



Linde plc 3Q23 Earnings Teleconference and Webcast - Transcript October 26, 2023

Speaker O-Operator

Ladies and gentlemen, good day and thank you for standing by. Welcome to Linde's Third Quarter 2023 Earnings Teleconference and Webcast. At this time, all participants are in a listen-only mode. Please be advised that today's conference is being recorded. And after the speakers' presentation, there will be a question-and-answer session.

I would now like to hand the conference over to Mr. Juan Pelaez, Head of Investor Relations. Please go ahead, sir.

Speaker {C: Juan Pelaez: Head of Investor Relations: Linde plc.>}

Thanks, Abby. And thanks for pronouncing my name correctly. Good morning, everyone, and thank you for attending our 2023 third quarter earnings call and webcast. I'm Juan Pelaez, Head of Investor Relations, and I'm joined this morning by Sanjiv Lamba, Chief Executive Officer, and Matt White, Chief Financial Officer. Today's presentation materials are available on our website at linde.com in the Investors section.

Please read the forward-looking statement disclosure on Page 2 of the slides and note that it applies to all statements made during this teleconference. The reconciliations of the adjusted numbers are in the appendix to this presentation.

Sanjiv will provide some opening remarks, and then Matt will give an update on Linde's third quarter financial performance and outlook. After which, we will wrap up with Q&A.

Let me now turn the call over to Sanjiv.

Speaker {C: Sanjiv Lamba: Chief Executive Officer and Member of the Board of Directors: Linde plc.>}

Thanks, Juan. And a very good morning, everyone. Linde employees delivered another solid quarter despite the economic headwinds. Earnings per share grew 17%, return on capital closed at 25.6%, operating cash flow was \$2.5 billion and operating margins expanded 550 basis points, finishing up 28.3%. And we delivered these results, while continuing to responsibly deploy capital for high-quality growth opportunities and consistent shareholder returns. This is what our owners expect. It's not new and not a surprise.

Time and again, through recessions and global economic shocks, Linde has consistently delivered industry-leading results through a relentless productivity culture, while increasing network density. And I see no reason why that won't continue going forward. In fact, rather than waste time trying to predict what will happen, we are constantly striving to perfect the model for all seasons.

Here at Linde, we acknowledge the world is a volatile place. And as stewards of shareholder capital, we are focused on running an organization which can sustainably deliver on owner expectations. Quality earnings growth, leading return on capital and strong cash generation, are hallmarks of history and will be integral to



our future performance. I think it's important to remind investors of these key tenets at Linde especially during uncertain times like today.

The combination of inflation, rising interest rates and geopolitical tension is curtailing risk appetite and hence overall economic activity. However, I remain confident in Linde's ability to weather any economic downturn, based on the strength of our diverse portfolio and long-term contracts, which is further demonstrated on Slide 3.

When you read the news or government statistics, I know it's hard to be bullish on the global economy. However, when looking at underlying trends by end market we see a mixed picture with some increasing while others are flat or slightly down.

Overall, underlying sales were up 3% with base volumes down low-single digit percent which was more than offset by pricing and contribution from project backlog. In other words, the Linde operating model allows us to quickly adapt to maintain steady and compounding value-creation regardless of the macro-environment.

The resilient consumer-related end markets, which represent about one third of sales saw solid growth in food and healthcare, but a mid-single-digit percent decrease in electronics. Now, on-site electronic volumes remained stable, with reductions in merchant and packaged gases, primarily from rare gas sales in Asia. Based on customer feedback. I believe we will begin seeing signs of recovery in the first half of 2024 due to growing AI demand and inventory levels stabilizing.

Industrial-related markets make up the remaining two thirds of sales. And similar to the other sectors, we're seeing mix trends here. Manufacturing and chemicals and energy are both up, primarily led by the United States. We continue to see U.S. packaged gas volumes, stable at a high watermark including metfab, as well as the recovery in Gulf Coast hydrogen pipeline volumes which have carried into the fourth quarter as well. Conversely, metals end market volumes are down, slightly from weaker economic conditions. Overall, higher prices and growth from contractual project backlog more than offset weaker base volumes. This is because our long-term customer contracts, stabilized results through inflation adjustment and fixed payment clauses. Said differently, we have the right business model and operating rhythm to weather any storm.

Looking ahead to the fourth quarter, the U.S. economy continues to navigate at high levels, with pretty much every end-market expected to grow year-on-year and remain stable sequentially. China volumes are expected to remain flattish even as manufacturing, chemicals and energy end markets may show a mild recovery, while steel and electronic volumes continue to remain flat.

Regarding Europe, we have not yet seen an inflection point. So the expectation is that volumes will hold around the third-quarter levels, ex some normal seasonal impact new.

Despite the softer macro-environment and higher interest rates, proposal activity continues to be robust and our backlog has increased by \$300 million to \$8.1 billion, of which \$4.5 billion are sale of gas projects. In addition, our clean energy projects continue to progress well, as our customers remain committed to decarbonizing their assets.

Finally, our priorities remain intact, the best-in-class in safety, compliance, sustainability and talent development, while maintaining a high-performance culture, which remains focused on delivering on our



commitments. So although the global economy seems tepid, I can only tell you that Linde will continue to deliver on its commitments.

