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LECO.OQ - Q2 2026 Lincoln Electric Holdings Inc Earnings Call

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OVERVIEW:

Company Summary

CORPORATE PARTICIPANTS

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

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

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

Jacob Moore *KeyBanc Capital Markets - Analyst*

Adam Farley *Stifel Financial Corp. - Analyst*

PRESENTATION

Operator

Greetings and welcome to the Lincoln Electric 2026 second-quarter financial results conference call. This call is being recorded.

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

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

Thank you, Mark, and good morning, everyone. Welcome to Lincoln Electric's second-quarter 2026 conference call. We released our financial results earlier today, and you can find our release and this call's slide presentation at lincolnelectric.com in the Investor Relations section.

Joining me on the call today is Steve Hedlund, our Chairman and Chief Executive Officer; and Gabe Bruno, our Chief Financial Officer. Following our prepared remarks, we are happy to take your questions.

But before we start our discussion, please note that certain statements made during this call may be forward-looking, and actual results may differ materially from our expectations due to a number of risk factors and uncertainties, which are provided in our press release as well as in our SEC filings on Forms 10-K and 10-Q.

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

And with that, I will turn the call over to Steve Hedlund. Steve?

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

Thank you, Amanda. Good morning, everyone. Turning to slide 3, second quarter marked a solid inflection to volume growth in the business after 9 quarters of compression, led by strength in the Americas Welding segment. Volume leverage and an improved price/cost position generated record performance across sales, our adjusted operating income margin, adjusted earnings per share and cash flows.

In addition, we delivered top quartile ROIC performance and continue to execute our capital allocation strategy with $120 million returned to shareholders. Our performance reinforces the strength of our global team and the effectiveness of our operating model as we advance our RISE strategy.

Turning to slide 4, consolidated organic sales increased 10% with volume growth across all 3 product areas. This was largely driven by higher demand in the Americas region and price actions taken across all 3 segments to mitigate inflation in energy, logistics and in certain metals.

Given persistent inflation, we are continuing to monitor if additional actions are needed. Turning back to improved volume performance. We were encouraged to see capital spending improve in the second quarter. Both equipment and automation volumes increased mid-single-digit percent, resulting in automation sales of $229 million in the quarter.

Consumable volumes continued to grow at low single-digit percent rate aligned with general industrial production activity. Geographically, organic growth was strongest in the Americas and in portions of Asia Pacific, notably China, India and Vietnam.

Europe remained challenged due to persistently soft industrial trends and buy ahead activity in the first quarter. The Middle East was resilient during the cease fire, resulting in a modest $2 million to $3 million sales headwind on a consolidated basis.

In Americas Welding, growth accelerated and broadened out across most end markets and channels. Strength in the industrial gas distribution channel continued to hold, and we were pleased to see direct OEM and rental customers increase their capital spending.

Equipment organic sales growth in Americas Welding accelerated high teens percent in the quarter and consumables grew high single-digit percent. Looking at end sector trends on a consolidated basis, 4 of our 5 end markets achieved organic growth in the quarter, representing approximately 80% of our revenue exposure.

General fabrication organic sales grew over 30% from improved industrial production activity in the Americas and commercial HVAC demand in Harris. Heavy industries and nonresidential structural steel both grew mid-single-digit percent in the quarter, largely in Americas Welding on rising capital spending to support off-highway construction and mining equipment as well as higher project activity in commercial structural steel fabrication.

Energy sales also held up well with strong oil and gas in Americas Welding, which was up nearly 30% in the. And finally, transportation sales declines have narrowed in a mid-single-digit percent rate as demand for equipment systems grew but were offset by lower factory production activity and timing of our automation projects.

We expect transportation to improve during the balance of the year on equipment demand, timing of automation projects and the acceleration of new automation quoting activity to support new lightweight vehicle platforms. Before I hand the call over to Gabe, I would like to thank our global team for staying focused on our customers, driving higher service levels and executing on our RISE strategy in this dynamic operating environment.

We are encouraged by six consecutive months of favorable macro data in the Americas, strong incoming order rates and a record backlog position, which gives us confidence in the durability of an industrial recovery in the Americas. And we believe we are well positioned to capitalize on customers' investments in productivity, capacity, automation and infrastructure. Our innovative solutions, domain expertise, winning commercial team, operational initiatives and capital allocation strategy will accelerate our cycle-over-cycle performance and deliver superior returns for shareholders.

And now, I will pass the call to Gabe Bruno to cover second quarter financials in more detail.

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

Thank you, Steve. Moving to slide 5, our second-quarter sales increased 12% to $1.220 billion, driven by approximately 8% higher price, 2% higher volumes, a 1.5% benefit from our Alloy Steel acquisition and 40 basis points of favorable foreign exchange translation.

