

Lincoln Electric (LECO)

\$97.39 (As of 08/13/20)

Price Target (6-12 Months): **\$104.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 05/31/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:A

Value: B

Growth: A

Momentum: B

Summary

Lincoln Electric's second-quarter 2020 adjusted earnings and revenues both declined year over year, attributable to low demand as industrial activities have slowed due to customer shutdowns on account of the coronavirus pandemic. However, both the metrics beat the respective Zacks Consensus Estimate. The COVID-19 pandemic has weakened demand in many of Lincoln Electric's markets. In addition to weak demand, increase in customer facility closures are anticipated to result in lower operating activity and higher inefficiencies in the business. Nevertheless, the company's cost cutting actions including lowering headcount, deferring annual wage hikes, freezing hiring and cutting down discretionary spending will help sustain margins. Focus on new product development and using digital platforms to engage customers will also drive growth.

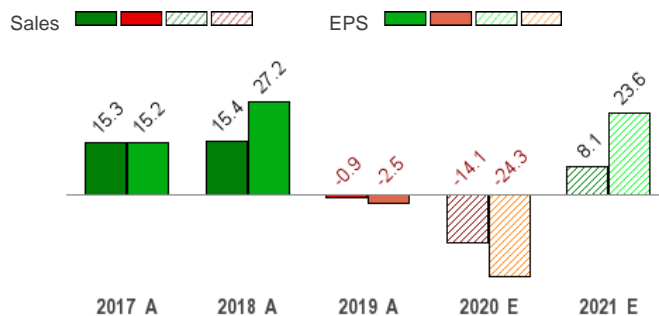
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$98.94 - \$59.30
20 Day Average Volume (sh)	385,199
Market Cap	\$5.8 B
YTD Price Change	0.7%
Beta	1.23
Dividend / Div Yld	\$1.96 / 2.0%
Industry	Manufacturing - Tools & Related Products
Zacks Industry Rank	Top 33% (83 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	135.3%
Last Sales Surprise	6.3%
EPS F1 Est- 4 week change	17.7%
Expected Report Date	11/04/2020
Earnings ESP	-3.3%
P/E TTM	24.1
P/E F1	27.4
PEG F1	2.5
P/S TTM	2.1

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	702 E	702 E	665 E	724 E	2,788 E
2020	702 A	591 A	616 E	685 E	2,580 E
2019	759 A	777 A	731 A	736 A	3,003 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.11 E	\$1.19 E	\$1.02 E	\$1.17 E	\$4.40 E
2020	\$1.00 A	\$0.80 A	\$0.80 E	\$1.02 E	\$3.56 E
2019	\$1.17 A	\$1.28 A	\$1.09 A	\$1.15 A	\$4.70 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 08/13/2020. The reports text is as of 08/14/2020.

Overview

Headquartered in Cleveland, OH, Lincoln Electric has more than 59 manufacturing locations, including operations and joint ventures in 18 countries, and a worldwide network of distributors and sales offices covering more than 160 countries.

Lincoln is a full-line manufacturer and reseller of welding and cutting products with products ranging from welding power sources, wire feeding systems, robotic welding packages, fume extraction equipment, consumables and fluxes to regulators and torches used in cutting.

Lincoln Electric produces three types of arc welding electrodes, including stick electrodes, solid electrodes used for continuous feeding in mechanized welding, and cored electrodes that are also used for mechanized welding. Arc welding is carried out in many industries. The metal working field involves production of arc welding in transportation, construction, fabrication, petrochemical and other industries.

