

Lincoln Electric

Aligning for Global Growth

We are a global manufacturer and the market leader of the highest quality welding, cutting, and joining products. Our enduring passion for the development and application of our technologies allows us to create complete solutions that make our customers more productive and successful. We distinguish ourselves through an unwavering commitment to our employees and a relentless drive to maximize shareholder value.¹

John Stropki looked over at the Vision 2020 document that sat on his desk. The Cleveland, Ohio, based manufacturer of arc welding equipment, Lincoln Electric, had adopted the Vision 2020 strategy two years earlier, in 2011. The document set an aggressive goal for a compound annual revenue growth of 10 percent between 2011 and 2020. Shareholders would see a marked increase in their wealth if the company met its target of 15 percent compound annual growth in return on invested capital. Stropki was proud of his contribution to the company's vision. During the first two years that the Vision 2020 strategy was implemented, Lincoln's revenues had grown 38 percent, from \$2.07 billion to \$2.853 billion, and the return on invested capital had grown a whopping 75 percent, from 10.7 to 18.7 percent.² **Exhibit 1** provides financial information for the company.

Stropki had spent 41 years at Lincoln, starting with the company while still in college. His career path began in the sales side of the organization and he became a company executive in 1996 with his appointment as Executive Vice President and President of Lincoln's North American operation. He was named CEO in 2004. In spite of the Great Recession of 2007-2009, Stropki oversaw a company that doubled sales, from \$1.3 billion to \$2.85 billion between 2004 and 2012. Shareholder dividends also doubled over the same period, from \$0.34 to \$0.71 per share, and the stock had been split 2 for 1 in 2011. Stropki produced total shareholder returns of 365 percent during his time as CEO.³ Although these numbers sounded impressive, Stropki considered them to be a typical achievement from one of America's most unique and surprising companies.

Lincoln Electric: The Cleveland Years

John C. Lincoln founded the Lincoln Electric Company in 1895 after being laid off from his job at a Cleveland producer of electric motors. Lincoln was a natural inventor and, by 1895, already possessed more than a decade of experience in the high-technology sector of electricity generation and electrical products.⁴ Rather than find work for another company, John began producing motors of his own design in his basement. Cleveland proved to be a great place to start a business. At the end of the nineteenth century, Cleveland was the Silicon Valley of its day, and the city was a hotbed for technological innovation and new business start-ups. The Lincoln Electric Company was in good company and began to grow.

EXHIBIT 1 Selected Financial Results

Year	2004	2005	2006	2007	2008	2009	2010	2011	2012
Net Revenue (\$ Billions)	1.334	1.602	1.971	2.28	2.479	1.729	2.07	2.695	2.853
Growth Rate		20.09%	23.03%	15.68%	8.73%	-30.25%	19.72%	30.19%	5.86%
Earnings per share (\$)*	2.06	2.67	3.98	4.67	2.68	0.85	1.52	2.51	3.16
Growth Rate		29.61%	49.06%	17.34%	-42.61%	-68.28%	78.82%	65.13%	25.90%
Return on Equity	14.00%	18.00%	20.50%	18.60%	21.30%	4.50%	10.46%	11.50%	19.20%
Growth Rate		28.57%	13.89%	-9.27%	14.52%	-78.87%	132.44%	9.94%	66.96%
Total Equity (\$ Billions)	0.577	0.652	0.853	1.087	1.01	1.086	1.15	1.193	1.358
Growth Rate		13.00%	30.83%	27.43%	-7.08%	7.52%	5.89%	3.74%	13.83%
Cash Flows (\$ Millions)	51.3	117	118.7	249.8	257.4	250	157	194	327
Growth Rate		128.07%	1.45%	110.45%	3.04%	-2.87%	-37.20%	23.57%	68.56%
Dividends**	0.69	0.73	0.79	0.91	1.02	1.1	1.15	0.79	0.71
Growth Rate		5.80%	8.22%	15.19%	12.09%	7.84%	4.55%	37.39%	-10.13%

* Numbers for 2004–2007 do not reflect adjustment of a 2 for 1 stock split in 2011. Figures for 2008–2012 reflect the stock split.

** Dividends for 2011 and 2012 are per share, after 2 for 1 stock split, growth rate assumes holders enjoyed split

Sources: Annual Reports 2012, 2008. Dividend data from <http://www.nasdaq.com/symbol/leco/dividend-history> ROE Data from GuruFocus, <http://www.gurufocus.com/term/ROE/LECO/Return%20Bon%2BEquity/Lincoln%2BElectric%2BHoldings%252C%2BInc>

John's younger brother, James F. Lincoln, joined the new company as a salesman. Their father, William, had immigrated to the United States from London just before the Civil War and became a preacher. The elder Lincoln had strong views, which were often at odds with the views of the congregations he led, and the family moved throughout the Midwest as a result of those convictions. William instilled in both of his boys a deep faith in Christianity and its principles of respect for humanity. He also taught his boys how to work and to love the work they did.

James Lincoln became General Manager of the company in 1914 and would drive that work ethic throughout the company until his death 51 years later in 1965. James managed the business operations, while John Lincoln focused his energies on developing welding technology. When James took control, Lincoln was beginning to expand its product line into other areas of electrical equipment, including a new, portable arc welding machine they brought to market in 1911. Arc welding uses the heat of an electric current to melt two metal pieces and join them together. Welding was a critical process in the manufacture of many consumer products, such as automobiles, home appliances, bridges, high-rise office buildings, and factories also relied on welding technology and products in their construction.

The Lincoln brothers worked throughout the 1920s to advance welding technology. John created several innovations that improved welding in general and Lincoln's line of products in particular. James focused the company on a single goal: making better welding products to sell to more customers. By the time the stock market crashed in 1929, Lincoln Electric held 30 percent of the growing market for arc welding.⁵

The Lincoln System

James Lincoln considered Lincoln Electric to be a “manufacturing company” above all else. The competitive logic of the Lincoln Electric Company rested on using manufacturing excellence to create increasingly higher-quality welding equipment at ever lower costs. Lincoln focused on customer service, learning as much as it could about how its welders were used in the field.