



Linde plc 1Q23 Earnings Teleconference and Webcast - Transcript **April 27, 2023**

Speaker O-Operator

Good day and thank you for standing-by, welcome to the Linde First 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'd now like to hand the conference over to Mr. Juan Pelaez, Head of Investor Relations. Please go ahead, sir.

Speaker C-Juan Pelaez

Chris, thank you. Good morning, everyone and thanks for attending our 2023 First Quarter Earnings Call and webcast. I am 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 the teleconference. The reconciliations of the adjusted numbers are in the appendix of this presentation. Sanjiv will provide some opening remarks, and then Matt will give an update on Linde's first 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

Thanks, Juan. And a very good morning, everyone. We had a strong start to the year as Linde employees once again delivered on their commitments, irrespective of the geopolitical and economic headwinds. Earnings per share, operating margin and return on capital, all reached new record highs. Robust pricing, coupled with dependable return on capital, have more than compensated for a weaker economy. Just like the last four years, Linde's ability to consistently deliver earnings growth in any environment is a testament to the resilient portfolio, operating excellence and capital discipline.

And when global economies recover, which they always do, there is an opportunity to further leverage the base volume growth, just as we've demonstrated in 2021. However, during uncertain times like today, we continue to execute our strategy of optimizing our base business every day. Capitalizing on growth projects, including high-quality clean-energy projects. All of this while maintaining our industrial gases model. Coupled with a disciplined approach to capital allocation.

Slide 3 provides a brief update on clean-energy including key projects that are both under-construction and an example of the project being developed. Let me begin by reiterating our strategy with respect to clean-energy and you'll notice it hasn't changed over the last three years, which it shouldn't. Let's start with the first principal. We will stick to the core of industrial gases model. This has been a cornerstone of our strategy for decades. We are experts at designing, building, operating and distributing industrial gases and equipment.

We serve many markets where our customers are experts at what they do. Making our customers more productive and competitive through our core strengths is what makes Linde successful. This has been true for the last 100 years and I expect it will continue to be true for the next 100.



Another certainty within our industry is how customers demand the same three requirements for their gas supply, which are safety, reliability and lowest total cost of ownership. This holds irrespective of the molecule, the end-market or supply mode. This is why a key element of our strategy is to leverage our world-class engineering capabilities and existing asset network of our \$3 billion hydrogen business to deliver the most reliable and lowest-cost supply systems for our customers.

Following these principles, we have successfully won and advanced many clean-energy projects of which I'd like to highlight just a few. The left-side represents projects currently under-construction. These are projects with executed contracts, fixed payments and incremental growth with predictable returns with project CapEx of just under \$2 billion, including the new OCI project in Texas where Linde will supply, nitrogen and clean hydrogen by capturing CO₂ for underground sequestration through our partner, ExxonMobil. Currently, this project makes up the majority of clean-energy projects in our backlog. Since most electrolyzer investments are designated for the merchant market and therefore considered base CapEx.

There are a few projects like the recently-announced Evonik agreement that meet backlog criteria. But even here, we support local network and supply high-purity clean hydrogen to electronics and other industrial customers as well.

Currently, we view these electrolyzer projects as modules in our local supply network for supply of merchant hydrogen. They're often integrated into our existing hydrogen network, sometimes side-by-side. Leveraging the same storage and transportation infrastructure helping optimize distribution costs. Furthermore, these projects leverage various electrolyzer technologies including PEM and Alkaline to provide the best fit to customer needs.

Sale of plant is another avenue for Linde to participate in growth opportunities, which may have different customer demands of which may not benefit from integration with our existing supply network. Now in addition to these projects being constructed, we have over 200 different projects under development. Of course, the probability of these projects being approved or won by us varies from project-to-project.

On the right-side of the slide, I'd like to highlight one such opportunity, which was recently made public by our customer. Dow, recently-announced that it has selected Linde as its industrial gas partner for supply of clean hydrogen and nitrogen for its proposed net zero carbon emissions integrated ethylene cracker site in Alberta, Canada. Under the framework agreement, Linde will complete the design and engineering for a Linde owned and operated world scale air separation auto thermal reformer and carbon capture complex.

This complex will potentially be integrated with Linde's existing operations in Alberta. Engineering work is underway and both companies are working to obtain their respective Board approvals and regulatory approvals. Final investment decision is anticipated by end of the year. So I don't really have many additional details until then.

We continue to work on a number of other projects aligned with our strategy, to decarbonize our own operations. Help customers decarbonize their operations, such as the Dow project above. And address new market needs such as the OCI project. Overall, the total opportunities are likely to exceed \$50 billion over the next decade. Representing one of the best long-term growth environments I've seen in a long-time.

Of course, time will tell how many we ultimately sign and announce, but you can see, we are making meaningful progress. And despite the many differences across these projects, our full suite of offerings coupled with a strong balance sheet will enable us to win more than our fair share. But rest assured, our participation will consistently follow our strategy and proven investment criteria.

I'll now turn the call over to Matt to walk you through the financial numbers.



Speaker C-Matt White

Thanks, Sanjiv. Please turn to Slide 4, for an overview of first-quarter results. The sales of \$8.2 billion were flat with last year, but up 4% sequentially, versus prior year FX was a 3% headwind. Although we continue to see foreign currencies strengthened as evidenced by the sequential tailwind. Cost pass-through, was also a headwind, as energy prices have fallen in most parts of the world.

As a reminder, we pass-through power and natural gas costs contractually, which have no effect on profit dollars, but will impact profit margins. Net divestitures resulted in a 2% decrease as the sale of GIST and deconsolidation of Russia, more than offset the recent Nexair acquisition in the United States.

Engineering is down 2%, since we have not lapped the impact from sanctioned Russian projects, which ceased Q2 of last year. Excluding these items, underlying sales increased 8% from last year and 3% sequentially. Inflation levels remain elevated in most countries, and thus are driving higher pricing.