I will now turn the call over to Matt, to walk you through the financial results.

Speaker {C: Matt White: Executive Vice President & Chief Financial Officer: Linde plc:}

Thanks, Sanjiv. Slide 4 provides a summary of third quarter results. Sales of \$8.2 billion decreased 7% from last year and 1% sequentially. Although, these numbers are not indicative of underlying trends. Cost pass-through, which represents the contractual billing of energy cost variances to customers, decreased 6% from last year, but had no effect on profit. In addition, the engineering business decreased 4% from prior year and 1% sequentially due to timing of project billings.

When excluding these items along with impacts from FX and net divestitures, underlying sales increased 3% over last year and 1% over the second quarter. Price increased 5% over prior year and 1% sequentially, as the business units continue to contractually recover higher levels of inflation. In fact, globally weighted CPI for our countries of operation also increased 5% in the third quarter, further validating this correlation. The volumes were flat sequentially, and decreased 2% year-over-year, primarily driven by the electronics and metals and mining end markets. Overall, year-to-date volume trends have tracked closely with globally weighted industrial production. We regularly monitor tank and cylinder returns to validate this correlation and have not identified any material differences. In other words, the volume decline is driven by existing contractual customers requiring less gas refills, since their production decreased proportionately with industrial activity in their local economy.

I fully expect volumes to recover in-line with each local economy.

Operating profit of \$2.3 billion increased 15% over prior year and 1% sequentially. Operating margin expanded 550 basis points to 28.3%, as price actions, cost productivity and fixed payment contracts enabled greater leverage from the 3% underlying sales growth. Excluding cost pass-through, operating margins expanded 400 basis points across all business segments, led by EMEA at 600 basis points. Note that Americas experienced elevated power costs in the third quarter, which had a negative impact to merchant and packaged margins. However, this will be recovered over the next one to two quarters.

EPS of \$3.63 increased 17% as we continue to deliver on the stated goal of double-digit percent EPS growth. CapEx of \$950 million increased 24% from last year, primarily due to project CapEx spending in support of the \$4.5 billion sale of gas backlog. As a reminder, the Linde definition of project backlog is unique and the most stringent in the industry. Inclusion requires assured growth, a customer contract with fixed fees, and explicit termination provisions to ensure investment returns. Furthermore, this \$600 million of base CapEx includes \$320 million of additional growth investments to increase network density.

During uncertain times like today, shareholders want to sleep well at night knowing their investment is safe in management's hands, which is further supported on Slide 5. Proper capital management and quality cash generation have always been at the core of our operating rhythm. We've been following the same capital allocation policy for decades. It starts with generating true operating cash flow, because contrary to what some might think working capital does matter. You can see the stable trends with the most recent quarter coming in at \$2.5 billion. Recall that we had some cash tax timing impact in the first half of the year, which



we've now lapped. Therefore, I expect the operating cash-flow to EBITDA ratio to remain in the low-to mid-80% range.

While our mandate is to maintain an A credit rating and grow the dividend, the priority for our capital is to invest into the business. This follows our time-tested investment criteria, which has enabled Linde to consistently achieve industry-leading ROC year-after-year. After investing into the business, surplus cash is used for share repurchases. Having a strong balance sheet, stable cash generation and an active stock repurchase program enables value-creating opportunities during turbulent markets. In fact, our best stock repurchases happened when equity markets overreact.

This is why we recently announced a new \$15 billion stock repurchase program, allowing us to optimize our excess free cash flow and robust balance sheet. We'll continue to take advantage of stock market dislocations and return capital to our owners in a tax-efficient manner.

I'll wrap up with guidance on Slide 6. For the full year, we're raising guidance to a range of \$14 to \$14.10, representing a 14% to 15% growth rate. Consistent with prior quarters, the upper end assumes no sequential economic improvement. The updated full year guidance implies a fourth-quarter range of \$3.38 to \$3.48. Excluding FX, the midpoint is down 4% sequentially due to engineering project timing and base volumes, including seasonality. Although we are taking actions to improve this range.

As Sanjiv mentioned global volatility appears to be the norm these days. So we must run our business in a manner, which navigates the uncertainty, while executing the strategy and delivering on commitments. And while no one can predict what will happen tomorrow, let alone next year, Linde owners can rest assured, knowing their capital will be properly managed for sustained compound growth in any environment.

I'll now turn the call over to Q&A.

{Question & Answer}

Speaker O-Operator

Thank you. (Operator Instructions) We'll take our first question from Mike Leithead with Barclays. Your line is open.

Speaker A-Mike Leithead

Great, thank you, good morning. Sanjiv. Maybe to start, you talked about some macro cross-turns impacting risk appetite. And, I think there's probably been a bit of a pullback in the clean energy space, maybe a bit more economic rationality in some green ambitions. So, can you speak to, beyond what's already in your backlog if discussions at all or changing on potential new clean-energy products, or maybe how bidding activity today versus maybe earlier this year?