Gross profit increased approximately 11% on higher sales and an improved cost profile in the quarter. Our gross profit margin compressed 50 basis points to 36.8% while we narrowed our price/cost gap to 10 basis points from a recent price increase and a tariff refund, higher persistent inflation, unfavorable mix and a $4.2 million LIFO charge offset these benefits.

We now expect LIFO will be a $10 million headwind for the full year. Our price actions keep us on track to achieve a neutral price/cost position for the third and fourth quarters. As Steve mentioned, we have implemented price actions and we'll continue to monitor rising input costs and evolving trade policies to determine if additional measures are needed.

Our SG&A expense increased 7% to $225 million, primarily from higher spending to support strategic initiatives, IT investments and unfavorable foreign exchange translation. SG&A as a percent of sales improved 100 basis points versus prior year to 18.4%.

We expect our quarterly SG&A run rate to be in the $210 million to $215 million range and corporate expense at $1 million to $2 million per quarter for the balance of the year. Reported and adjusted operating income increased 15% on higher sales and an improved price/cost position.

Our adjusted operating income margin improved 50 basis points to 18.4% with a 22% incremental margin. Second quarter diluted earnings per share performance increased 12.5% to $2.88. On an adjusted basis, earnings per share increased 13% to $2.93. We incurred a $0.01 headwind from foreign exchange translation and a $0.05 benefit from share repurchases.

Moving to our reportable segments on slide 6, Americas Welding sales increased approximately 11%, driven by 7% higher volumes, approximately 4% price and a 40 basis points of favorable foreign exchange translation.

Volumes inflected to growth across all three product areas, led by low double-digit percent volume growth in equipment. Price reflects the partial benefit of a mid-second quarter price increase and the anniversarying of substantially all 2025 price actions.

We expect Americas to report low to mid-single-digit percent price for the balance of the year and the mix of organic growth will be led by higher volumes through the balance of the year. Second quarter adjusted EBIT increased 15% to $158 million with a 110-basis point improvement in adjusted EBIT margin to 19.7%.

Higher sales and an improved cost position helped narrow unfavorable price cost and investments in our strategic initiatives. We expect Americas Welding margin to increase and perform in the 19% to 20% EBIT margin range for the remainder of the year.

Moving to slide 7, International Welding segment sales increased 4.5%, driven by strength in our Alloy Steel acquisition, higher price and favorable foreign exchange translation. Volumes compressed approximately 5% on slowing EMEA demand following the first quarter's buy head activity and weak industrial activity in Europe.

Middle East demand was resilient in the quarter due to the cease fire. However, we anticipate customer activity to slow due to the resumption of fighting. We estimate the conflict will represent a $6 million to $7 million headwind per quarter in the segment. Adjusted EBIT decreased 13% to $27 million. Margin declined 210 basis points to 10.6% as the benefits from Alloy Steel and the narrowing of price/cost headwinds were offset by lower volumes.

We now expect International Welding margin performance to be in the 10% to 11% range for the full year as EMEA demand trends and operating efficiency will remain challenged.

Moving to the Harris Products Group on slide 8, second-quarter sales increased 27%, led by 34% higher price. Price moderated sequentially given easing in silver and copper costs but remained elevated versus the prior year. Harris volumes were challenged by tough prior year comparisons in the HVAC sector and last year's inventory load-in at a new retail customer. While the retail sector remains challenged on soft consumer trends, we anticipate HVAC to gain some momentum in the second half of the year and benefit from an easier prior year comparison in the fourth quarter.

Adjusted EBIT increased approximately 33% to $42 million and margin improved 100 basis points to 20.4%. The profitability improvement reflects SG&A leverage on higher sales dollars, which was aided by a tariff refund. We expect the Harris segment to operate in the 18% to 19% range in the second half of the year at current metal prices.

Moving to slide 9, we generated a record $254 million in cash flows from operations in the quarter, reflecting strength in earnings and a 100-basis point improvement in working capital. This resulted in 138% cash conversion for the quarter.

We are now at 95% cash conversion on a year-to-date basis and on track to achieve our 100% target for the year. Moving to Slide 10. We continue to execute on our capital allocation strategy by investing $31 million in CapEx and returned $120 million to shareholders from a combination of our higher dividend payout and share repurchases. We also improved our adjusted return on invested capital ratio to 23%.

Moving to slide 11 to discuss our operating assumptions for 2026, year-to-date, we have exceeded our initial top line outlook with low double-digit percent sales growth, and we are encouraged by strengthening demand in Americas, current order levels and our record backlog position. We are now raising our full-year net sales growth assumption to a low double-digit percent rate with seasonal progression through the balance of the year.

