

## Lincoln Electric (LECO)

**\$92.93** (As of 01/30/20)

Price Target (6-12 Months): **\$97.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 12/30/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

**Zacks Rank:** (1-5)

**3-Hold**

Zacks Style Scores:

VGM:C

Value: B

Growth: B

Momentum: D

## Summary

Lincoln Electric is focused on innovative products and cost-cutting initiatives, which is likely to drive growth. Also, product launches in the automation solutions market are likely to aid growth. It is preparing for the launch of its new additive services business which will position the company as a manufacturer of large scale 3D-printed metal spell parts, prototypes and tooling for industrial customers. The company also continues to invest in long-term strategy for automation in support of its 2020 strategy initiatives. Moreover, its consolidation effort of its manufacturing and distribution platforms and benefit from procurement synergies will drive commercial and operational excellence. However, the company's volumes are likely to bear the brunt of overall slowdown in industrial production and weakness in the automotive sector.

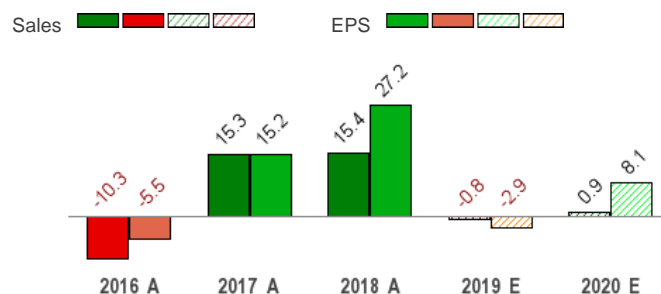
## Price, Consensus & Surprise



## Data Overview

52 Week High-Low	\$98.32 - \$75.57
20 Day Average Volume (sh)	236,461
Market Cap	\$5.7 B
YTD Price Change	-3.9%
Beta	1.23
Dividend / Div Yld	\$1.96 / 2.1%
Industry	<a href="#">Manufacturing - Tools &amp; Related Products</a>
Zacks Industry Rank	Top 45% (115 out of 255)

## Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-12.8%
Last Sales Surprise	-2.5%
EPS F1 Est- 4 week change	-0.4%
Expected Report Date	02/13/2020
Earnings ESP	1.0%
P/E TTM	19.2
P/E F1	18.4
PEG F1	1.7
P/S TTM	1.9

## Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	745 E	775 E	742 E	760 E	3,032 E
2019	759 A	777 A	731 A	737 E	3,004 E
2018	758 A	790 A	737 A	744 A	3,029 A

## EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$1.18 E	\$1.31 E	\$1.23 E	\$1.28 E	\$5.06 E
2019	\$1.17 A	\$1.28 A	\$1.09 A	\$1.13 E	\$4.68 E
2018	\$1.10 A	\$1.22 A	\$1.21 A	\$1.29 A	\$4.82 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 01/30/2020. The reports text is as of 01/31/2020.

## Overview

Headquartered in Cleveland, OH, Lincoln Electric has more than 60 manufacturing locations, including operations and joint ventures in 19 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.

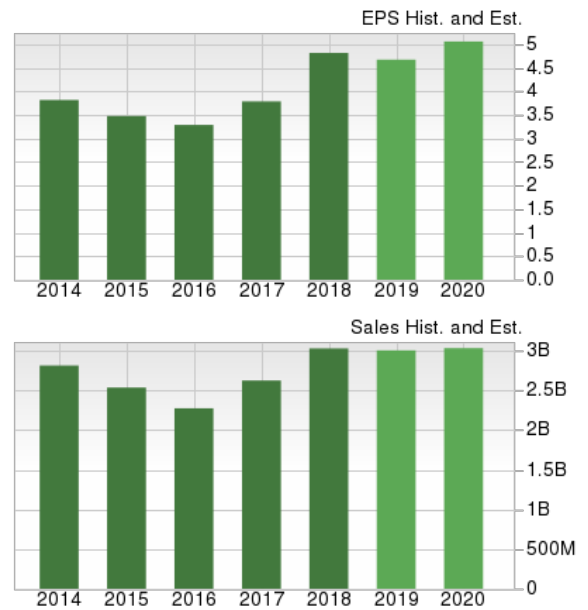
The company's business units are aligned into three operating segments-

The **Americas Welding** segment (60% of fiscal 2018 revenues) includes welding operations in North and South America.