Speaker {C: Sanjiv Lamba: Chief Executive Officer and Member of the Board of Directors: Linde plc:}

Thanks, Mike. And, you're right that there is there is a bit of a risk-off in the market. I have to, though say that, you know, our approach to clean-energy projects and at the risk of repeating myself from some previous conversations we've had on these calls, we've always maintained that technology and scale-up,



resulting in projects that have a competitive position, are the ones that are going to move forward. And I want to reiterate today that we are seeing many of those projects that we're currently developing on-track for exactly those reasons. We work with Tier 1 customers who have a commitment to decarbonizing but are also looking at cost competitive solutions to do that.

So in terms of proposal activity, we've gone in the past and had conversations about investment decisions of about \$50 billion over a 10-year period. I'd say to you that I feel reasonably confident about those numbers. About 60% of that I see likely happening in the U.S. Again, a very strong market where developments continue to be a fairly robust.

In terms of more near-term, in the past. Mike, I've said decisions of about anywhere between \$9 billion to \$10 billion over the next few years, I feel pretty good about that number as well. The projects that we're currently working on attracting all appear to be on that path. And most recently, you would have heard in Dow's earnings call a couple of days ago, Jim, outlining the fact that their project in Alberta is moving to FID towards the end of the year. Again, that's just a validation of the outlook that I've given you.

One last comment. You've heard me be skeptical around developments in green. And I've said in the past number of times, there are a few factors that impact that. One, investment renewable energy to make sure there is enough renewable energy available for electrolyzers to produce green hydrogen. That continues in this environment, that continues to be a challenge. Obviously technology and scale-up on green is also lacking today. I said in the past and I maintain, that's probably five to seven years away and I expect those developments to feed out as we see the point of inflection maybe a decade from now when green energy projects really are available at scale at a cost-competitive level and meaningfully to be deployed in the energy transition.

Speaker A-Mike Leithead

Great, Thank you.

Speaker O-Operator

And we will take our next question from Laurent Favre with BNP. Your line is open.

Speaker A-Laurent Favre

Yes, good morning all. I've got a question on China. Sanjiv. You talked about flattish volumes. I was wondering if this is a comment about the near term or that's how you feel about the medium term. And are you adjusting resources and productivity at all?

Speaker {C: Sanjiv Lamba: Chief Executive Officer and Member of the Board of Directors: Linde plc:}

Laurent, that's a good question. So let me why don't, I just kind of give you a feel for what I think is happening in China, as we see it today, and then we'll talk a little bit about the medium-term as well. So in the near term, one of the good things in China, which is on a slow road to recovery I'd say to you is that we supply Tier 1 customers that are the most competitive in their field and have been quite stable through this downturn.



Now, let me give you kind of a little bit more color on some of the end markets that we're seeing over there. I'll start with chemicals to begin with. Sequentially, we saw a bit of softness, but year-on-year chemical production was actually pretty much flat. For Q4, which is more near term, we're expecting potentially a mild recovery as a result of a bit more cautious view on domestic consumption and weak external environment. And I see that play out hopefully, I expect into the first half of next year as well.

Our steel volumes have been sequentially stable, but as you know, and we mentioned this a few times now, have been lower year-on-year. Steel outlook is not expected to improve in Q4. Obviously, they have their own environmental production curtailments that happened in winter. I expect that to play through and most likely into the first half of next year as well. Both steel and chemicals are impacted by the crisis, I'd call it, in the property sector. And unless that ship kind of turns around, you're unlikely to see a lot of tailwind for chemicals and steel.

On manufacturing, the manufacturing PMI for China has been shrinking. It shrunk a little bit again in September at about 50.6 now. We see volume's sequentially stable. Automotive is probably the one bright spark in that space, but I'd say we're seeing positive movements year-on-year largely driven by EV production. EV production obviously growing in excess of 20% at the moment. There's a bit of momentum around that. I expect that momentum to sustain into Q4 and beyond.

On the other hand, machinery and metal fab outputs remained weak in the third quarter. I expect those to remain weak in Q4 as well. Lastly, electronics, volumes sequentially have been stable but are below last year. As you know, we've said before, on-site electronic volumes are stable. We really see the volatility around merchant and package, potentially around rare gases primarily. Overall chip output in China did improve in the quarter. In Q3, it was up about 4.1%, and I expect it to kind of remain at that level as we go ahead into the last quarter. So that's kind of a near-term view, Laurent.

If I -- if I take a view on the midterm, obviously, a lot has to happen over the next 6 to 9 months for that recovery to come back in shape. I expect that to be around mid-2024, but more medium term, if you look at a 2 to 4-year horizon or a 2 to 5-year horizon, I do see moderated growth coming out of China, and we see that reflected in the IP numbers that we'll get.

Speaker A-Laurent Favre

Are you -- so are you adjusting at all the way you're running the business in terms of management structures and resourcing?

Speaker {C: Sanjiv Lamba: Chief Executive Officer and Member of the Board of Directors: Linde plc:}

Good question. Let me finish off that then. And absolutely, the answer to that is yes. We are treating China as a mature economy, one where we are focused on pricing, productivity, cost management. We've got that team reoriented and have done for more than 12 months now, Laurent. So in some ways, we don't comment on that because for us, it's a given.

I believe that our business needs to constantly look at what we do and align itself to market conditions. And that's what we started doing in China 12 to 14 months ago and that is now fully in execution today. We manage that business as I would expect any of the mature business to be handled, to focus on pricing, productivity, cost management every day, while we continue to look at good opportunities for growth, and



we continue to want to invest there should that high-quality growth come through, which meets our investment criteria.

