest of the business in terms of orders and kind of the cadence for organic growth there?

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

Yes. So Angel, when you think about the organic assumptions that we provided mid-single-digit type of growth split 50-50 between price volume. What we've assumed for pricing reflects all the 2025 pricing actions that we have place into our business responsive to the acceleration of input costs. And we'll see that largely in the first quarter and then begin to anniversary largely in the second quarter.

So we have confidence that based on the strength of orders and backlog, particularly in our automation business that we'll see a pivot to growth beginning in the second quarter. So as the year progresses, we expect to see less pricing, see that more in the first half of the year and more volume in the back half of the year. And the confidence level we see because of order levels and backlog in automation really drives that volume assumption.

As we've mentioned, the consumables business has held steady from a volume perspective. So that's a good posture to be in when you think about the production levels across the end markets we serve. But we do want to see more consistency in order patterns from a capital investment perspective. So the volume assumptions are anchored on what we've seen to date, particularly in our automation business.

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

And Angel, just to add some further color to that. What we saw in the fourth quarter in automation was that we won some very large project orders, which we were very pleased to capture that business and to see some of the large end users start to release capital. What we haven't seen yet is the more small to midsized fabricator in the general industry segment really start to deploy capital, whether that's for automation or for our standard welding equipment.

We're encouraged that the consumable, which is the shortest cycle portion of our business and typically is a good bellwether for where the industry is headed, has held stable. And we're hopeful that as the PMI continues to inflect and as business confidence improves, we'll see the consumable volumes start to grow. And that will then translate typically with a one- to two-quarter lag to more capital spending on standard automation, standard equipment.

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**Operator**

Nathan Jones, Stifel.

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**Nathan Jones** - *Stifel Nicolaus & Company Inc - Analyst*

I guess I'll do the first question on the automation business. You talked last quarter about being more confident in that -- in the order progression on that. You sound more confident again today, talking about having a better backlog. I think you said the automation business was \$840 million in 2025. Can you talk about the expectations for that in 2026, maybe size the increase in orders in fourth quarter of '25. I understand the lag. And so we'll see that start to ramp up in the second quarter. But just any more color you can give us around that would be great.

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

Yes, Nathan, as we said, our sales levels for our automation business were \$870 million in 2025, and that reflected a mid-single-digit decline. So the order of magnitude and how we're seeing volumes, which is largely driven by the automation business is to essentially recover a lot of that organic softness we saw in 2025.

So think about a mid-single-digit type of growth trajectory potentially in automation based on what we've seen in order levels in our backlog. And our confidence will continue to increase as we see less choppiness in the order patterns. And as Steve mentioned, some really strong good orders. We'd like to see more activity on the short-cycle type of business.

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**Nathan Jones** - *Stifel Nicolaus & Company Inc - Analyst*

Excellent. I guess my second question is around some of the center-led functions that you talked about and just changing the org structure, I guess, and operational structure of the business a little bit. Can you talk about some of those functions, what the benefits are that you're going to get from centralizing those things? Are you targeting -- you also said you're targeting Asia and Middle East. Does that require a more centrally led business? I think generally, you need to have kind of local content there, especially in the Middle East. Are there investments you need to make there? I'll leave it there.

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

Yes, sure, Nate. I think it's important to note that we use the term center-led, not centralized. And the objective of this approach is to try to get the benefits of our scale and scope by having highly standardized, simplified and automated processes for running the business. And

unfortunately, given how we've evolved the business over the number of last decades, we tend to run our core business processes just slightly different everywhere.

So the way we do demand forecasting, order entry, supply chain planning, just slightly unique in every different part of the company, and that frustrates our ability to try to use process automation, chatbots, shared services, things like that to get much more efficient at running those processes. So it's a lot of work around standard, old-fashioned business process redesign to enable us to take advantage of those opportunities while still trying to retain the local agility.

So we have teams that are based in Europe, for example, that are doing demand forecasting and supply planning. We want them to be able to utilize the best automated tools, but still be very responsive to the local market. So we're trying to get the best of both worlds between a pure regionally autonomous and a pure centralized approach.

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**Operator**

Mig Dobre, Baird.

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

I'll start with a near-term question and then a longer-term follow-up. So from a near-term perspective, if I understand your comments correctly, in terms of pricing for 2026, you're not baking in any of the metal inflation that's coming through in Harris and the pricing that's reflected in the guidance is just carryover from 2025. So I guess the question is this, clearly, there is metal cost inflation in Harris.

As that is flowing through the P&L, how should we think about the impact that, that pricing element has on EBIT dollars or margin, however you want to frame it, Gabe? And bigger picture, as we think about 2026 pricing, is there an argument to make that you will need to put through a 2026 price increase generally speaking, not just carryover from 2025?