The company's business units are aligned into three operating segments-

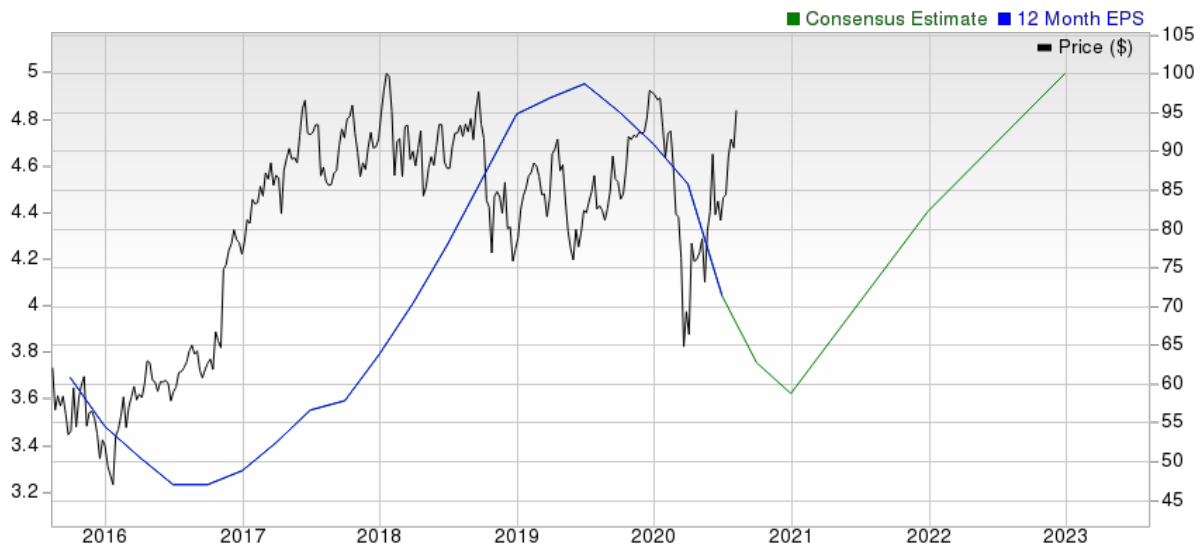
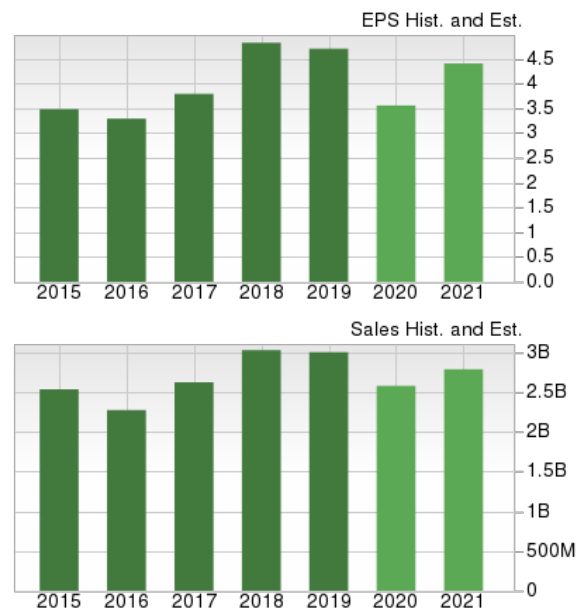
The **Americas Welding** segment (62% of fiscal 2019 revenues) includes welding operations in North and South America.

The **International Welding** (28% of fiscal 2019 revenues) segment includes welding operations in Europe, Africa, Asia and Australia.

The **Harris Products Group** (11% of fiscal 2019 revenues) includes the company's global cutting, soldering and brazing businesses, and retail business in the United States.

During July 2019, the company acquired the controlling stake of Turkey-based Askaynak, which is a supplier and manufacturer of welding consumables, arc welding equipment, including plasma and oxy-fuel cutting equipment and robotic welding systems. The buyout advances the company's regional growth strategy in Europe, the Middle East and Africa. During April 2019, the company acquired Detroit, MI-based Baker Industries, a provider of custom tooling, parts and fixtures primarily serving automotive and aerospace markets.

During December 2018, the company acquired the soldering business of Worthington Industries, which broadens Harris Products Group's portfolio of industry-leading consumables. Also during December 2018, the company acquired Coldwater Machine Company and Pro System.



Reasons To Buy:

- ▲ As of Jun 30, 2020, Lincoln Electric had liquidity of \$545 million comprising \$143 million in cash and \$402 million in available credit under existing borrowing facilities. Total debt as of Jun 30, 2020 was \$765 million. The company has \$700 million in private notes with first maturity due in August 2025. Lincoln Electric's total debt to total capital ratio as of Jun 30, 2020 was at 0.54. The company's times interest earned ratio is 13.0, much higher than the industry's 5.7. This indicates that the company is poised well to navigate through this challenging period.
- ▲ The company is focusing on cost management to sustain margins in the backdrop of weak demand. These measures include reduced work hours, overtime, lowering headcount, deferring annual wage increases and freezing hiring. The company has also cut down discretionary spending and eliminated travel. It has commenced five manufacturing facility rationalizations to align with demand. The company is evaluating additional contingency measures, which will be implemented if the situation demands. The company achieved \$27 million in cost savings in the second quarter, bringing the total to \$33 million in the first half of 2020. Cost reduction actions now anticipated to provide benefits of \$55 to \$65 million in 2020. Exiting 2020, the company expects to realize \$8 to \$9 million in permanent costs savings per quarter.
- ▲ The company is focused on new product development and using digital platforms to engage customers. Lincoln Electric's product launches in the automation solutions market are likely to aid growth. The company is focused on its new additive services business, which will position Lincoln Electric as a manufacturer of large scale 3D-printed metal parts, prototypes and tooling for industrial customers. This is likely to be growth opportunity for Lincoln Electric. It also continues to invest in long-term strategy for automation in support of its 2020 strategy initiatives. The company launched its new state-of-the-art advanced technology solution center in Germany, which gives it an unprecedented commercial presence in the European market. This tech center will enable the company to showcase its latest technologies and welding consumables, equipment and automation.
- ▲ Lincoln Electric is benefiting from several acquisitions. Lincoln Electric has acquired Inovatech Engineering Corporation and Coldwater Machine Company, Pro Systems LLC, boosting its automated cutting solutions and application expertise. In January 2019, Lincoln Electric acquired the soldering business of Worthington Industries. This broadened the Harris Products Group's portfolio of industry-leading consumables with the addition of premium solders and fluxes. In April 2019, Lincoln Electric acquired Baker Industries to expand automation and additive strategies. Recently, the company acquired a controlling interest in Askaynak, a leading Turkish producer of welding consumables and equipment. The buyout advances the company's regional growth strategy in Europe, the Middle East and Africa.
- ▲ Lincoln Electric has a balanced capital allocation strategy, prioritizing capital investment spending to cost reduction, new products, and growth initiatives. It has reduced its planned capital expenditure for 2020 by approximately 15% to a range of \$55-\$65 million. The company will continue to evaluate M&A options focused primarily on tuck-in assets. It is maintaining dividend program but has temporarily suspended share repurchases. Lincoln Electric plans to resume repurchases as business conditions improve.

Focus on acquisitions, innovative product launches and execution of the 2020 vision and strategy will drive Lincoln Electric's growth. Its cost management actions will also aid margins.

Reasons To Sell:

▼ The COVID-19 pandemic has impacted Lincoln Electric's markets and operations, which include weakening demand, supply chain disruptions, and other logistics constraints. Automotive, transportation, energy, construction and heavy industries have all been impacted. This will continue to impact the company's results until the situation stabilizes. Even though many of the company's customers have begun to re-open or increase operating levels, such customers may be forced to close or limit operations due to resurgence of Covid-19 cases. In addition to weak demand, increase in customer facility closures and the continued risk of possible supply chain disruptions are expected to result in lower operating activity and higher inefficiencies in the business.

Lincoln Electric's volumes will continue to bear the brunt of the ongoing slowdown in industrial production and the impact of the COVID-19 pandemic on its demand and supply chain.

▼ Lincoln Electric's Americas Welding segment had been bearing the brunt of a weak manufacturing sector thanks to the U.S.-China trade tensions. The coronavirus pandemic has dealt a further blow to the sector. Per the Institute for Supply Management's report, the U.S. Purchasing Managers' Index (PMI) came in at 41.5% for April — the lowest since April 2009 when it registered 39.9%. In May, the PMI came in at 43.1%. A reading below 50 denotes contraction. Even though the index climbed to 52.6% in June, the manufacturing index averaged 45.7% for the second quarter. The July PMI reading came in at 54.2%. It remains to be seen whether the recovery in the past two months will sustain considering the surge in coronavirus cases. Thus, a weak manufacturing backdrop, uncertainty in the market and cautious customer spending are likely to persist this year aggravated by the coronavirus outbreak. This remains a concern for Lincoln Electric.

▼ Even though the company continues to announce new pricing actions, incremental margins could be impacted due to the timing of its response. Given its focus on innovation as a key value proposition, Lincoln Electric continued to increase investment in product development with higher year-over-year R&D spending. Though this has long-term benefits, it will impede margins in the near term. Also, a stronger U.S. dollar will affect the company's exports.