Speaker A-Laurent Favre

Thank you.

Speaker O-Operator

We'll take our next question from Stephen Richardson with Evercore ISI. Your line is open.

Speaker A-Stephen Richardson

Hi, good morning. Sanjiv. So, I was wondering if you could maybe talk about some of the recent project wins that your customers have disclosed. Specifically, the Australian projects and maybe the Indian Oil project and this project is particularly interesting relative to what you just mentioned in terms of Tier 1 partners and some of the risks around green hydrogen specifically?

Speaker {C: Sanjiv Lamba: Chief Executive Officer and Member of the Board of Directors: Linde plc:}

Sure, Stephen. So both of those wins recently announced. So our entities in India obviously did a really good job in winning a large hydrogen supply scheme to Indian Oil at Panipat. That's a premier refinery in India. As you know, the Indian market is growing and most of the infrastructure projects as well as large refineries are kind of running hard to keep pace.

So good to see that full holistic package. We're providing the atmospheric gases as well as hydrogen to that refinery as they go into their expansion plans. And again, given our strong relationship with IOL or Indian Oil, we are seeing continued kind of momentum from the technology that we're providing to them and their appreciation of the package of technology and operating capabilities that we bring to bare. We supply them at Panipat already for a number of years now.

As far as South Australia is concerned, it was an interesting project. We worked very closely with the government of South Australia. I have to give them some credit for kind of doing some fast-breaking work over here. What they're trying to do is to build a hydrogen-fired peaking power plants or essentially moving hydrogen into the power sector. And really, as a result of that, we are now doing a FEED study for them. It is a paid FEED study to provide 250 megawatts of electrolysis and a lot of hydrogen storage to support that peaking plant.

Now as you know, a peaking plant really is a bit more discretionary in the hydrogen that's provided. We're doing a FEED study to assess what is required for a successful project to happen. We're working with a reputed power player in developing that project jointly. And once the FEED is completed, we will work together with the partners to ensure that we can take that to a final investment decision.

Speaker A-Stephen Richardson

Thanks so much.



Speaker O-Operator

And we will take our next question from Duffy Fischer with Goldman Sachs. Your line is open.

Speaker A-Duffy Fischer

Yeah, good morning guys. Two quick questions. First, when you look forward to next year, how additive should new projects be to the next year? And then the second is the \$15 or 15 billion buyback is very large relative to history and you already had two remaining. So what should we read into that as far as pace of buybacks and maybe cash flow generation, you know just anything why such a large size, I guess?

Speaker {C: Sanjiv Lamba: Chief Executive Officer and Member of the Board of Directors: Linde plc:}

Yeah, I'll let Matt over those.

Speaker {C: Matt White: Executive Vice President & Chief Financial Officer: Linde plc:}

Sure. So first, as you know, Duffy, we'll give next year guidance next year, when we give that. But I will say that -- and we've said this in the past, when you kind of look at the backlog, we've always felt and stated that with \$3.5 billion to \$4 billion backlog should be giving us close to 2% of EPS growth. We're now at \$4.5 billion, so we're a little above that. So I see no reason why that wouldn't continue.

And we always want to focus on EPS growth of the backlog because the revenue impact can vary based on whether it's tolling or pass-through, right, on the energy. Sometimes it will pass through the energy which makes higher revenue, as you know. Sometimes we take tolling, and it will be lower revenue. But the returns are consistent in how we look at it, the terms and conditions are consistent. And so from an EPS perspective, we fully expect the 2% or so on top with that backlog.

As far as the buyback, we've also grown. We have to remember that. And how I think about the \$15 billion buyback is the pace at what it should be consistent with how our use of the prior programs have been. So as you know, we've been \$1 billion-ish per quarter already. We are growing. Our cash flow continues to be quite strong. And so while we did not give any explicit date on this, I would expect that the timing for us to go through this will be consistent with what we've seen in our prior program, for example, the \$10 billion that we announced in the beginning of last year.

But again, our priority will always be growth and investing in the business. It just has to meet our criteria. So we view that we have ample capital to not only pursue every project that meets our criteria, but obviously a significant amount of excess capital that we can deploy towards this program.

Speaker A-Duffy Fischer

Perfect, thanks guys.

Speaker O-Operator

We will take our next question from Jeff Zekauskas with JPMorgan. Your line is open.



Speaker A-Jeff Zekauskas

Thanks very much. When you look at your cost of goods sold line, you went from 52.85% to 43.14%, you went down 19% and your revenues fell 7. I was hoping you could analyze the decrease in cost of goods sold? Now I know that there's cost to pass through which is there, and I know that your engineering business was much more profitable on a revenue basis. But can you talk about the real underlying cost inflation and why the gross profit increase was whatever it was, \$330 million in the quarter?

Speaker {C: Matt White: Executive Vice President & Chief Financial Officer: Linde plc:}

Okay, Jeff, it's Matt. I'll, I'll provide some response to that, but we -- I don't think we have enough time to do a full walk on our COGS. But to your exact point, so you have to start with pass-through, okay? So that 6% translates dollar-for-dollar, as you know. And obviously, the cost of goods is a smaller number than sales, but the dollar amount is the same. So that will create a larger percent variance on that.