As mentioned in prior calls globally weighted inflation tends to be the best proxy for our price changes, since most contracts have clauses that specifically address local inflation. Volumes were flat from prior year as contribution from project start-ups offset lower base volumes.

When looking at segment base volumes, Americas are growing due to the US. APAC is mostly flat since volume recovery is offset by prior year equipment sales. And EMEA is lower, primarily from on-site customers adjusting to slower economic conditions. From a supply mode perspective, we continue to see resilient or growing packaged and merchant volumes.

Although certain on-site customers are lower from a combination of weaker conditions and planned turnarounds. Sequential volumes are flat, as US pipeline recovery from Q4 weather offset seasonal slowdown in APAC and Latin-America. Despite flat volumes, operating profit of \$2.2 billion increased 16% from prior year and 10% sequentially. This growth was driven by project start-ups and prudent inflation management, through price increases and cost productivity efforts. These actions resulted in a record operating margin of 26.9%. And you can see to the right that every segment contributed to this improvement.

In the appendix, you'll notice the engineering segment once again delivered an operating margin in excess of 25%. Above the low-to mid-teens, we view as a long-term run-rate. Similar to last quarter, this is due to favorable timing from the wind-down of sanctioned projects, while this led to favorable benefits on the income statement, it also resulted in unfavorable cash timing, which I'll discuss on the next slide.

For the next few quarters engineering results may continue to be lumpy as we wind-down the remaining projects. However, we did not include any potential profit upside in the earnings guidance. EPS of \$3.42 was 17% above last year, or 20% higher when excluding the effects of currency. This represents the 10th quarter in a row of growing EPS ex-FX 20% or more. From a cash-flow perspective, CapEx increased 28% from growth investments in both base and project CapEx. Furthermore, ROC reached another record at 24% as we continue to deliver double-digit percent profit growth on a stable capital base.

Slide 5, provides more details on the first quarter Capital Management. While cash trends are relatively steady, the Q1 operating cash-flow to EBITDA ratio was 64% or 11% lower than last year. The majority of this difference relates to timing of engineering working capital. Both from a reduction in contract liabilities and an outflow from accruals and payables. Said differently, we met a contractual milestone this quarter and thus booked current income related to a customer cash deposit received over a year ago. In addition, we paid third-party vendors for work related to that project. Normally you wouldn't experience a cash-flow swing of this magnitude. But the lumpy and accelerated wind-downs of sanctioned projects are creating this effect.



Excluding engineering timing, working capital levels remain quite healthy across the company. Overall, I expect our long-term operating cash-flow to EBITDA ratio to remain in the low-to-mid 80% range. But the next few quarters could be more volatile as we continue to wind down remaining projects. And recall this ratio in 2021 was 96%, driven by customer prepayments related to these sanctioned projects. So the multiyear average is a better indicator of performance.

Available operating cash flow, which represents operating cash flow less base CapEx is stable at approximately \$1.5 billion per quarter. We continue to deploy cash to growth initiatives, dividends and share repurchases as part of our stated capital allocation policy.

I'll wrap up with guidance on Slide 6. For the full-year 2023, we're raising guidance \$0.30, at the bottom and top end for a new range of \$13.45 to \$13.85. This represents a growth rate of 9% to 13% versus 2022. Note, we do not assume any FX impact since currencies have mostly recovered. The \$.30 raise comes from the out-performance of the first quarter. In other words, we left alone the remaining quarters for now.

In addition and consistent with our prior approach, this assumes no economic improvement and hence no base volume improvement. This does not represent our macro projection but rather is just a placeholder. So you can insert your own view of the economy and adjust accordingly. If the economy improves, we'll be above this range and if not, we'll take actions to mitigate.

The second-quarter EPS guidance range is \$3.40 to \$3.50, representing 10% to 13% growth from 2022 or 11% to 14% when excluding a 1% FX headwind. Similar to the full-year, this assumes no economic improvement from current levels. Although on a sequential basis, it reflects some seasonal recovery, partially offset by lower engineering.

Overall, we had a strong start, but one quarter doesn't make a year. We believe it's appropriate to remain cautious, while continuing to manage the things within our control, including price, cost, and capital discipline. But regardless of how the year unfolds, we're highly confident we can continue to deliver compound value for our shareholders by executing on the basics and securing high-quality customer contracts for long-term growth.

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

Speaker O-Operator

(Operator Instructions) Our first question is from Mike Leithead with Barclays. Your line is open.

Speaker A-Mike Leithead

First question, I want to focus on the EMEA segment, can you just speak to the step-change in profitability here this quarter? I appreciate you don't really give segment-level guidance, but the business used to be running, call it \$300 million, \$400 million quarterly EBIT. We averaged around \$500 million a quarter last year and now, in a pretty uneven macroenvironment, we broke 600. So, is this sort of the right run-rate going-forward or is there something else kind of underlying this step up here?

Speaker C-Sanjiv Lamba

Sure, Mike. Let me start off by just kind of going back and telling you how the EMEA business has been looking at actions that need to take, management action. So the underlying impact that we're seeing come through is driven by two levers, pricing and productivity. Productivity is our actions that they've been



undertaking for an extended period of time, as you're aware, we've talked about it over the last couple of years now, so they have reset their cost base effectively and continue to do that every quarter.

That obviously has an impact on the run rate that you're seeing going forward. But more importantly, we are obviously seeing some upside from pricing come through. And you might recall, if you go back to late 2021 when inflation started moving up, we've explained to you that there is a catch-up that happens around pricing, particularly around merchant and packaged businesses. Of course, in the current environment when energy costs are coming down, as an example, we are getting some uplift as a result of that as well, which you can see in that pricing number, a pretty impressive 13% that they've posted. So, you have to keep those in account as you think about EMEA's business, but underlying performance-driven primarily around pricing and productivity.

Speaker A-Mike Leithead
Thank you.