Last Earnings Report

Lincoln Electric Q2 Earnings & Revenues Top Estimates

Lincoln Electric reported second-quarter 2020 adjusted earnings of 80 cents per share, which beat the Zacks Consensus Estimate of 34 cents. However, the reported figure declined 38% year over year. This can be attributed to low demand as industrial activities have slowed due to customer shutdowns on account of the coronavirus pandemic.

Including one-time items, the bottom line came in at 45 cents compared with \$1.36 in the prior-year quarter.

Total revenues slumped 24% year over year to \$591 million. However, the top line surpassed the Zacks Consensus Estimate of \$556 million. The decline in revenues was due to a decrease of 24.8% in organic sales and an unfavorable impact of 1.1% from foreign exchange, which offset a gain of 2% from acquisitions.

Costs and Margins

Cost of goods sold went down 21% to \$401 million from the prior-year quarter. Gross profit plunged 30% to \$189 million from \$270 million reported in the prior-year quarter. Gross margin came in at 32.1% compared with 34.7% in the year-ago quarter.

Selling, general and administrative expenses declined 23% year over year to \$126 million from the prior-year quarter. Adjusted operating profit plummeted 41% year over year to \$63 million in the quarter. Adjusted operating margin came in at 10.7% compared with 13.6% in the year-ago quarter.

Financial Update

Lincoln Electric had cash and cash equivalents of around \$143 million at the end of second-quarter 2020 compared with \$200 million at the end of the 2019. The company reported cash flow from operations of \$104 million during the second quarter compared with \$126 million in the prior-year quarter.

The company's debt to invested capital was at 53.7% at the end of second-quarter 2020 compared with 47.7% as of the end of fiscal 2019.

Outlook

Considering the uncertainty arising out of the coronavirus pandemic, the company has expanded cost reduction initiatives to sustain margins. These actions are anticipated to contribute approximately \$55 million to \$65 million to annualized cost savings in 2020.

Quarter Ending	06/2020
Report Date	Jul 27, 2020
Sales Surprise	6.34%
EPS Surprise	135.29%
Quarterly EPS	0.80
Annual EPS (TTM)	4.04

Valuation

Lincoln Electric's shares are up 0.7% in the year-to-date period and up 20.5% over the trailing 12-month period. Stocks in the Zacks Manufacturing – Tool & Related Products industry and the Zacks Industrial Products sector are down 19.8% and 0.2% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and the sector are up 0.8% and 18.1%, respectively.

The S&P 500 index is up 4.8% in the year-to-date period and up 19.1% in the past year.

The stock is currently trading at 23.87X forward 12-month earnings, which compares with 17.64X for the Zacks sub-industry, 22.45X for the Zacks sector and 22.91X for the S&P 500 index.

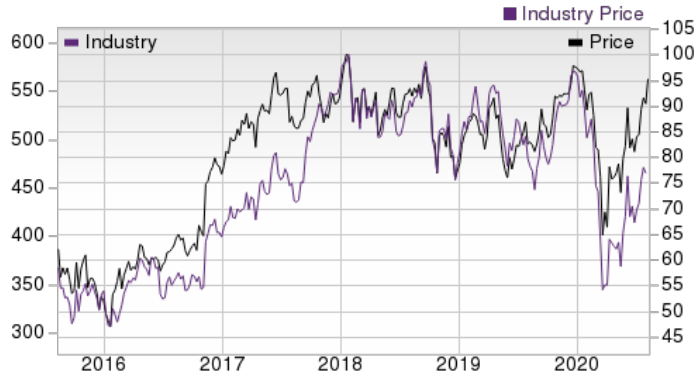
Over the past five years, the stock has traded as high as 26.44X and as low as 12.33X, with a 5-year median of 18.01X.

Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$104 price target reflects 25.30X Forward 12-month earnings.