Full-year organic sales are now expected to be in the high single-digit to low double-digit percent rate with an estimated one-third volume and two-thirds price mix. Volatility in commodity costs, evolving trade policies and the duration of the Middle East conflict are added risk to our assumptions, which our global team is monitoring and actively working to mitigate.

We continue to expect higher adjusted operating income margin performance versus the prior year with a mid-20% incremental margin for the balance of the year. We are maintaining our other full-year assumptions on interest expense, tax rate, CapEx, and cash conversion. Solid execution is expected to deliver strong earnings performance, further supported by growth investments and returns to shareholders.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Angel Castillo, Morgan Stanley.

Unidentified Participant

This is Oliver on for Angel. Just a question on kind of your price cost assumptions, I think we had moved from neutral for the full year to neutral in the second half. Is that a change because it would have implied a positive price cost in the second half? Just maybe help us unpack that a little bit.

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

Yes, Oliver, thanks for the question. Yes, that is a change. We are pointing to price cost neutral for the back half. We ended the second quarter at 10 basis points of a headwind, which is actually better than we expected. But we expect to execute on our pricing strategies to achieve a neutral price cost for the second half of the year.

Unidentified Participant

Got it. That's helpful. And then maybe just on the automation side. I know you guys are involved in bigger projects, but also smaller pre-engineered projects. In terms of what you're seeing in July, like have you seen any mix shift perhaps back to the smaller side where it could be a little bit more favorable for you guys?

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

Yes, Oliver, we've seen really broad-based strengthening in the demand profile for the automation business. I think all of our segments. Four out of the five segments have gotten better for automation, in particular, general industries, which is where a lot of the pre-engineered cells and the cobots and the like are recorded, and we're seeing really encouraging signs of willingness of customers to invest capital in their businesses.

So we're optimistic that we'll see both improvements in the overall demand level and also favorable mix as we pick up some of those products that you were talking about.

Operator

Mig Dobre, Baird.

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

Maybe a quick clarification here on the tariff refund. I don't know if I missed this, but is there a way to maybe help us quantify that a little bit? And you mentioned the $10 million for LIFO reserve for the full year.

Any sense for how we should think about this flowing in the second half, maybe either by quarter or any other way that you can help us?

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

Yes, Mig, I'll let Gabe comment on LIFO. But on the tariff side, remember that the majority of the tariff impact we saw was Section 232 tariffs, not the EPA. And in last quarter's call, we had indicated that while we had filed for refunds, we expected overall inflationary pressures in the business, and we had incorporated the expected refunds into our pricing actions and our price/cost neutrality projection.

The only place that we really wanted to call out the impact of tariffs was on Harris because there was about 100 basis point EBIT margin improvement in the quarter for Harris. So as we look forward to the back half of the year, I would not expect Harris to continue to perform at a 20% EBIT level.

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

Just to add to that, Mig, it is important to note the changes that we incorporated, as Steve mentioned, the Harris side of our business on EBIT for the balance of the year. We moved up the Americas EBIT profile to 19% to 20%. So we anticipate getting to that price/cost neutral posture back half of the year.

So we've incorporated how we have progressed with price cost. We're still negative 10 basis points, but we expect to get neutral. We also expect mid-20s incrementals in the back half of the year. So we've incorporated cost, tariffs otherwise as well as continued persistent inflationary pressures as well as LIFO. So $10 million is how we see that. That's based on the inflationary pressures we saw through June, and we just use that as the basis for evaluating what the year-end potential is on inflation and inventory.

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

I see. Okay. And I guess my follow-up on your comments on the Middle East. You called out if I heard correctly, $6 million to $7 million of headwind per quarter. That seems to be a little bit larger than what I recall you mentioning in the past, but I wonder if that's correct.

And maybe more broadly, can you talk a little bit about what is actually going on with your business over there in terms of like what are you experiencing project delays where you normally would have sold equipment? Are there specific verticals, countries, or is it distributor destocking? Just kind of trying to understand what's going on in that region really.

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

Yes. So maybe I'll start off and just reminding you. So we entered Q2 with a framework of we expected a headwind of $8 million to $10 million per quarter. We actually ended up much more favorably in the second quarter than we expected. We were -- I think we had a headwind of $2 million to $3 million in the second quarter, so we have actually reduced the level of expectation of impact in Middle East for what we've seen to $6 million to $7 million versus $8 million to $10 million.

Our team locally is very engaged in looking at how we are progressing on projects, both as you would see it on the international side as well as exports coming out of the US and we just need to stay real close to it. So far, it's been more favorable than we anticipated, but our team is actively engaged in region to be able to support not only the restart of projects, but also any other work to address some of the needs of the region.