Speaker O-Operator
The next question is from Nicola Tang with BNP Paribas, your line is open.

Speaker A-Nicola Tang
Hi, everyone. I wanted to talk a little bit more about this \$50 billion opportunity that you're talking about now, in terms of clean hydrogen. I think two quarters back when you talked about that greater than \$30 billion opportunity. You're talking about the U.S. alone, but you broke it down into those three buckets of decarbonized Linde, decarbonized customers, and new markets, so I was wondering if you could do the same on this expanded this extra \$20 billion, which I guess is outside of the U.S. and perhaps in terms of geography, you could talk about where you expect to see the most momentum in the next couple of years in terms of projects signings? Thanks.

Speaker C-Sanjiv Lamba
Thanks Nicola. So again, just to remind you, I talked about earlier in my remarks, 200 -- more than 200 projects that we are currently developing. The way I will segment that for you is by application. That should help. So there are three key buckets in which we see these projects being developed. There is a mobility bucket. Then there is industrial applications, the ones in our wheelhouse, the ones where we are currently working with existing industrial customers to help them decarbonize. And then the last piece is really around energy and power where hydrogen or its carrier ammonia or methanol will play a role.

So let's split them down and that I think about 50%-- at \$50 billion, let's split them down and say, well, mobility is around 10% of that. We see industrial applications really the dominant part of that opportunity set at about 60% and the balance is large, but fewer projects around energy and power. So that's one way to think about it. As you know, and as you mentioned Nicola. We already reached out and said previously, \$30 billion-plus in the U.S., driven of course with momentum coming out of the IRA, driving a lot of that development. So, you see the balance \$20 odd billion that we're talking about outside of the U.S. We're seeing growth opportunities in our pipeline out of the Middle-East. We've seen growth opportunities come out of Mainland Europe. Some in the U.K. and then we are seeing a little bit of a buildup happen out of Australia and Asia. And it does look like they'll be behind the curve relative to what the U.S. and Europe is likely to see.



Speaker O-Operator

The next question is from Jeff Zekauskas with JPMorgan. Your line is open.

Speaker A-Jeff Zekauskas

Hi, thanks very much. In late January ExxonMobil indicated that it wanted to build a hydrogen facility or hydrogen complex in the United States that would generate about one billion standard cubic-feet per day of hydrogen, which is gigantic. Can you talk about how you see the hydrogen market evolving in North America now that it seems that ExxonMobil wants to enter it? Do you see other integrated oil companies as entering the hydrogen market as well? Do you see them (inaudible) hydrogen in a way that's different from the way you sell it? Can you give us an idea of what that market looks like over the next few years competitively?

Speaker C-Sanjiv Lamba

Sure, Jeff. So. As you think about the evolution of the hydrogen market, there are three aspects to keep in mind. The first that a lot of the development around clean hydrogen is driven through a range of partnerships and you'll recall when Linde laid out our strategy, we said that partnerships are a key component of that. And you heard me speak earlier and mentioned that ExxonMobil will be a partner for us as we look at sequestering the CO₂ downhole as well.

So, just to keep in mind that that's one of those developments and we are actually partnering with a number of players including IOCs and NOCs, that have and intend to try and develop their own -- their own projects around hydrogen because they lean on us to provide either technology, operating experience or indeed sometimes the benefit of our network. So that's one.

The second thing to keep in mind is, we have the ability to leverage our existing infrastructure that we've built over decades that supports that \$3 billion business that we have in the U.S. Gulf Coast. And really I think that's where a competitive advantage for Linde turns up. Very often other partners or potential partners, reach-out to us, because they recognize the impact and advantage that we carry as a result of that infrastructure investment and want to partner with us as well.

So that's the other piece to kind of keep in mind. Last, a number of players will want to decarbonize their operations and what you're speaking about, the specific example Jeff, is driven around decarbonization of their operations and Baytown. Here what they are attempting to do is to actually produce significant hydrogen, you mentioned one billion scuf. And a large portion, if not most of that will actually go into decarbonizing their own operations. Obviously, the support from 45Q makes that more attractive, makes that hydrogen going-in as an input into their crackers into their chemical systems downstream into the refining system a lot more attractive from a pricing point-of-view, and you're seeing that as a development that's happening.

I'm pretty hopeful that we will have a role to play in those projects that people like ExxonMobil and others will undertake through the provision of our technology and operating capabilities as well.

Speaker C-Matt White

And Jeff, this is Matt, maybe just one other thing I'd add. I think another way to think about it is when you look at the hydrocarbon market today for sort of transportation and energy, it's somewhere in the order of \$6 trillion market, my number may not be exact, but it's something in that order. And when you look at the industrial gas industry, our participation in that market is a fraction of a percent.



So in my view, a lot of that \$6 trillion market is what is being addressed and potentially converted to things like hydrogen, and so if that happens I think that actually creates opportunities in areas that we had a very, very small participation in the past, but time will ultimately tell.

Speaker A-Jeff Zekauskas
Thank you.

Speaker O-Operator
The next question is from Duffy Fischer with Goldman Sachs. Your line is open.

Speaker A-Duffy Fischer
Yes, good morning. Two questions really. One around the project, so the OCI, the Dow. Roughly, what would be the cadence you would expect announcements like that over the next three or four years? Is it three or four years, is it more than that? And then two Matt, on your guidance, you said you're putting in, no volume improvement, but that's not your base-case, could you talk about just what you're seeing macro wise, volume in what you would expect this year, what would be a decent base-case?

