



Linde plc 4Q 2021 Earnings Teleconference Transcript

Operator: Thank you for standing by and welcome to the Linde plc Fourth Quarter 2021 earnings teleconference. At this time, all participants are in a listen only mode. Please be advised that today's conference is being recorded. After the speaker's 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.

Juan Pelaez: Thanks, Christina. Good morning, everyone. And thank you for attending our 2021 fourth quarter earnings call and webcast. I am Juan Pelaez, head of investor relations, and I'm joined this morning by Sanjiv Lamba, chief operating officer, and Matt White, chief financial officer. Today's presentation materials are available on our website at Linde.com in the investor section. Please read the forward looking statement disclosure on page two 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 fourth quarter financial performance and outlook, after which we will wrap up with Q&A. Let me turn the call over to Sanjiv.

Sanjiv Lamba: Thanks, Juan, and good morning, everyone. By all measures, 2021 was another successful year for Linde. Our employees around the world delivered strong financial results while exemplifying Linde's core values every day. I'd like to take this opportunity to thank them for their tireless efforts to ensure safe, reliable and cost-effective supply of critical products and services to our customers. Slide three provides full year highlights by four key areas of focus. Of course, this list is not exhaustive. There are many more we manage every day. However, these represent the overarching priorities that I view as important to our continuing success. So, let me begin with our shareholders.

This year, we once again delivered industry leading performance. That makes it the third year in a row since our merger. EPS grew 30%, operating cash flows expanded 31%, and our ROC increased to 17.7% with all three metrics reaching record levels. And it's important to remember, we achieved these numbers from a very strong 2020 base, which also grew double digit percent from 2019. We clearly demonstrated the resilience of our business in 2020 and the ability to leverage the economic recovery in 2021. We shared the success with our owners by distributing \$7 billion in the form of dividends and stock repurchases. And I fully expect the trend to continue. This was all done while implementing an orderly CEO and board chair transition to ensure future performance without any disruption.

In fact, we have positioned ourselves quite well for the future by winning high quality opportunities that meet our disciplined investment criteria. 2021 ended with a record \$13 billion



of contractually secured backlog projects, including more than \$1 billion for new semiconductor fabs with leading customers in the electronics end market. In addition to that, we made \$2 billion of base CAPEX investments, including a record 43 small onsite plants also with long term contracts. And we have also committed close to \$500 million in clean energy initiatives. Currently we are reviewing roughly 300 decarbonization projects globally which probability adjusted add to more than \$4 billion of potential investment opportunities.

Of course, none of this is possible without the thousands of talented employees that run our businesses each day. We achieved best in class safety performance while improving gender diversity to 28%, well on track for our 30 by 30 goal. In addition, we improved on several other country-specific diversity goals to ensure we run and manage our businesses in a way that best reflects and supports the communities we live in. We are a very local business and it's critical that we always strive to give back. In further support of that commitment, every Linde business contributed to the 400 community engagement projects executed around the world, and all these actions were undertaken in another year of the pandemic with our teams providing reliable and uninterrupted supply of gases and services to our customers, including critical oxygen to millions of patients in hospitals and at their homes.

Finally, we maintained a strong commitment towards sustainability by doubling down on our existing carbon intensity goals and announcing more ambitious absolute emission reduction goals for 2035, and also a roadmap for climate neutrality by 2050. And while it's heartening to see independent recognition of our employees' efforts in this area, including a few listed here from Dow Jones Sustainability and CDP, I know we can further improve. Overall, I'm proud of how the Linde team came together against several headwinds and delivered industry leading performance once again. So as I sit here today, I'm more confident now than ever on our ability to deliver another record year in 2022. I'll now hand over the call to Matt to walk you through the financial numbers. Matt?

Matt White: Thanks, Sanjiv. Please turn to slide four for an overview of the fourth quarter results. Sales of \$8.3 billion were up 14% versus prior year and 8% sequentially. You can see the effects of cost pass through at 6% and 3% versus last year and the third quarter. While this is the highest quarterly number we've seen in over a decade, it demonstrates the strength of our contracts by protecting returns from higher energy costs. And remember, this has no impact to operating profit dollars, but will negatively affect operating margins since we gross up both sales and costs. As anticipated, engineering contributed a solid 3% growth on the strength of their record project backlog. This trend should continue in the foreseeable future as they work through their multi-year \$10 billion sale of plant backlog.