Operator

Steve Barger, KeyBanc Capital Markets.

Jacob Moore - *KeyBanc Capital Markets - Analyst*

This is Jacob Moore on for Steve. The first one from us, I know that you cited improved Americas industrial production activity, but I'm hoping you can help us out with a bit more insight into what's behind the magnitude of general fabrication's mid-30% growth rate? And also maybe what sort of run rate you would expect through the back half into 2027 there?

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

Well, I'll start, Jay. We saw -- the key thing is the momentum that was accelerating within standard welding equipment. We pointed to seeing an acceleration in April. We saw that progress throughout the second quarter and into July now. And what that represents, and we always point to how our production levels progressing in the markets, and we pointed to in the Americas steadiness and how a slight improvement in actual consumable volumes, but see an acceleration in capital investment, confidence in a trajectory for growth, and that translates to both automation and standard welding equipment sales.

We have been pointing to very high levels of backlog, and we're pointing to record levels of backlog in the automation side of our business. You be reminded that 80% of our automation business is within the Americas.

So that gives us confidence that we're seeing progressive strength in production activity particularly in general industries, broad-based as well as conviction in investment. So we've got confidence that the momentum that we see continuing into the third quarter provides us the framework to lift and raise the sales assumptions and organic strength for our business.

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

Jacob, I'd just add, I think what we're seeing across the business is a greater confidence in our customers to make capital investments in standard equipment and automation. So we're seeing a significant step-up in that activity.

And then on the consumable volume, we're seeing continued progression as production levels creep up. I would say it's not as rapid as what we're seeing on the capital deployment side, but that's also encouraging as well. And so you take the volume tailwinds that we now have in the Americas business and then factor in there's also additional price on top of that year over year. That's how you get to the organic growth rate for the Americas business.

Jacob Moore - *KeyBanc Capital Markets - Analyst*

Understood. That's really helpful color. The second one from us, just thinking about the RISE 2030 strategy, can you comment on which initiatives are the biggest self-help margin contributors in the back half and into 2027? I'm kind of thinking independent of volume there?

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

Yes. There's a whole range of initiatives that we're driving in the business that are oriented around trying to improve productivity in the factories, efficiency in our SG&A spend, commercial effectiveness. It's hard to point to any one of them and signal which one is most important because we think there's opportunities across all three of those areas.

So the RISE strategy is really intended to help direct, guide and motivate our employees to go capture the opportunities that we know are in the business. So we have great confidence in our ability to capture those. The open question is just how quickly can we get there.

We're obviously racing to capture as much of the opportunity as quickly as we can. And I think in our guidance for the 2030 targets, we've basically pointed towards a steady progression over the 5 years is the best assumption we can make at this point in time.

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

Yes. And just to remind you, as Steve mentioned, the steady progression over the 5 years is what we've commented on, but that adds up to 100 to 125 basis points of improvement in the margin profile of our business through these enterprise initiatives.

Operator

Nathan Jones, Stifel.

Adam Farley - *Stifel Financial Corp. - Analyst*

This is Adam Farley on for Nathan. Maybe following up on the automation piece,maybe can you just provide an update on your expectations for automation in the transportation sector in the back half of the year? Are customers gearing up for plant refreshment? And do you have line of sight into maybe larger customer activity in automation?

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

Just broadly, Adam, so we've seen significant levels of quoting activity, you talked about record backlog. That's broad-based. We are starting to see more acceleration in the level of engagement on the automotive side. So if you think about some of the program years out, 2027 and beyond, we're starting to see more activity that points to potentially more favorable progression in actual orders within the automotive sector. So that's a favorable trending.

We actually saw a better performance in transportation, including think about equipment as well as automation into the second quarter from the first. We look to automation to be pushing the high single-digit, low double-digit trajectory on year-over-year sales improvement. So the record level of backlog, broad-based level of conviction on investment point to more favorable trends on the automation side.

Adam Farley - *Stifel Financial Corp. - Analyst*

Okay. That's helpful. And then looking geographically, you noted encouragement for capital spending in APAC. Maybe just some color on what's going on in that region.

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

Yes. So just broadly, Steve mentioned strength we're seeing, frankly, in India and China, some pockets of Southeast Asia. So just the general trajectory of growth as well as investment points to our continued bullish outlook on Asia.

When you think about the international markets, really where we're seeing continued challenges within the core European markets, and we'll wait and see how the Middle East and that progresses, but we're more bullish on how the Asian markets are progressing.

Operator

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

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

Thank you, Mark. I'd like to thank everyone for joining us on the call today and for your continued interest in Lincoln Electric. We look forward to discussing the progression of our RISE strategy in the future. Thank you very much.

Operator

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