Speaker C-Sanjiv Lamba
Duffy, I'll start-off by just talking about the clean-energy projects and I think the important thing to remember there is that, these projects have a lifecycle that they need to go through before they get announced. There is no way to predict what types of announcements and frequency of announcements you would see on these projects. I think it's important to maybe remind you of just the project development stages they go through. So, typically a project of this size will go through a feasibility study, followed by a pre-FEED, followed by a feed, which is where you actually get to a point where you've got the quantities and the investment requirements in place based on the detailed engineering and design, which results in the FID. All of those stages put together would take anywhere between 18 months to 24 months in some cases with a complex projects stretching up to 2.5 years. Beyond that, you would then see another 2.5 years to three years in execution before final startup happened. So that's the way I think about the frequency that you would expect to see projects. These projects have been under development for a while and you kind of continue to see those announcements reflecting the different stages of these projects are at.

Speaker C-Matt White
And as far as the guidance, Duffy. So I'll start with, and as you probably know, when you think about two economic metrics that might be proxies to think about would be industrial production and then CPI for inflation. I'm not going to tell you what we think because whatever it is, it's wrong. Nobody knows what the future will bring on that, but what I can say is we continue to internally focus on a model that can quickly adapt to whatever does happen. And clearly we're seeing inflation continue to be elevated. And we need to make sure that we can locally manage that through our contract structures to capture that inflation through pricing to make sure that we can continue to stay on-top of that.

On the volume side, we are well-positioned to capture when it recovers. As you know, we are a contractual business as Sanjiv mentioned, we demonstrated that in 2021, with the recovery if and when that comes back, we will be very well-positioned to do that. But for now we just left out this sort of flat no improvement view, similar to what we've been doing over the last two to three years. And we'll see how it plays out, but I feel quite good that no matter what it does bring we will be prepared to quickly adapt and manage it.



Speaker A-Duffy Fischer

Thank you guys.

Speaker O-Operator

The next question is from David Begleiter with Deutsche Bank. Your line is open.

Speaker A-David Begleiter

Thank and good morning. Sanjiv and Matt, just on EMEA pricing with energy prices now falling, how should that flow-through the energy price, where the pricing realization in Q2 and the rest of the year?

Speaker C-Sanjiv Lamba

So David, I've mentioned briefly, when responding to Mike earlier on that, in terms of pricing, as we've explained before, I'll take a step-back and just remind you that when we think about pricing, we think about a pass-through mechanisms that is the on-site contracts where we have direct correlation between what happens to costs. And energy costs, in particular, but inflation and how we pass that through, the balances all through a pricing mechanism. We've explained previously, as inflation was picking-up in 2021 that there is usually a lag that happens at the beginning of that cycle.

We are now at the back-end of that cycle where you're seeing energy costs go down. And again, that's same lag applies over here. We've said the lag is between one to two quarters. And we're seeing a little bit of that lag. And benefiting us, of course, in terms of the pricing that we're seeing on the merchant and package side of our business.

Of course, pricing takes a lot of hard work, as I've said previously on a number of occasions, and our team over there has done a tremendous job in making sure that we continue to push that base price through. And of course, instances where we have had surcharges to the extent possible, we have a continuous process of converting those surcharges into based product pricing, ensuring that we have those both price numbers that pricing action sticks longer term as well.

Speaker A-David Begleiter

Very good and just on EMEA volumes, do you expect EMEA volumes to be down for the rest of the year in all three quarters?

Speaker C-Sanjiv Lamba

So, in terms of EMEA, volumes, what we're seeing, I'll tell you know clearly, you know, year-on-year we are seeing some softness in EMEA volumes tends to be around the on-site business, in particular, chemicals and energy more specifically. On the on-site, I'd have to say, sequentially, we are seeing a little bit of a pickup, it's slight. Particularly around metals and steel production in EMEA. So there is a little bit of a movement sequentially on-site volumes are up just a little bit. So that's kind of on the on-site side.

Merchant and the package has been pretty flat. Now that's good news because we obviously watching to see industrial activity pickup with the relative stability in energy cost that we're seeing. And as that happens, we will see some volume leverage come through in the rest of the year. Of course, we're tracking this carefully. I'm not going to try and predict what's likely to happen in Europe given the many factors that are at play. But



if that happens, we are well-positioned to kind of find the leverage around our base volume growth that's likely to happen as a consequence.

Speaker A-David Begleiter
Thank you very much.

Speaker O-Operator
The next question is from Peter Clark with Societe Generale. Your line is open.

Speaker C-Peter Clark
Yes, good morning, everyone. Thank you. Yes, two questions, first on back on the pricing and the sequential price you still getting. In America, is the question one of your competitors was mentioning a big kick-up in medical gas pricing and I think that was led by the Americas for them as well. So I'm just wondering if your medical gas prices seen the (inaudible), or you are already ahead of the pack on that?

And then the second question around Europe and the cylinder business you've alluded to the fact has been doing pretty well, certainly on the pricing and the margin side. I'm just wondering if it's leading that because again we're hearing, it is still very robust on pricing, the volumes. So your competitor also was pretty good in Europe, on the cylinder side, so just wondering if that is a real driver between that margin kick you're seeing underlying in Europe? Thank you.

Speaker C-Sanjiv Lamba
Thanks Peter. On pricing, I can say to you that you've seen robust pricing over the last three quarters consistently across all our segments and. I think we're pretty happy with how pricing is played out, I'm not going to get into the details around what's specifically happening around medical or healthcare pieces, but you know, across the board most of our businesses, most end markets have seen strong pricing growth and I think we're pretty satisfied with where we are and we tend to lead the industry as far as that pricing growth is concerned.

In Europe, package, that's a great question. I think we watch this very carefully. The good news is on the volume side, those volumes have been holding well. And have been very resilient through the last 18 months or so, so that's really been an important piece. Pricing has been very good. I mentioned EMEA pricing more broadly, clearly, the package side of that has benefited from that as well and has shown strong pricing performance over that entire period including the first quarter that we are now referencing.

I certainly expect to see as industrial activity picks up, so an important factor in all of that was stability in energy costs. That seems to be in place at the moment, Peter. I think it's still open what longer-term impacts there might be, but at least in the short-to-medium term, we are seeing that stability play a role in some level of a very slight pickup if you will, in industrial activity across the board and that certainly helps the merchant and package business, so I would expect to see that volume trend play out as we see those developments continue.