Excluding these items, organic sales increased 9% over last year and 2% sequentially from a combination of higher volume and price. The volume increase over 2020 was broad based with



one third coming from project startups and the remainder from base volume improvement across all end markets. Sequentially, volumes were flat as growth in food and beverage and energy and chemicals were offset by lower metals and seasonal reductions in our Southern Hemisphere LPG business. Price increased 3% over prior and 2% sequentially across all geographic segments with the largest increase coming from EMEA due to greater inflationary pressures.

We continued to experience some pricing lag for the merchant and package business. So we fully expect strong pricing in Q1 and throughout 2022 to recover inflation. Note, actual merchant and packaged price increases are mid-single to low double digit percent's across all segments. Operating profit of \$1.8 billion is up 14% from last year and 2% sequentially. Operating margins of 22.2% are flat with prior year, but down 140 basis points sequentially. There are three drivers currently having a negative effect on operating margins, of which two have a neutral to positive effect on operating profit dollars. And the third is a temporary lag that will correct over the next few quarters.

The first factor is of course cost pass-through. And as mentioned earlier, a 6% increase is the highest we've seen. This is a standard part of our contracts that has no effect on profit dollars, but had an unfavorable impact to operating margins of 120 and 70 basis points versus prior year and third quarter respectively. The second factor relates to the engineering segment becoming a larger part of the growth. This will improve profit dollars and cash growth, but has a negative effect on mix since this business has a different margin profile due to the lack of capital intensity.

Finally, the last factor is because energy prices have increased faster than price actions in the merchant and packaged business. This pricing normally lags one to two quarters, and the higher inflation in Q4 caused this to push out another quarter. You can see in the table what the gas segment margin trends look like excluding cost pass through impact, up quite nicely year over year and down slightly on a sequential basis from this lag effect. I fully expect we'll recover this inflation with underlying margins expanding in 2022. EPS of \$2.77 was 20% above last year and 1% above the third quarter. We also included a full year summary on appendix slide eight showing sales and EPS growth of 13% and 30%. To Sanjiv's point, this growth rate comes off a 2020 base, which also performed quite well.

Full year and Q4 2021 EPS increased from 2019 by 46% and 47%, respectively, which emphasizes the continued growth of our business through any scenario. In fact, the business is well positioned to outperform in all economic cycles. Our portfolio has ample resilient market exposure for recessions like 2020. High quality cyclical customers across all supply modes for expansion periods, like 2021. Significant sale of plant capabilities to immediately benefit from capital cycles, like we're seeing today, and sale of gas expertise which has delayed capital cycle



benefits two to three years down the road. Simply stated, the Linde model can deliver leading performance regardless of the macro-economic climate.

The last point I'd like to make on this slide relates to capital management. You can see that ROC, which we view as the single most important metric for this industry, reached a new record of 17.7%. This doesn't just happen overnight. It takes considerable effort from thousands of our employees to continuously deliver industry leading profit and cash growth, underpinned by a disciplined and consistent capital allocation process. And a big part of that effort went toward delivering the record operating cash flow of \$3.2 billion, which is covered in more detail on slide five. The left side shows our quarterly operating cash flow trend. You can see that cash has increased each quarter for three straight years, and that 2021 was a record by growing 31% over prior year.

The operating cash to EBITDA ratio reached 96% for full year 2021, well above historical levels. Part of this is driven by project prepayments in the \$1.3 billion inflow of contract assets and liabilities, which is the accounting term to describe working capital for the engineering business. As stated before, engineering is a strong cash generating business that delivers returns well within our investment criteria. These prepayments are from the record project backlog, which will benefit the income statement over the next three to four years. Due to timing effects, I expect 2022 contract assets and liabilities to be substantially lower than the 2021 level, but we still anticipate strong cash performance across the rest of the business units.