On top of that, to your exact point, engineering will have some swings based on that and so that will create some of it. You saw the engineering sales were down 4% due to some project timing. Another factor you have to remember is GIST. So we divested GIST, as you know, and this is the last quarter on lapping that. But GIST was a high variable cost kind of low-margin business that would also result in a disproportionate amount of COGS.

Those all aside, there has been a tremendous amount of effort on our productivity. When energy escalates like it did, while we passed through the energy itself, we pass it through at a very fixed sort of contractual consumption factor ratio. So if we are inefficient, we have to pay for that. But if we are efficient, we're able to pocket that. And so in a lot of cases, we've had the ability to make more investments on efficiency. This also just so happens help our Scope 1 and Scope 2 emission reductions which we've also been focusing on. And so a combination between the work we've done on distribution, the work we've done on power management, natural gas management, has given us an opportunity with this inflation to be more efficient on our variable costs. And so that is another component that is also helping on this.

So there is nothing in there that I view as any anomaly or not on a sustainable basis. Obviously, the pass-through will be what the pass-through will be, but that has no impact to profit. But we're going to continue pursuing these variable cost efforts on efficiency, especially in a world where there's more inflation because the payback opportunity is greater.

Speaker A-Jeff Zekauskas

Great, thank you so much.

Speaker O-Operator

And we will take our next question from David Begleiter with Deutsche Bank. Your line is open.

Speaker A-David Begleiter



Thank you, good morning. Sanjiv and Matt, can you discuss pricing sequentially where you still getting it. I recognize that on a price-mix basis pricing was flat sequentially in the Americas and APAC, but where you still getting pricing and we'll leave it at that. Thank you.

Speaker {C: Sanjiv Lamba: Chief Executive Officer and Member of the Board of Directors: Linde plc:}

Thanks, David. So let's just talk about pricing. I'll start off with the Americas because you heard in the introductory remarks that we made that in the Americas, we did see a spike in power costs, which we expect to see recovered over the next couple of quarters. That's a typical lag that we've talked about in the past, and we'll see that come through. So that's just to make sure that that's put aside.

Now as you look at pricing across the board, again, we reminded -- very often we reminded you and our investors broadly of when you think about pricing for us, you should be thinking about its correlation to globally weighted CPI on a long-term basis. And I'm taking the long-term view over here because that is what plays into the sequential movement as well. This quarter, our globally weighted CPI ended up at about 5%, and you can see our pricing year-on-year ended up at about 5% as well. So again, that's kind of a reflection of that long-term trend, and that's what's playing out. And sequentially, we expect to continue to see that movement wherever we see increased cost levels, we are more than out there to ensure that that recovery is taking place. In the Americas, as I said, sequentially, you'll see that happen over the next couple of quarters as well.

Matt, anything to add?

Speaker {C: Matt White: Executive Vice President & Chief Financial Officer: Linde plc:}

Yeah. I would just add, David. Thanks, Sanjiv. We're a bit of a victim of what I'd call rounding and footing in the Americas as well. So when you actually calculate the sequential sales change, it comes to like 2.49%, so it rounded down to 2. But volume, price and pass-through all rounded to about 1% sequential improvement. But to force it to 2, one of them had to go down. So we actually are getting a healthy sequential price in Americas. I think it came to like 0.7%. But given the rounding footing to just make the numbers work, we had to push it to zero. So while it says zero, it's really 0.7%, and it's a trend that we would expect given what the inflation is, to Sanjiv's point.

Speaker A-David Begleiter

Thank you. Very helpful.

Speaker O-Operator

And we will take our next question from Peter Clark with Société Générale. Your line is open.

Speaker A-Peter Clark

Yes, good morning, everyone. Sorry, I cannot restrain myself. I have two. But the first one was on the DOE and the announcement of the hydrogen hubs, which you're not involved in. I don't think anyway. I know a lot of it is focused on mobility, but there is some industrial probably in there, and they are targeting quite a slug



of U.S. hydrogen production by 2030. I think it's 30%. So just wondering your views on that? I presume there's something about ensuring returns from this.

And then the second question, EMEA margins now ahead of America, over 30%. I think they're up 1,200 basis points from 2018, so really delivering on the old Linde AG platform. Structurally, I think they should be the highest margin region anyway given the mix, but just where you see the momentum from here? Because obviously, you've seen this enormous jump. I know you're confident of moving it forward, but just your views on that. Thank you.

Speaker {C: Sanjiv Lamba: Chief Executive Officer and Member of the Board of Directors: Linde plc:}

Thanks, Peter. Let's start off with the DOE hubs that were announced. And we are actually involved in them, and we've been awarded as one of the participants of the ARCHES Hub, which is in California, where we have a market that we believe on mobility will be meaningful, and therefore, we are participating in that.

We did participate in a few others. But remember, for us, Peter, the core of how we think about our business and also the development of that business going forward is all built around network density. And that's the acid test that we apply to the development around the hydrogen hubs as well. The DOE has done a remarkable job and really kind of put this whole proposal forward, but of course, there's still a long way to go to get to that funding and ensuring that you have a reasonably complex structure with multiple stakeholders involved in putting and positioning one of those projects.