Speaker C-Peter Clark
Yes, thank you.

Speaker O-Operator



The next question is from Steve Byrne with Bank of America. Your line is open.

Speaker A-Steve Byrne

Yes, thank you. I would like to better understand the mechanisms by the pass-through cost, is there a month or multiple months delay and how that is passed-through given natural gas costs in the U.S. and Europe have plunged and yet your cost pass-through was fairly, fairly neutral? Is that, is that another lag effect, similar to the comment you made on European pricing, you have this lag effect. These two things combined, do they did they represent some operating profit in those regions in the first quarter that really was just driven by lag?

Speaker C-Sanjiv Lamba

Steve, let me start off by just kind of providing a headline that says, as far as pass-through is concerned, there is no impact on our operating profit in dollar terms. It kind of adds to the top and it doesn't add anything to the OP and when it's on its way down, as it is at the moment, it goes away from the top and doesn't add any dollars from an OP point-of-view, of course, it does impact the margin numbers and the mathematical computation of the margin does improve as a consequence of that, when you're on the down-cycle as far as costs are concerned.

Addressing your specific question contractually we are able to manage the pass-through on-- I would say what I would consider real-time basis effectively our contractual invoicing methodology would allow us to pass it on every week, fortnight or month depending on how the contracts are structured. There isn't any significant lag, as I mentioned on the pricing action for merchant and packaged where there tends to be a lag of one to two quarters. Not in the case of pass-through.

Speaker A-Steve Byrne

Okay, thank you.

Speaker O-Operator

The next question is from Michael Sison with Wells Fargo. Your line is open.

Speaker A-Michael Sison

Hey guys, nice start to the year. Just a follow-up on the clean-energy opportunities, how much of your sale of gas backlog is clean-energy now and then, if you're successful in winning your fair share, how big do you think that backlog will be for clean energy down the road is there a limit on how much you can put in your backlog?

Speaker C-Sanjiv Lamba

So Mike, at the moment. I think I referenced that earlier, we've got about just under \$2 billion. That's what the slide would show you in the sale of gas. We've got about just under \$2 billion of backlog coming out of decarbonizing projects if you will. Our expectation is that in the next two to three years, we will be making investment decisions, anywhere between \$9 billion to \$10 billion worth. This is based on the projects we are developing, which are further advanced than others, and those decisions, depending on the ones that we pursue and win and sign-up will then get moved into the backlog and would then start providing the impact that we look for once they start-up in due course.



So you can expect the backlog to continue to grow. I do not expect it to pick-up and down, I expect it to be a reasonably steady growth in the backlog over the years ahead. And that decision, those decisions that we make in clean-energy projects that I referenced before of anywhere between \$9 billion to \$10 billion over the next three years, we'll determine what finally happens in that backlog.

Speaker A-Michael Sison
Great, thank you.

Speaker O-Operator
The next question is from Vincent Andrews with Morgan Stanley. Your line is open.

Speaker A-Vincent Andrew
Thank you. Good morning, everyone. I just wanted to ask on the buyback. I would have guessed given the delisting from Frankfurt that the big cash balance at the end-of-the-year that you might have put more money to work in the first quarter in the buyback, but it didn't look like you had to. So given that you're still sitting with a pretty large cash balance, I guess you know you did the packaged gas acquisition. But how are you thinking about using that cash balance in the incremental capital, you generate in free-cash-flow this year in terms of returning capital to shareholders?

Speaker C-Matt White
Sure, Vince. This is Matt. Looking specifically to Q1. You may recall for pretty much the month of January we were officially blacked out from any buybacks at all. Given the nature of the merger structure that was used to do the delist. So we lost about a month or so and therefore, we had less days to act, but we did get pretty, I would say, aggressive leading right up to it, and as we saw some good opportunity there. But looking forward, it really is just going to be a consistent approach to our longstanding, steady, simple capital allocation model.

And to reiterate, for those on the call. It starts with our underlying mandate, which is we're going to maintain a single-A rating and grow the dividend every year. That is a mandate, and then our priority after meeting that mandate is to invest in the business and that is anything that meets our investment criteria. If it's acquisitions, it's decaps, it's projects, it's base CapEx, we treat them the same as we should, because these are long-term investments and we need to evaluate them on risk-return against our core model. And then whatever is left over is going to be buybacks. So based on our current cash profiles, we continue to have substantial capital leftover and therefore we will be buying in the market pretty much almost every day. And as we continue to see opportunities, will step that up. But that capital allocation policy will be very consistent through good macro times and bad macro times and that's something that you can rely on for us for the long-haul.

Speaker A-Vincent Andrew
Great, thanks for the update.

Speaker O-Operator
The next question is from Laurence Alexander with Jefferies, your line is open.



Speaker A-Dan Rizzo

Good morning, this is Dan Rizzo on for Laurence. Thank you for taking my question. You mentioned earlier. I think about your outlook. Having no, not assuming any really, improvement in the macro-environment. I don't know if I missed this, but can you meet your guidance if the macro-environment in North America in particular significantly weakens?

Speaker C-Matt White

Sure, this is Matt, I can handle that. As I mentioned in the prepared remarks, and first of all, our approach is very consistent in how we've been approaching this for the last couple of years, frankly, and we believe our view of the economy is not going to be any more accurate than anyone else's. So we'll just put a baseline there and no improvement and let you put your house view in whatever that may be.

So in the case of, if the macro deteriorates. We will take actions to mitigate, clearly we saw that in 2020 and we took actions, and you may recall our full-year EPS growth rate in 2020 was close to 12% growth rate. So those actions did help mitigate what was a pretty unexpected macro decline from the pandemic.