Overall, I expect ongoing operating cash flow to EBITDA ratios in the low to mid 80 percent range. The right side shows how we deployed the \$10 billion of full-year cash flow. A third was invested back into the business in the form of contractually secured growth projects and base CAPEX, which represents both growth and maintenance investments. Recall that a substantial portion of our business, including packaged gases, healthcare services and engineering, don't require much CAPEX to grow. So this only represents a portion of the future growth potential. In addition, we returned two-thirds or \$7 billion back to shareholders in the form of dividends and share repurchases. Our January 2021 share purchase program of \$5 billion is substantially complete, and we will review the future capital allocation at our upcoming board meeting in two weeks. Overall strong cash contribution from all business units enabled Linde to invest for future growth while rewarding shareholders.

I'll wrap up with guidance on slide six. First quarter guidance is in the range of \$2.70 to \$2.80, up 8% to 12% from prior year, or 11% to 15% when adjusting for the assumed 3% currency headwind. Sequentially versus Q4, this range assumes flat economic conditions with seasonally lower volumes offset by higher inflation recovery. Q1 is traditionally the weakest quarter of the year, including for cash flow due to payment timing. Full year 2022 guidance is \$11.55 to \$11.85, representing an 8% to 11% increase versus 2021, or 10% to 13% when adjusting for



the 2% FX headwind. The midpoint of this range assumes flat economic conditions and thus no base volume improvement.

Consistent with our prior approach, this is not our economic forecast. Rather, it merely represents the underlying assumption in the guidance range. You can insert your own view of the 2022 economy. And if it does better, I'd expect to be at the top end or above this range. And if we experience a recession, we'll take actions to meet this commitment as we did in 2020. There remains a lot of uncertainty heading into 2022. And despite all the expert forecasts, nobody knows what'll happen. However, we have an industry leading business portfolio and contractually secured project backlog. So regardless of the economic challenges, we remain quite confident in our ability to continue delivering shareholder value. I'd now like to turn the call over to Q&A,

Operator: And if you would like to ask a question, please signal by pressing star one on your telephone keypad. If you are using a speaker phone, please make sure your mute function is turned off to allow your signal to reach our equipment. Again, press star one to ask a question. We'll take our first question from Steve Byrne with Bank of America.

Stephen Byrne: Yes. Thank you. I'd like to drill in a little bit on your engineering business. You had this kind of pop in revenue in the fourth quarter and you have had this sale of plant chunk, the \$6 billion project recently. But when you look over the last four years, revenue hasn't changed much, backlog hasn't changed much, but your margins have doubled. Can you comment on what have you done to do that? Is that just productivity or is this a mix shift, and how has your view of the value of this business and the benefit to the broader operating units changed since the last few years?

Sanjiv Lamba: Steve, I'll let Matt take that question and then I'll add on to that.

Matt White: Sure. Hi, Steve. So first, on your question on the history, the backlog on the third party actually has declined if you go back a couple years or the last year or so, but the margins have been able to maintain quite well because recall we show the segment of the third party business. In addition, the engineering organization also works on our intercompany sale of gas backlog. They have the ability to gain absorption of the labor and build that and our sale of gas backlog that they support and perform will be part of the CAPEX of the organization and the sale of plant backlog that they perform and execute become third party sales and profits for the organization. So this was what something, as you probably know, we talked about even at the merger time, this combination of the companies bringing all of the opportunities, both sale of plant and sale of gas, not only give our engineering organization a good backlog to work with, but also really helps with their very strong technical capabilities across growing in both areas.



Now, when you think about looking forward, I think that the simple way to think about how to model this business, the sale of plant third party backlog is translated dollar for dollar. So our sale of plant backlog is \$1 backlog equals \$1 sales in the future. And as you probably know, the sale of gas backlog is a dollar of CAPEX, so it has a different ratio to sales. So for the engineering business, about a \$10 billion backlog means we will get about \$10 billion of future sales. And it's usually over three to four years on how that's recognized, and from a margin perspective, as long as they continue to have a good backlog of both third party and sale of gas, it'll allow them to efficiently manage their costs and obviously leveraging our global footprint in terms of what the hourly rates are. So hopefully that answers your question.