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

So Mig, I'll answer the last part of your question first is we'll take pricing actions as conditions require. Our price/cost strategy is to be neutral. Currently, as we go -- come into this new year, we have held steady on pricing actions largely and -- but we will be responsive to how we see any dynamics in the markets. In terms of Harris, we have a mechanical adder that's built into our pricing methodology.

And you've seen what's happened with silver and copper, for example, that obviously has an impact on the brazing side of our business. And so we don't feel that's going to have a significant impact on margins because that's all incorporated into our adder and our movement and adjustments on pricing, but it has been pretty volatile. So we cannot and we will not try to outline what silver or copper markets will do, but we do have a pricing mechanism. As you know, that's more mechanical in nature.

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

But the impact on EBIT or on operating income from the price, does that carry any contribution to your EBIT or not?

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

Yes, it's not dilutive to the overall Harris margin.

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

Okay. And then the longer-term question is on obviously the RISE strategy. You sound very bullish, constructive on the growth opportunity in automation, and I guess maybe all of us would agree on that. But at least for now, the reality is that this portion of the business is dilutive from a margin standpoint. So in your targets, you're obviously aware of that and you're capturing it. But I guess my question is, how do you think about the opportunity for truly driving higher margin in this business?

Because if you are offering something that is differentiated to your customers and value added, presumably, there's opportunity to price accordingly. And as you think about M&A, you talk about techquisitions, I guess that's a new term that I learned today. Presumably, that's geared towards the automation component of the business. Is there a way for you to do the kind of M&A that would actually be accretive to margin rather than dilutive to margin as, I guess, the previous question assumed they would be.

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

Yes, Mig, great question. I'll give you a basic framework as to how to think about it and then let Gabe fill in some details for you. You're right, the automation business is dilutive to the overall portfolio at the moment. And it's been particularly challenged over the last 18 months by the environment we've been in that has caused customers to be very cautious on capital spending.

We still really like the automation portfolio. We think it's a great fit for us strategically. We see that the world is only going to demand more and more automation going forward. So where the ultimate endpoint target for the margin structure of the business is will remain to be seen, but the first step is to get it to be nondilutive. Once we get it to be nondilutive, then we can talk about how high is high from an accretive standpoint.

But the journey right now is get the business back to where it was supposed to be prior to all this disruption. Regarding technology, you're absolutely right. I mean to the degree that we can provide capabilities that don't exist in the world that are differentiated from what other vendors can supply and that solve a real customer pain point, we expect to get paid for that. And so we look at the techquisitions of things like Inrotech that bring an ability to help us create something that's new to the world, we're going to expect to get paid for that. And that portion of the business, for sure, should be accretive.

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

Yes. So Mig, just to add a couple of points. Just keep in mind historically what we've done. And the last two years, as you know, have been pressured by the capital investment cycle. But we started off 2025 at about a \$400 million level of business, and we increased our business to \$940-or-so million in 2023 or so.

When we achieved a low teens type of EBIT profile and our target, as you heard in my comments, is to be mid-teens. So that's our objective. We're not -- we weren't that far away when we were talking about the \$900-or-so million of business at a target of \$1 billion. So we did have pressure in the last couple of years on capital investment, but we're confident that we can achieve that mid-teens type of profile, and that's what's incorporated into our 2030 model.

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**Operator**

Steve Barger, KeyBanc Capital Markets.

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

Steve, you referenced some large project orders you won in 4Q. Is that primarily automotive? Or are you seeing some opening up in other industries? And just more broadly, does it feel like inbound calls are starting to accelerate? Or is this sales work that you did last year, which is now starting to monetize?

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

Yes. So the large projects we won in the fourth quarter were primarily automotive. And I think part of that is driven by just the nature of their business and the need to have product refresh on a defined cycle. What we're really looking for is greater willingness across the portfolio of customers to invest capital in the business. So whether that's heavy fab, structural steel or general fab, there's still a fair amount of caution out there. The funnel of opportunities has probably never been better.

The challenge becomes converting those high probability opportunities that we feel fairly confident we're going to eventually win; can we get them over the finish line sooner rather than later. And again, that really is a customer confidence-driven discussion less so than are they satisfied with our solution or us as a supplier. I don't think that's the issue. It's just are they ready, willing and able to finally pull the trigger on releasing the capital.

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

Got it. And the automation strategy has obviously increased your OEM exposure and cyclical. And you've done a great job managing margin through what's been a tough environment for the last four or six quarters. But is there a thought to balancing exposure to more products and services that show less volatility through cycles? Or is that increased volatility just the price you pay for the direction you want to take the company?

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

Yes. I think about it, Steve, more as where are there problems that are pain points for customers that we can solve and get paid for solving. The recent acquisition we did in Alloy Steel is really all around providing solutions for abrasion and wear in a mining application. So if you're mining stuff with an excavator, the excavator parts are going to wear and you need some way of either replacing or refurbishing those. That's a great business for us that we picked up, very excited about that, look to continue to grow and expand that business.