Valuation Multiples - LECO					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	23.87	17.64	22.45	22.91
	5-Year High	26.44	21.45	22.45	22.91
	5-Year Low	12.33	12.49	12.55	15.25
	5-Year Median	18.01	16.92	17.48	17.58
P/S F12M	Current	2.13	1.04	3.01	3.7
	5-Year High	2.6	1.52	3.01	3.7
	5-Year Low	1.2	0.84	1.52	2.53
	5-Year Median	1.82	1.19	2.04	3.05
EV/EBITDA TTM	Current	15.84	11.62	20.06	12.75
	5-Year High	23.58	13	20.06	12.84
	5-Year Low	8.17	6.22	10.84	8.24
	5-Year Median	13.91	10.04	14.91	10.9

As of 08/13/2020

Industry Analysis Zacks Industry Rank: Top 33% (83 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
DeereCompany (DE)	Outperform	2
Sandvik AB (SDVKY)	Outperform	2
Stanley BlackDecker, Inc. (SWK)	Outperform	1
Caterpillar Inc. (CAT)	Neutral	3
Energypac Tool Group Corp. (EPAC)	Neutral	4
John Bean Technologies Corporation (JBT)	Neutral	3
Kennametal Inc. (KMT)	Neutral	4
The Manitowoc Company, Inc. (MTW)	Neutral	3

Industry Comparison Industry: Manufacturing - Tools & Related Products				Industry Peers		
	LECO	X Industry	S&P 500	CMI	CNHI	KMT
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	2	3	4
VGM Score	A	-	-	B	A	C
Market Cap	5.78 B	2.60 B	23.58 B	31.05 B	10.56 B	2.53 B
# of Analysts	8	6	14	9	6	7
Dividend Yield	2.01%	1.42%	1.68%	2.49%	0.00%	2.62%
Value Score	B	-	-	B	A	B
Cash/Price	0.03	0.10	0.07	0.07	0.58	0.25
EV/EBITDA	13.42	13.42	13.34	8.46	9.15	5.53
PEG Ratio	2.49	5.26	2.99	3.43	NA	6.67
Price/Book (P/B)	8.76	2.99	3.20	3.82	1.78	2.00
Price/Cash Flow (P/CF)	15.84	15.84	12.83	10.66	4.42	27.35
P/E (F1)	27.44	27.40	21.99	22.29	NA	33.33
Price/Sales (P/S)	2.09	1.83	2.53	1.54	0.42	1.34
Earnings Yield	3.66%	3.66%	4.35%	4.49%	-0.64%	3.01%
Debt/Equity	1.08	0.44	0.77	0.20	4.13	0.47
Cash Flow (\$/share)	6.15	2.38	6.94	19.73	1.77	1.12
Growth Score	A	-	-	D	C	C
Hist. EPS Growth (3-5 yrs)	9.09%	8.18%	10.41%	15.18%	18.18%	14.29%
Proj. EPS Growth (F1/F0)	-24.36%	-17.59%	-6.32%	-37.33%	-105.36%	-2.43%
Curr. Cash Flow Growth	-3.32%	3.69%	5.20%	9.29%	-1.24%	-74.54%
Hist. Cash Flow Growth (3-5 yrs)	0.03%	6.22%	8.55%	7.28%	2.82%	-20.49%
Current Ratio	1.77	1.99	1.33	1.42	6.74	1.60
Debt/Capital	52.02%	30.48%	44.59%	16.78%	80.52%	31.89%
Net Margin	7.93%	5.46%	10.13%	8.46%	4.13%	-0.30%
Return on Equity	33.45%	6.65%	14.51%	21.04%	5.58%	6.01%
Sales/Assets	1.20	0.68	0.51	1.00	0.55	0.70
Proj. Sales Growth (F1/F0)	-14.10%	-7.85%	-1.43%	-23.95%	-17.98%	-9.76%
Momentum Score	B	-	-	B	A	F
Daily Price Chg	-0.75%	-0.71%	-0.44%	-1.39%	-0.26%	-1.89%
1 Week Price Chg	5.37%	5.42%	2.30%	3.11%	9.43%	8.64%
4 Week Price Chg	8.77%	9.55%	4.38%	14.42%	5.68%	13.18%
12 Week Price Chg	22.74%	24.60%	13.59%	33.44%	41.67%	18.44%
52 Week Price Chg	20.55%	20.50%	5.75%	43.96%	-9.49%	9.89%
20 Day Average Volume	385,199	175,220	1,984,154	1,092,913	1,430,872	625,748
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	17.66%	5.29%	2.08%	18.95%	62.50%	-22.09%
(F1) EPS Est 12 week change	19.12%	0.94%	2.66%	24.01%	-22.73%	-23.78%
(Q1) EPS Est Mthly Chg	11.85%	5.92%	0.94%	53.46%	153.85%	-22.92%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	B
Growth Score	A
Momentum Score	B
VGM Score	A

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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