The **International Welding** (30%) segment includes welding operations in Europe, Africa, Asia and Australia.

The **Harris Products Group** (10%) includes the company's global cutting, soldering and brazing businesses, and retail business in the United States.

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. Further during December 2018, the company acquired Coldwater Machine Company and Pro System to accelerate growth and expand the company's industry-leading portfolio of automated cutting and joining solutions. Moreover during December 2018, the company acquired Ontario, Canada-based Inovatech Engineering Corporation which scales the company's automated cutting solutions and application expertise and supports long-term growth in that market.



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## Reasons To Buy:

- ▲ The company is focusing on cost management to sustain margins in the backdrop of the weakness in global industrial production. The initiatives include lower work hours, less overtime, suspension of new hiring and cutting down discretionary spending.
- ▲ Lincoln Electric's focus on innovative products and cost-cutting initiatives is likely to stoke growth. Further, Lincoln Electric's product launches in the automation solutions market are likely to aid growth. The company is also preparing for the launch of its new additive services business which will position Lincoln Electric as a manufacturer of large scale 3D-printed metal spell 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. Moreover, Lincoln Electric's consolidation effort of its manufacturing and distribution platforms and benefit from procurement synergies will drive its commercial and operational excellence. 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. These buyouts will enhance the company's product portfolio, accelerate growth in the retail channel and complement its Harris business. In April 2019, Lincoln Electric acquired Baker Industries to expand automation and additive strategies. Recently, the company acquired an additional 49.6% interest in Askaynak, a leading Turkish producer of welding consumables and equipment. The company currently holds a 50% stake in Askaynak, which it had secured in 1998.
- ▲ Lincoln Electric expects to maintain a balanced capital allocation strategy, prioritizing growth investments and returning cash to shareholders through dividend program and share repurchases. Lincoln Electric generated \$281 million of cash flow from operations in the nine-month period ended Sep 30, 2019. The company returned around \$311 million to shareholders during the period. The company's board of directors also authorized a 4.3% increase in the quarterly cash dividend. The company also spent \$54 million in capital expenditures in the January-September time period. Despite investing for growth, the company maintains solid balance sheet and continues to deliver ROIC at 21%. It also plans to continue to repurchase shares.

Lincoln Electric will gain from improving end-markets and investment in growth. Focus on acquisitions, product launches and execution of the 2020 vision and strategy will also drive growth.

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## Reasons To Sell:

- ▼ Broad global deceleration in demand led to a 4.1% reduction in volumes in third-quarter 2019. Volumes in the Americas Welding segment continue to remain challenged thanks to the overall slowdown in industrial production and automation product lines. The Automotive/Transportation sector declined at a double-digit percent rate — a significant deceleration. In the International Welding segment volumes continue to be impacted by declines in Asia Pacific stemming from slowing regional automotive and heavy fabrication sector demand and Europe and a broad reduction in global industrial production. Considering the weak global manufacturing backdrop, uncertainty in the market and cautious customer spending, the scenario is likely to persist in the fourth quarter.
- ▼ Pricing in the Americas Welding segment declined 1.2% reflecting the removal of surcharges in the U.S. business. The company anticipates pricing to be lower through the remainder of the year and the first half of 2020. Raw material inflation will remain a headwind in 2019. 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.
- ▼ During 2019, the company initiated rationalization plans within International Welding. The plans include headcount restructuring and consolidation of manufacturing operations to better align cost structure with economic conditions and operating needs. The company recorded rationalization and asset impairment net charges of \$25 million in 2018 and \$6.3 million in the first three quarters of 2019 primarily due to employee severance, asset impairments and gains or losses on the disposal of assets. Though these rationalization actions will positively impact results in the days ahead, it will limit margins in the near term.

Lincoln Electric's volumes will be hurt by the overall slowdown in industrial production, weakness in Asia Pacific and the automotive sector. Also, input cost inflation will hurt the bottom line.