We look at automation opportunities the same way. How that then affects our overall cyclical is something we'll deal with as long as we believe over the course of the cycle, we can get fairly compensated for the value we're creating.

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**Operator**

Chris Dankert, Loop Capital Markets.

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**Christopher Dankert** - *Loop Capital Markets LLC - Analyst*

I guess just to circle back, I fully appreciate we don't want to get into handicapping silver and steel and copper prices in the guide here. But I guess just given the level of volatility and we're halfway through the first quarter, can you give us just a sense for what that metals impact would be on 1Q as of today, not obviously the full year, but just for the first quarter?

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

So Chris, I don't want to get that specific, but you know as you're tracking silver, I mean we saw a point where silver topped \$110 a troy ounce and dropped back to the 80s in that. So as you're looking at the mix of our business, we've got about 40% of our business tied into HVAC, which is tied into brazing consumables.

So we do expect an escalation in average pricing, but it has been choppy. But overall, it has been on an increasing level trend when you look at it year-over-year. And you could just use that as a framework from a year-over-year perspective. But it can move, as you know.

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**Christopher Dankert** - *Loop Capital Markets LLC - Analyst*

Yes. I guess to circle back on a bigger picture, thinking about international, any sense for kind of the planning around margin expansion there? I guess how much of that kind of 2025 to 2030 improvement is based on just volume recovery versus, say, cost actions or efficiency gains or mix? Just any way to kind of size those two components of the margin expansion in international?

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

Yes, Chris, I'll give you some color and then let Gabe fill in details. When we think about the international business, we really want to focus our efforts and our future investments in places that have good macroeconomic conditions where we have a good value proposition and where we feel like we can win and profitably grow the business. So we're looking at portions of the international portfolio, particularly in Middle East, Africa, parts of Asia. Core Europe really is the open question mark.

It's been a long, tough slog in Europe due to the macroeconomic conditions there. There's some talk about increased defense spending. We'll see whether that actually comes through to fruition. But our targets over the five-year period for international really are not predicated on there being a significant recovery in Europe.

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

Chris, just to add, broader comment in terms of when you say volume, demand levels in general, when you look at the organic sales growth rates that we've shared by segment, we don't incorporate a significant level of pricing. Historical pricing will be between 100 to 200 basis points. And that's kind of what we assume broadly. So our assumptions are largely driven by expansion in our footprint and acceleration in demand, for example, as we talked about automation. Steve mentioned the strength we would expect into Asia, Middle East and international.

So the outline that we've shared in terms of growth strategies is anchored on real increase in presence throughout the markets, not on pricing. Pricing will be modest.

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**Operator**

Walt Liptak, Seaport Research Partners.

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**Walter Liptak** - *Seaport Global Securities LLC - Analyst*

I wanted to just circle back on that January question. And you guys mentioned a reference to PMI a couple of times in January. I didn't -- it wasn't clear to me. Did you guys see a pop in January with some of your general industrial, either consumables or equipment?

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

Yes. Walt, we would lag the any improvement in the PMI. So we're encouraged by the published number. And as we said before, our consumable volume has been steady, but we haven't seen an inflection in consumable volume.

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

So Walt, that's pretty key, Walt, right, as we're seeing steadiness in the consumable volume level of business that ties into production levels and really want to see an escalation in capital investment.

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**Walter Liptak** - *Seaport Global Securities LLC - Analyst*

Okay. Great. And then maybe sort of a high-level one. I wonder if there's a difference with the way that you guys went after the 2030 RISE targets versus the way that the 2025 higher standards were put in place. Like the business has been evolving.

You have some factory consolidation in those impressive profit margin targets. You've got some impressive organic growth targets. Is there something that's kind of structurally changed? I wonder if you could just talk to how Lincoln has evolved.

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

Yes. Well, great question. We really think about the RISE strategy as a continuation and evolution of the Higher Standard Strategy in really trying to build upon the momentum and the progress that we've created over the last five years. And again, what has been a fairly interesting, shall we say, market environment with a lot of headwinds and a lot of disruption from COVID, a few hot wars around the world, a global trade war, a fairly unpredictable trade policy emanating out of the US.

So we're hoping that we may see somewhat of a return to normalcy in the outside world, but -- and it's -- when we say we're cautiously optimistic about the future, the caution is really around the external environment. Our optimism is driven by what the team has been able to accomplish over the last five years and the opportunities that we know are in front of us that we see every day and that we're committed to addressing and making the business even stronger going forward. So I don't see it as a radical departure from the higher standard strategy.

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**Operator**

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

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

I would like to thank everyone for joining us on the call today and for your continued interest in Lincoln Electric. We look forward to discussing our RISE strategy and the progression of our initiatives as we advance to our 2030 targets in the future. Thank you very much.

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**Operator**

This concludes today's conference call. You may now disconnect.

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