So we'll be watching out for those developments, but where we thought there was most impact for us in our business in California, we are participating in our part of the hub that's been selected. So just that much in hubs.

Let's talk about EMEA, and you're right. I mean, EMEA margins at about 30% is a major milestone. I do recall, Peter in the past, your comments around EMEA being the most profitable region, or at least it should be. We are demonstrating now that it can be. You'll recall, if you go back to 2018, Peter, that the EMEA margins were 19.2% in the baseline. So they've come almost 1,100 basis points up from that, and it's been consistent. It's not been choppy. It's been a consistent -- and it's a hard process, as you know, and we talk about this all the time, the grind of making sure you do pricing and productivity everyday, while we watch out for all growth opportunities that come by, I think that's the model that's been applied. And really, at the heart of this is making sure we're extracting full value from the high net worth density that we enjoy in the EMEA businesses, where, where we are. So I feel pretty good about that.

Now looking ahead, I'd expect Linde overall to continue down the path of giving you between 20 to 50 basis points of margin expansion every year at the task we hold ourselves to. And I think EMEA -- just because it gets to that 30% doesn't mean we'll waive that. I think they will work at the -- all the actions necessary to ensure that they actually deliver as part of that 30 to 50 basis points improvement that we look for every year.

Speaker A-Peter Clark

Thanks for the color. Thank you,

Speaker O-Operator



And we will take our next question from Geoff Haire with UBS. Your line is open.

Speaker A-Geoff Haire

Good afternoon or, good morning, I should say. Thank you for the presentation. Matt, I have a quick question for you. I think at the end of your prepared remarks, you mentioned that you were taking actions to potentially lift the top end of the EPS guidance range for this year. I was wondering if you'd like to give some details on what those actions are, if I understood it right?

Speaker {C: Matt White: Executive Vice President & Chief Financial Officer: Linde plc:}

Yeah. Sure, Geoff. As Sanjiv mentioned in his remarks, the economic environment is challenging. I think we can all agree on that. And given that, we have to get ahead of it. We have to do things, especially in those geographies, most affected. It was discussed earlier, things like we're doing in China, but we are taking certain actions on the cost to tighten up discretionary spend where we can, to be very focused on headcount additions. And it's to not only get ahead of a situation, but ideally prevent any further need for more severe actions if we can get early on this.

We've done very similar approaches when we were, frankly, heading into 2020. We've done this into 2022. We've done this back when you look in prior years as well when we start to see slowing conditions. So we're taking a significant global efforts across discretionary spend, headcount, actions such as that to essentially tighten down and be prepared for what will happen. Because while we don't know what will happen, it's better to prepare for the worst and hope for the best, and that's how we need to go about this.

Speaker A-Geoff Haire

Great, Thanks.

Speaker O-Operator

And we will take our next question from Vincent Andrews with Morgan Stanley. Your line is open.

Speaker A-Vincent Andrews

Thank you and good morning, everyone. Matt, did you mention before the margin impact in the Americas from the power issues?

Speaker {C: Matt White: Executive Vice President & Chief Financial Officer: Linde plc:}

We did not give a specific number. But consistent with what we've had in prior power spike situations, of which you probably know you had in the United States, we tend to take an unfavorable impact to merchant and package margins in the quarter it occurs, and then we recover in the following one to two quarters. And we fully expect the same situation will happen again here as we saw a pretty severe power spike, especially in the southern part of the United States.

Speaker A-Vincent Andrews



Maybe I could just ask it this way. Would America's margins have been higher than EMEA margins without the power space?

Speaker {C: Matt White: Executive Vice President & Chief Financial Officer: Linde plc:}

They would have had a three handle.

Speaker A-Vincent Andrews

Okay, thanks very much. That's very helpful.

Speaker O-Operator

And we will take our next question from Kevin McCarthy with Vertical Research Partners. Your line is open.

Speaker A-Kevin McCarthy

Yes, good morning. Sanjiv, would you provide your latest thoughts on the helium market, both fundamentally in terms of operations or lack thereof at your competitor in Russia, as well as the upcoming U.S. helium auction of reserves and related assets, would you expect that to have any material impact on that market moving forward?

Speaker {C: Sanjiv Lamba: Chief Executive Officer and Member of the Board of Directors: Linde plc:}

Sure, Kevin. So helium, as you know, has been a market that's been reasonably volatile. I expect helium market to continue to be tight. You've seen that reflected back in the prices as well. And again, in the near term, Kevin, I do not see anything that's going to fundamentally change that. There's been a lot of speculation around what's happening out of Russia. Just to reconfirm to everyone on the call that we have canceled our contracts in Russia, and we're no longer involved with that project. I expect there are technical challenges that that project will continue to go through. And reliability of any supply chains coming out of Russia will always be suspect particularly given the increasing sanctions, including around movement of product out of Russia in terms of helium as well. That's just kind of what I'm expecting near term.