## Last Earnings Report

### Lincoln Electric Q3 Earnings & Sales Lag Estimates

Lincoln Electric reported adjusted earnings of \$1.09 per share in third-quarter 2019, down 10% year over year. The reported figure also missed the Zacks Consensus Estimate of \$1.25. Lower capital spending and slowing global industrial production rates led to the weaker-than-expected results in the quarter.

Including one-time items, earnings in the reported quarter came in at \$1.17 compared with \$1.07 in the prior-year quarter.

Total revenues declined 0.9% year over year to \$730.8 million, with 4.7% decrease in organic sales and 1.6% from unfavorable foreign-currency translation in the reported quarter. However, the revenue decline was partly offset by 5.4% benefit from acquisitions. The top line also missed the Zacks Consensus Estimate of \$750 million. The ongoing double-digit percent declines in automation and Asia Pacific, and the overall slowdown in industrial production impacted volumes in the reported quarter.

### Costs and Margins

Cost of goods sold was up 1.4% to \$492 million from \$486 million in the prior-year quarter. Gross profit declined 5% to \$238 million from the prior-year quarter's \$252 million. Gross margin came in at 32.6% compared with the prior-year quarter's figure of 34.1%.

Selling, general and administrative expenses remained flat at \$148 million from the year-earlier quarter. Adjusted operating profit plunged 12% year over year to \$91.7 million in the quarter. Operating margin came in at 12.5% compared with 14.2% in the year-ago quarter.

### Financial Update

Lincoln Electric had cash and cash equivalents of \$156 million at the end of the third quarter compared with \$359 million at the end of the fiscal 2018. The company recorded cash flow from operations of \$129 million during the reported quarter compared with \$106 million in the year-earlier quarter.

During the third quarter, Lincoln Electric returned \$90 million to shareholders through dividend and share repurchases. The company's board of directors declared an increase of 4.3% in the quarterly dividend to 49 cents per share. The dividend will be paid out on Jan 15, 2020 to shareholders of record as of Dec 31, 2019.

The company is focusing on cost management to sustain margins in the backdrop of the weak of the broader deceleration in global industrial production. The initiatives include lower work hours, less overtime, suspending new hiring and also cutting down discretionary spending.

Quarter Ending **09/2019**

Report Date	<b>Oct 30, 2019</b>
Sales Surprise	<b>-2.53%</b>
EPS Surprise	<b>-12.80%</b>
Quarterly EPS	<b>1.09</b>
Annual EPS (TTM)	<b>4.83</b>

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## Valuation

Lincoln Electric's shares are up 7.1% over the trailing 12-month period. Stocks in the Zacks Manufacturing – Tool & Related Products industry and the Zacks Industrial Products sector are up 35.5% and 11.0% over the past year, respectively.

The S&P 500 index has gained 20.1% in the past year.

The stock is currently trading at 18.14X forward 12-month earnings, which compares with 18.80X for the Zacks sub-industry, 17.84X for the Zacks sector and 18.80X for the S&P 500 index.

Over the past five years, the stock has traded as high as 25.36X and as low as 12.92X, with a 5-year median of 17.40X.

Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$97 price target reflects 19.24X Forward 12-month earnings.

The table below shows summary valuation data for LECO:

Valuation Multiples - LECO					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	18.14	18.8	17.84	18.8
	5-Year High	25.36	20.27	19.91	19.34
	5-Year Low	12.92	13.13	12.6	15.18
	5-Year Median	17.4	16.29	16.58	17.46
P/S F12M	Current	1.87	1.47	2.71	3.49
	5-Year High	2.6	1.52	2.74	3.49
	5-Year Low	1.34	0.98	1.51	2.54
	5-Year Median	1.81	1.17	1.97	3
EV/EBITDA TTM	Current	13.82	9.99	16.93	12.25
	5-Year High	23.56	12.97	17.44	12.86
	5-Year Low	8.38	8.15	10.89	8.48
	5-Year Median	13.69	9.81	14.73	10.7

As of 01/30/2020

## Industry Analysis Zacks Industry Rank: Top 45% (115 out of 255)



## Top Peers

The Manitowoc Company, Inc. (MTW)	Outperform
Caterpillar Inc. (CAT)	Neutral
John Bean Technologies Corporation (JBT)	Neutral
Kennametal Inc. (KMT)	Neutral
Sandvik AB (SDVKY)	Neutral
Stanley Black & Decker, Inc. (SWK)	Neutral
Terex Corporation (TEX)	Neutral
Deere & Company (DE)	Underperform