Similarly, last year in 2022, we saw some macro softness related to the energy crisis and obviously the invasion. And so, given those, we have a track-record of being able to act in case those disruptions happen and as I mentioned to Duffy, that's how we built our operating rhythm to be able to quickly respond when things are different in the macro than what was expected.

So I view this the same, time will tell, but given our base is very local we can react locally to what happens locally because, as you know, the macro in every country, may be different and that's, that's how we need to approach it.

Speaker A-Dan Rizzo

All right, thank you very much.

Speaker O-Operator

The next question is from Kevin McCarthy with Vertical Research Partners. Your line is open.

Speaker A-Kevin McCarthy

Yes, good morning. Sanjiv, can you provide an update on your carbon offtake strategy, last quarter I think you indicated you are in discussions with three companies. And earlier this month, we learned that you've chosen to partner with ExxonMobil. My understanding is that partnership relates to OCI Beaumont, specifically. So a couple of questions would be, in the case of future blue hydrogen projects do you need to navigate the off-take each time on a case-by-case basis and also can you comment on the costs and recovery of those costs as you negotiate these projects. Thank you.

Speaker C-Sanjiv Lamba

Thanks, Kevin. So the last-time we spoke about this, I mentioned that there are two-ways in which we look at the storage, the capture and storage of CO2 for particularly for blue hydrogen projects in the U.S. And really that's driven around the IRA benefits that come out of 45Q providing that \$85 put down of CO2 to be captured and sequestered.

And the two models mentioned was a tipping fee, -- where, what on the capture and would create a pipeline that would then provide that CO2 to a partner who would take a tipping fee and sequester and manage that



storage underground. The other option was for us to sell the CO₂ that we have and allow the partner to take the benefit of whatever tax credits that come as part of the 45Q through their ownership of the carbon capture and sequestration process and the assets that they build in order to achieve that.

We mentioned that we were in conversations with a number of players. And as you read from the announcement, we selected and worked with ExxonMobil to continue down that path. That's where the OCI, the CO₂ coming out of the OCI assets and the production of blue hydrogen would be passed on or off taken by ExxonMobil and sequestered by them and managed long-term.

As we think about new projects and that we are currently developing, we have an opportunity to work with partners, including ExxonMobil and others to look at it on a case-by-case basis, given that we have a well-established model with ExxonMobil. We will pursue that with them. But it does depend in some extent to some extent on the geology and the infrastructure available for us to be able to sequester this in domes underground and therefore, we will work with other partners as well in the US to kind of progress and move forward on that basis.

As far as cost of recovery is concerned, the 45Q credits are reasonably well-understood. The fact that for the first five years, we have a direct pay mechanism that for the balance period of seven years to make-up that 12 we have a tax credit that goes below-the-line. I mean, recognizing that we're trying to build as much flexibility into the operating model that we want to pursue in those conversations we're having, one of those has been decided with ExxonMobil to others will just follow and we kind of work that on a case-by-case basis.

Speaker A-Kevin McCarthy

Thank you very much.

Speaker O-Operator

The next question is from Geoff Haire with UBS. Your line is open.

Speaker A-Geoff Haire

Yes, good morning. I just had a quick question on Asia. I noticed it's on volumes you're sequentially down 4%. I was wondering how that plays like for the rest of the year or there was something specific in Q1 and then just one small question additional. If you don't mind. I think Matt you said that there were some issues around the engineering business in the cash-flow, how does that play-out for the rest of the year? Just given, obviously as you wind-down the Russian businesses or projects.

Speaker C-Sanjiv Lamba

Thanks, Jeff. So I'll take the Asia piece and I'll let Matt respond to you on the cash-flow, so, just as a quick reminder, Jeff, the first-quarter in Asia is usually impacted by seasonality the Lunar New Year has a big impact across that region. So you will see that. And when you see sequential movements that's something to keep in mind. However, let me just give you a kind of a snapshot of what we're seeing in Asia anyway. Year over year sales are growing, we are pretty strong across wouldn't beverage, healthcare, chemicals and energy, manufacturing. Electronics also was strong growth in the first-quarter, but that was primarily due to new startups. As far as electronics is concerned, we are seeing some marginal weakness, so you can see that in the sequential movement in the end-market slide that we provided. We think most of that is coming out of memory. Feedback from customers suggest that we're likely to see that kind of a normalization of activity in the second-half, probably towards the backend. I've also mentioned previously and I think we see that trend continue Geoff, in terms of China, EO volumes being soft. We continue to see that in Q1 is well.



And, of course. One of the things to keep in mind when you think about the year-on year movements is that we had some SOE, sale of equipment sales that happened last year, which kind of, doesn't help with the comps when you look at year-on year. But sequentially primarily, Chinese New Year impact or the Lunar New Year impact across the region. And then the movement that I mentioned to you across the different end markets. Matt.

Speaker C-Matt White

Yes, sure. Thanks, Sanjiv. So, Geoff. I can start with when you think about engineering, it follows, what's called, percent of completion accounting and the basics of that for the most part, we get paid-in advance. So it's negative working capital, which is a good thing. And essentially what happens is, the customer will pay us in advance of a project and then we will debit cash, and then we'll Credit what's called a contract liability and then over-time we work against that contract. And then as we recognize that work that would go to the income statement. And then we would reverse portion of that liability. And it would go and be recognized as revenue. And in a normal project, that's about a three year, maybe four year, very structured, very well-disciplined and defined engineering build rate. And that's what you've seen from us essentially since the merger, right, for the last four years.

In the case of the sanctioned projects, that obviously created an event where we needed to immediately stop all work in Q2 of last year. Now the good news is our contracts addressed this. They have what's called a suspension clause. But you can imagine in these contracts, what we do primarily is what's called E&P, engineering and procurement. We really don't do much construction. So with the E that's our labor internally in the P are things we are procuring around the world from vendors in China or Europe or the United States. So when you get a contract in suspension like we've had due to sanctions, you have lots of work you've accomplished, but you have to go through a process to determine at what point and how to bill that with the customer. So that takes time, sometimes many quarters. And it can be very lumpy. And so that's what's creating this volatility and what you'll see in the 10-Q when we issue that later today is the total contract liabilities for engineering as of the balance sheet date, so end of March stands at about \$4 billion.