As far as BLM is concerned, my view is I think BLM is a complex divestiture that the government is trying to undertake. There is some litigation around that already, with one of our competitors going out and litigating that. I expect that will be a long, drawn-out process. But you know that over the last many years, people have relied less and less on BLM. It is important in the larger scheme of the helium infrastructure globally, but it plays a much smaller role today than it would have if you go back 5 to 10 years. So people have kind of factored that in. Our supply chains are all developed with a view that we understand the BLM limitations, and we understand how that gets factored in. So I think I just kind of wrap up by saying expect a tight market. I don't think it's kind of going long anytime soon.

Speaker O-Operator

And we will take our next question from Patrick Cunningham with Citi. Your line is open.

Speaker A-Patrick Cunningham



Hi, good morning. On the sequential weakness in electronics, should we expect some additional drag in the fourth quarter? And you also pointed to signs of recovery in the first half. What the pace of recovery do you see given current visibility?

Speaker {C: Sanjiv Lamba: Chief Executive Officer and Member of the Board of Directors: Linde plc:}

So my expectation is that on electronics, you should think about that, Patrick, in kind of two separate pieces. The on-site electronic volumes, as I mentioned earlier on, remains stable, and I expect that stability to continue sequentially through into this quarter and beyond. It's -- the volatility is largely coming around the inventory that is held around electronic special gases, which includes some high-value rare gases. And I think that's where most of that volatility has been. Again, my expectation going into Q4 is you should expect sequential movements to largely be flat, but the recovery is some way away, potentially middle of next year when you'll see that move.

Now DRAM, you're seeing a little bit of a recovery at the moment around pricing. I don't think that's enough to kind of move the needle on that market by itself. Logic has obviously been a lot more stable, but notwithstanding that, my expectation based on feedback that we've had from different customers, half -- mid next year is when that recovery will result in significant or reasonable volume growth.

Speaker A-Patrick Cunningham

Great, Thank you.

Speaker O-Operator

And we will take our next question from Steve Byrne with Bank of America. Your line is open.

Speaker A-Steve Byrne

Yes, thank you. Both of you have mentioned network density a couple of times in the call, and it leads me to want to ask you about the nexAir acquisition you made earlier in the year. Presumably, that was a competitor of yours in U.S. packaged gases. Has that acquisition enabled you to get even more aggressive on price and margins? Are those stores now more back integrated into your liquid plants? And has this allowed you to change the footprint any -- of where your stores are located?

Speaker {C: Sanjiv Lamba: Chief Executive Officer and Member of the Board of Directors: Linde plc:}

Steve, let me just -- you mentioned network density, and sometimes we live and breathe it over hear, so we take for granted everyone's on the same page, as far as that definition is concerned. So I'm going to spend a minute just talking about how we think about network density and then I'll talk about nexAir in a bit more detail.

Let's just -- when you think about network density, it is about a combination of factors. But really, what stands out over there is creating a dense network that has an opportunity to leverage core product, economics and ensure that you fully leverage that to look at your cost to serve, optimizing that and enhancing margins. If you want to visually think about it, the difference of network density the way we think about it is it's a rifle shot. It's a small targeted area where we have intense density of customers we serve and



obviously optimize how we do that. And it's not -- what type of network density isn't is a scattergun approach that you would see all over the place. So that's kind of how we think about network density.

Now, let's play that into the nexAir acquisition. So the headline of nexAir acquisition is performing better than our expectations and forecast. So I feel pretty good about having gone in there. Now nexAir was -- we did have a minority holding in nexAir and we were able to buy out the rest of the shareholders to own it fully now and integrate it back into our system. So to your point, we are going through that process of integration. We are supporting them in their aspirations to grow in the South of the U.S., a very attractive market which is seeing a lot of incoming investments, particularly given the near-shoring or re-shoring sentiment that's there in the U.S. at the moment. So we're seeing three benefits. Obviously, there are some integration benefits that we are fully kind of working our way through.

In addition to that, we have the opportunity for creating some revenue upside by cross-selling into that existing nexAir network that exists where obviously, density is playing a big role now and being able to go and serve that market. And thirdly, as new investments happen in that space, we're looking at expanding the network density that exists over there. And to a large extent, wherever we have some complementary opportunities between our stores and theirs, making sure that we're optimizing and ensuring reach and penetration of the market continues to grow. All in, pretty happy with the nexAir acquisition where it's at.

Speaker A-Steve Byrne

Thank you.

Speaker O-Operator

And we will take our next question from Laurence Alexander, Jefferies. Your line is open.

Speaker A-Kevin Estok

Hi, good morning. This is Kevin Estok on for Laurence Alexander. So you've touched on hydrogen. I guess, any sense of how many of those hydrogen projects are insensitive to interest rates? And I guess, how many could be viewed as maybe more likely to being delayed if rates continue to move higher from current levels? Thank you.

Speaker {C: Sanjiv Lamba: Chief Executive Officer and Member of the Board of Directors: Linde plc:}

So I said before and I'll just mention it again, most of these large hydrogen projects -- and again, I'd emphasize that at this point in time, while I want to consider -- I want to define these projects as low carbon intensity projects. But for easier definition, blue hydrogen projects, I find are the ones that continue to make good progress. And we are finding that despite the high interest rates and some capital cost inflation in the marketplace as well, that there is an economic case to pursue those, particularly given the incentives that come out of the IRA. So there is a lot of support, policy support for these.