Industry Comparison Industry: Manufacturing - Tools & Related Products				Industry Peers		
	LECO Neutral	X Industry	S&P 500	CNHI Neutral	JBT Neutral	KMT Neutral
<b>VGM Score</b>	<b>C</b>	-	-	<b>C</b>	<b>D</b>	<b>D</b>
Market Cap	5.68 B	3.97 B	23.94 B	13.34 B	3.66 B	2.80 B
# of Analysts	7	5.5	13	7	5	5
Dividend Yield	2.11%	1.67%	1.77%	0.00%	0.35%	2.37%
<b>Value Score</b>	<b>B</b>	-	-	<b>A</b>	<b>D</b>	<b>C</b>
Cash/Price	0.03	0.10	0.04	0.29	0.01	0.04
EV/EBITDA	13.61	8.29	14.14	9.15	21.82	7.25
PEG Ratio	1.61	2.18	2.01	NA	2.42	2.29
Price/Book (P/B)	6.98	2.75	3.25	2.18	6.99	2.09
Price/Cash Flow (P/CF)	15.40	13.75	13.56	5.54	18.67	7.65
P/E (F1)	17.66	18.53	18.90	11.32	22.16	19.06
Price/Sales (P/S)	1.89	1.46	2.64	0.47	1.89	1.21
Earnings Yield	5.44%	5.39%	5.28%	8.83%	4.51%	5.24%
Debt/Equity	0.88	0.39	0.72	3.90	1.47	0.47
Cash Flow (\$/share)	6.04	3.14	6.92	1.78	6.19	4.42
<b>Growth Score</b>	<b>B</b>	-	-	<b>D</b>	<b>C</b>	<b>D</b>
Hist. EPS Growth (3-5 yrs)	7.53%	9.55%	10.68%	17.68%	28.53%	14.99%
Proj. EPS Growth (F1/F0)	8.25%	6.53%	7.59%	2.70%	7.28%	-41.32%
Curr. Cash Flow Growth	21.25%	10.92%	10.81%	21.09%	29.97%	10.92%
Hist. Cash Flow Growth (3-5 yrs)	0.36%	6.20%	8.78%	2.13%	25.68%	2.02%
Current Ratio	1.89	2.71	1.22	6.03	1.53	2.54
Debt/Capital	46.73%	27.87%	42.99%	79.63%	59.48%	31.78%
Net Margin	10.50%	8.32%	11.69%	5.46%	6.70%	8.31%
Return on Equity	36.00%	14.13%	17.33%	21.02%	33.52%	15.40%
Sales/Assets	1.27	0.84	0.55	0.62	1.14	0.89
Proj. Sales Growth (F1/F0)	0.93%	0.00%	4.12%	-0.19%	4.22%	-7.71%
<b>Momentum Score</b>	<b>D</b>	-	-	<b>C</b>	<b>C</b>	<b>B</b>
Daily Price Chg	-0.05%	-0.05%	0.36%	-1.10%	-0.59%	0.42%
1 Week Price Chg	-3.91%	-1.41%	-1.09%	-5.24%	-2.47%	-5.29%
4 Week Price Chg	-5.33%	-8.05%	-0.22%	-12.76%	-0.48%	-9.56%
12 Week Price Chg	0.99%	0.99%	4.08%	-10.62%	4.53%	-2.31%
52 Week Price Chg	7.51%	7.51%	16.06%	-0.61%	45.43%	-10.14%
20 Day Average Volume	236,461	27,847	1,808,632	1,246,241	113,250	706,640
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.16%	0.00%	0.00%
(F1) EPS Est 4 week change	-0.45%	-0.42%	0.00%	-0.81%	0.00%	-0.19%
(F1) EPS Est 12 week change	-0.98%	-0.98%	-0.09%	-4.09%	-0.78%	-1.71%
(Q1) EPS Est Mthly Chg	-0.34%	-0.17%	0.00%	0.00%	0.00%	0.00%

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## 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.

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### 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>B</b>
Growth Score	<b>B</b>
Momentum Score	<b>D</b>
VGM Score	<b>C</b>

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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