So again, what that means is, we've received \$4 billion essentially in customer payments, of which we have yet to work-off. Now within that, \$1.8 billion are specifically part of projects that have been sanctioned. So that's the kind of the number we're working within, within that \$1.8, \$1.2 is one specific project called RCA, that will probably take some time to address, my view is could be a year or more.

So it's the remaining \$600 million that are a handful of projects that were substantially close to complete. We've done a substantial amount of work and that's the portion that will probably create some volatility looking ahead in the next few quarters as we resolve. But I would say, all in these are projects that had good contracts, we were paid-in advance and we've done a substantial amount of work and will just take time to get the final recognition, given the process of suspension that the contracts address.

Speaker A-Geoff Haire

Okay thanks.

Speaker O-Operator

The next question is from John Roberts with Credit Suisse. Your line is open.

Speaker A-John Roberts



Thank you. Do you think the new EPA greenhouse gas proposed rules for power plants will drive U.S. adoption of ammonia combustion which could help your hydrogen backlog or do you think it's going to simply accelerate the replacement of coal-fired power plants?

Speaker C-Sanjiv Lamba

John, that's a very complex question, I'm sure I'm not going to do justice to it in this call, but I would say to you, there are three things that we are considering. Clearly, when we think about the thermal power plants, they have couple of avenues to work-through. What we're seeing in Japan and Korea as an example is ammonia blending. So it is possible, they currently have a number of pilots, successfully operating their going up to 20% to 30% of ammonia in thermal plant usage to bring down emissions by a significant amount. So yes I do believe that we will see some level of ammonia blending as part of the development to manage emissions around thermal power plants.

The other piece that is obviously being worked on at the moment is to see a direct injection of ammonia 100% into a new power turbine would be effective. Again, there is a 40 megawatt power turbine about that's currently operational being piloted on this. Initial results seem to suggest that it looks promising and therefore I would see ammonia potentially benefit longer-term as a direct power source for such power turbines as when they get kind of deployed and installed.

Lastly, there is always the option to consider, it's hard to abate. But there is always the option to consider, given the geology in the U.S., in particular, the opportunity to try and capture even though it's small. Kind of levels of CO₂ in the emissions to try and capture that and sequester it as another option particularly made a little more attractive with the 45-Q tax credit that become available as well.

So we think there'll be a combination of things that will happen. We are working with OEMs on the ammonia injection. We are working with partners to look at ammonia developments to support that injection, but all of that will take time to play out.

Speaker A-John Roberts

Thank you. Nice quarter.

Speaker O-Operator

The next question is from Christopher Parkinson with Mizuho. Your line is open.

Speaker A-Christopher Parkinson

Great, thank you so much. You hit on this a little on your backlog commentary and what you plan to deploy, but can you just talk about the prioritization and about the \$3 billion of capital Linde's specific projects. You've previously been highlighting. Thank you so much.

Speaker C-Sanjiv Lamba

Chris, you're right. So I mean, when we go back and look at what we put out earlier on, when we talked about the 30 plus billion, we said decarbonizing our own operations. We expect to invest about \$3 billion. We have about 11 assets in the U.S. Gulf Coast that we think would qualify for that. There is active work happening and in fact, later today I'll have a discussion on one of those first projects that we're looking in that space.



I'll be upfront and tell you that I'm looking at a combination of two things when we make those decisions on that \$3 billion that we talked about. Obviously, the timing is in our control. But what I'm looking at is to make sure that we have an asset that has a long-term contract underpinning it, so that I have the ability to generate blue hydrogen and provide that back into my customer network.

And the second is just make sure that I have an effective, a project that meets that investment criteria we set-out. While I'm clearly committed to reducing our emissions for Scope one, which is what happens when I decarbonize our own operations. At the same time I'm also committed to making sure that we provide appropriate returns to our, to our shareholders as a consequence of putting assets or money on-the-ground in terms of assets. We're trying to manage those to make sure that we have customers who have willingness to offtake the blue hydrogen and allow us to then go-ahead with projects like that.

I certainly expect to see that momentum building up in the next five to seven years, we'll see a lot more of that happen.

Speaker A-Christopher Parkinson
Very helpful, thank you so much.

Speaker O-Operator
The next question is from Andres] Heine with Stifel. Your line is open.

Speaker A- Andres Heine
My most questions have been answered. Only two small ones are left, if I look on the EMEA margin comparative is Americas and the difference, if I look on-Q1 is just 100 basis-points, as you outlined that the sales margin is function of energy prices and energy prices in Europe obviously significantly higher than in the Americas, I would come to the conclusion that at this stage your unit margin in EMEA is basically substantially higher in America. Is that a fair conclusion? That's the first.

And secondly, could you give some flavor, how big this Dow contract might be as it is more the energy part than the product itself, delivering through. I would assume that the Dow projects will be significantly smaller than that of OCI. These are my two questions. Thank you.

Speaker C-Sanjiv Lamba
Andres let me start with the Dow contract. I'll let Matt, give you a little more, little more color on the margins, although. I do want to remind everyone on the margin improvement we've seen in EMEA, which has been pretty solid. On the Dow contract, all I can say at this stage is, there are many learnings that we're getting out of the OCI contract that we are applying to what we see in the Dow side, Dow project that we're currently doing our feed on. We feel pretty good about the size and scale in terms of that those learnings being applied over year, but really beyond that at this stage, it's too early to tell. We'll get to an FID before the end-of-the year. I expect and. I think at that stage we will be able to kind of properly define and tell you what that investment looks like and what the size of that asset looks like.