At this point in time, we're not seeing any of the larger projects that we are currently developing for or with our customers and partners, kind of scale backwards in any shape of form. They're all on track and progressing well.



The challenge, I think, for hydrogen development tends to be around the green projects where all of these factors that you mentioned are obviously taking a toll, given that the technology isn't quite at scale and there isn't fundamental competitiveness in the product that comes out of that – those projects. I said before, my expectation, five to seven years until a point of inflection where you'll see green hydrogen technical solutions and available to renewable energy provide momentum in a lot more larger development on that front.

Speaker A-Kevin Estok

Thank you very much.

Speaker O-Operator

And we will now take our final question from Mike Sison with Wells Fargo. Your line is open.

Speaker A-Mike Sison

Hey, good morning, guys. Just curious, and if you would have told me you have negative volume growth in a given year, it seems like it's tough to grow EPS but you're growing now mid-teens. Can you maybe run through the growth algorithm, make sure I understand how you're doing that? And if the environment stays the same in '24-'25, is this sort of a new range of EPS growth you guys can do given there's not a lot of demand and volumes?

Speaker {C: Sanjiv Lamba: Chief Executive Officer and Member of the Board of Directors: Linde plc:}

So Mike, you know that we've gone out and made a commitment of 10%-plus EPS growth. We referenced that earlier in our introductory remarks as well, and that's what you should expect us to be doing as we move forward.

The growth algorithm is fairly straightforward, and I'll kind of walk you through that very quickly. No rocket science here, as you'd expect. There are three key levers that we pull in ensuring that that EPS growth is delivered. And why we feel confident making that commitment of 10%-plus. And obviously, we've beaten that over the track record of the last four to five years.

Let's start up with the backlog. Our expectation is as our backlog grows, and you've seen it grow in terms of the larger projects that we're doing, our backlog has been growing annually. As you see it grow, you will see that contribute between 1% to 3% of our EPS growth. So strong, contracted growth with high-quality customers, developing projects that we feel pretty good about. And as Matt has reminded you in his remarks as well, we have a very stringent definition. We do not put MOUs and LOIs into the backlog. Our backlog is only recognized when we have a signed contract in place with guaranteed cash flows for the future contracted in. So that's our backlog, 1% to 3% in terms of EPS growth coming from there.

The next big lever we have is a combination of pricing and productivity. That will give us between 4% to 6%. We flex that combination of pricing and productivity on pricing. I've said earlier in a response to a question, that you should expect us to be slightly ahead of weighted global CPI. And again, we've demonstrated that consistently. You know our track record on pricing. But just as a reminder, over the last 20-plus years, we always have positive pricing. And it's a muscle we know well, that we've developed well, we've flexed well.



And again, we've been applying that in high inflation environments. Obviously, we've also said previously, inflations, we are in inflation play. We're happy when there is a bit of inflation. It gives us the opportunity to go and have that pricing conversation a little bit quicker and easier. And we've kind of -- you've seen that track record play out over the last many years. So you will expect us to continue down that path.

On productivity, deeply ingrained in the DNA of the organization. Every year, we run thousands of projects. We track them, we replicate them. Year-to-date, we have more than 11,000 to 12,000 projects in play already this year. And we ensure that those projects get done, the results get validated, and that's what drives the cost reduction that Matt referenced in a question earlier on as well. A consistent and relentless action to make sure productivity delivers to the bottom line.

So put those two together, 4 to 6 of EPS growth will come out of that.

There is another lever that we are not relying on at the moment in the current economic climate, which is volume. I do want to remind you that in our earnings -- in our guidance for earnings, we've said that even at the top-end, we are not expecting any help sequentially. Look, even at zero percent volume today, we are even marginally negative at the midpoint of our guidance. We are being able to demonstrate that we have the resilience in the business to be able to deliver these EPS growth numbers that we're talking about.

Imagine what happens when volume grows and you have a bit of a tailwind, and we demonstrated that. 2021, go back and look at 30% EPS growth. So when we get that tailwind from volume and the economic activity, it's a really good lever that helps us push that earnings growth beyond a number that you've traditionally seen. But even without that today, we are committing ourselves to that 10%-plus EPS growth.

There is a final lever that really is an outcome of the cash generation across the business. Again, you heard \$2.5 billion solid cash this quarter. You heard Matt talk about in the low to mid-80s in terms of conversion to EBITDA. Again, all of that plays into making sure our capital allocation policy is followed. And as part of that, we've said we will invest in every high-quality project we can, but surplus cash gets swept into share buybacks. We've announced a \$15 billion program, and that share buyback impact provides around 2% of an uplift to the EPS growth as well. Putting it altogether, you've got that 10%-plus. I feel pretty good about that. And really, I'd say, in whatever economic environment we are in.

Speaker A-Mike Sison

Thank you.

Speaker O-Operator

And I would now like to turn the call back to Juan Pelaez for any additional or closing remarks.

Speaker {C: Juan Pelaez: Head of Investor Relations: Linde plc.:}

Thanks everyone for participating in today's call. If you have any further questions, feel free to reach out to me directly. Have a safe day. Take care.

Speaker O-Operator

Making our world
more productive



And ladies and gentlemen, that will conclude today's conference call. We thank you for your participation and you may now disconnect.