Just on margins, before. I hand over to Matt, I just want to remind you that sometimes people forget, but and I go back to quarter four 2018 now, margins in EMEA were at about 17.5%. Since then we've seen EMEA margins improve every year, not just driven by energy, but by driven by all the management actions that we thought were necessary by almost a 1,000 basis-points. Getting us to that 27.9% that we're talking about today. So there has been a fantastic amount of effort put in by that EMEA team and I do want to just laud



that effort and say that gradual improvement has been absolutely spectacular in many ways, Matt anything else to add-on the margins.

Speaker C-Matt White

Sure, and Andres, maybe it also kind of gets a little bit to Mike's first question. I think you can analyze the margins on the incremental, lot of different ways, but from my perspective, I think the way to think about it is the broader longer-term view and something we've said a lot on many calls going back for several years now, which is when you look at the three geographic segments of APAC, EMEA and Americas, we view them internally as essentially homogeneous type businesses on how we operate and how we run them.

And based on that view, in theory they should all be able to achieve similar margin profiles. And to Sanjiv's exact point 2018 is the baseline when we initially merged, we had very disparate margin profiles across three geographic regions that we viewed essentially homogeneously. And through the years through a lot of great hard work, this is this is not something that's easy, and it's something that takes time, we have started to see them converging.

Now clearly, the Americas, who is the leader now they're not stopping there not resting on their laurels. They are doing things to help continue to improve the quality of their business and that's a lot of different actions across many fronts. But what you are seeing is a convergence, you're seeing EMEA start to catch-up. You're seeing APAC start to catch-up. And in my view, in theory, all three should be quite similar in the long-run. And so that's how I would think about it in terms of a long-range view rather than individual quarterly analysis, because in the end-of-the day, these businesses are quite similar.

Speaker A-Andres Heine

And maybe, Matt, if I add to this the margin you elucidate to still sales margin, if I look on that the energy prices and energy is a very big input factor for industrial gases, are completely different across these regions. If I then say that the investment might be similar for a given unit, then the capital return at the same margin would be much higher in Europe than in other-- regions, is that fair looking at how energy--

Speaker C-Matt White

No, I actually disagree with that. I think we're talking about a couple of different things here and maybe we can sort of talk about them. From a return perspective, the energy will make no difference to us, right. When we look at project investments, we look at unlevered after tax IRRs and as you know, in these investments we pass-through energy. So from that perspective, the energy price really does not have any bearing on how we look at cash returns. Separate and distinct when you are in a gas region that is high-energy costs that may create high inflation and hence higher pricing, to your point, and what we're seeing in EMEA is a higher pricing environment because of that inflation, but also realize there is a lot higher pass-through in general which also dilutes margins.

So it tends to work both ways. When you see high inflation, you may have more pricing, but you also have higher pass-throughs, which will have no effect on operating profit dollars, we create a dilution effect on the margins. So this is a part of something we've been seeing for decades across many countries with inflation movements, pass-through movements, but in the end-of-the day, our investment view is irrespective of energy. And then the way the profile works within each segment will be a function of pricing and pass-through, but these margins we view should eventually start to converge over-time.

Speaker A-Andres Heine



Thanks a lot.

Speaker O-Operator

We will now take our final question from Mike Harrison with Seaport Research Partners. Your line is open.

Speaker A-Mike Harrison

Hi, good morning and congrats on a nice quarter. A couple of questions, first of all in terms of concerns around recession in the U.S. you guys actually do have some interesting leading indicators that you can look at for manufacturing within the U.S. packaged gas business. I'm curious what you're seeing on the hard goods side in areas like capital equipment and robotics, are you seeing any signs of a slowdown?

And my second question is, now that you've brought Nexair into the fold, maybe talk a little bit more about how that deal is helping to expand your footprint and drive potential synergies. And do you see further opportunities to consolidate in U.S. packaged gases?

Speaker C-Sanjiv Lamba

Thanks, Mike. Both good questions, so, let me start with the U.S. package gas business. And again, just to kind of recap, we had double-digit sales growth in the quarter. So that is pretty solid. Even base volumes for both gases and hard goods grew mid-single-digit. Now, I have to say within the hard goods space that we did see towards the back-end of the quarter, we saw that particular equipment which you are referring to that growth was starting to trend down, still growth year-on-year, but starting to trend down a little bit. And I expect that we will continue to see that as we move forward as well.

So, I think those. I mean that's a leading indicator, as you pointed out, and we're obviously watching it carefully. I'd say if you are not going to try and speculate, but there'll be a recession and all. But I say to you that whatever we're seeing at this point in time would suggest if there is a little bit of a downturn, it is going to be just that a little bit of a downturn, but we'll wait and see what the economy really does and track that.

As far as Nexair is concerned, firstly, very happy with the fact that we closed it. As you know, we've announced that it had about \$400 million in topline. We have a great platform in our LG and E Business, the Linde gas and equipment business that we run in the U.S., which manages our packaged gas to integrate onto that platform, to get benefit from synergies. And particularly that part of the country is seeing a lot of inbound investment and we see that to the mix of footprint that we now have in the geography and Southeast U.S. as being very healthy as we see new projects emerge and that should drive growth and provide an opportunity for us to cross-sell more into the established network that already exists.

As far as further consolidation Mike, I'm all for going and getting as many tuck-in acquisitions as we can. I don't think we can do many large ones. I'd love to do them if we could, but, I think between FTC and others I don't think that's the climate that affords that. But all small tuck-in acquisitions, we continue to do, we do a number of these every year and I certainly expect to see as many, if not more this year.

Speaker A-Mike Harrison

All right, thanks very much.

Speaker O-Operator

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



Speaker C-Juan Pelaez

Chris, nice job and everyone on the line thank you for participating. If you have any further questions, feel free to reach out to me directly. Have a great day, take care.

Speaker O-Operator

That will conclude today's conference call. Thank you for your participation, ladies and gentlemen, you may now disconnect.