Sanjiv Lamba: And maybe just let me add on to that a little bit, Steve, in terms of how we see that business. So there are a couple of things that the engineering business allows us to do on the gases side as well, which make it quite unique and important for us. One is early insight into projects. So when one of our customers is looking at a large project, they will reach out to the team and get some inputs. We get very early insight into that, and obviously are able to leverage that. Now the next step from that is our ability then to be able to say whether we want a particular project to go down a sale of gas or a sale of plant option. And again, that optionality is something that comes intrinsically by having the engineering in-house.

And last but not least, it is really a competitive advantage as we look at the transition that's going to happen with clean energy. There is a whole new market opening up and of course, right in the heart of that is technology, which is owned and proprietary to Linde engineering and their ability to take other technologies and build them into solutions that will hold us in good stead as we look ahead.

Stephen Byrne: Thank you for that. And one quick one on your European business, can you provide the split on revenue between onsite and merchants and package and the sequential price mix increase of 4%? Were you aggressive about pushing through price early in the quarter in order to achieve the results you did?

Sanjiv Lamba: Right. So, the split roughly around the EMEA business, which kind of spans about 40 countries, but that split is roughly about a third, two thirds, a third of onsite, whereas you know well, the pass through goes automatically from the contractual structures we have and about two thirds of merchant and packaged, where again, a lot of hard work goes in. And to your point, we've been, you might recall Steve that for about four quarters now we've been talking about inflation. It isn't new, and while it's not well recognized, I thought it's worthy of just a quick reminder. We operate in about 100 countries, some of the best businesses that we have in many parts of the world, including Latin America, Asia and Europe have been actively managing inflation over decades. This is not new to us. It's a model that reflects from time to time and it's part of our performance culture kind of getting into the detail, digging in and ensuring we're executing on pricing and productivity actions day in, day out. So that's what the guys have been



doing over there. We kind of treat it as part of our ongoing business process and they run that every day in that quarter. It isn't something that we do in the end of the quarter or the beginning of a quarter.

Stephen Byrne: Thank you.

Operator: We'll go to our next question from PJ Juvekar with Citi.

PJ Juvekar: Good morning, Sanjiv and Matt. Can you talk about your 300 decarbonization projects? You said potential are \$4 billion in pipeline. How advanced are these projects and when are they likely to get added to the backlog?

Sanjiv Lamba: Right. PJ, thanks for that question. So obviously, we are very excited seeing the number of projects, the momentum that's building up around that. Very important to always remind ourselves that these projects have long lead time and development. And we're seeing that on any major project, of course, even more so on some of these clean energy projects. Typically these projects are divided into three. We kind of categorize them into three headings if you will. There are a number of projects around mobility. You read about them every day. And many of these projects, of course they are smaller in size relative to the other two segments, but many of these progressing at different paces, large number of them green, but a number of blue projects linked to mobility as well.

The second bucket's really around industrial applications. This is where we are seeing either incumbent customers or new customers look at blue hydrogen, green hydrogen, look at how they convert and decarbonize their own processes, whether it's steel, chemicals, refining, it's a long list. So, all of those activities. Now being at the heart of that, and in most cases incumbent in there, we are working actively with our customers to be able to help them understand their decarbonization strategy. And as a consequence of that, provide the input needed from our perspective to support that.

The last segment is really where we are looking at the energy transition. So use of hydrogen in particular as an energy source, either through a carrier. So ammonia gets talked about a lot, or hydrogen by itself, and that's a large segment as you would expect, but it is complex because it kind of has its own dynamic around large SOEs you're dealing with, kind of political structures and of course a need for a global trade structure that allows for that distribution levels to happen.

So we see development of all these three. I think those 300 projects kind of fall neatly into there. And again, I have to say that while momentum is building up, and of course you are reading lots of announcements every other day. I know I do too, but I don't really see many of



those announcements translated into projects immediately. There is a lead time to that development. Do I see that the \$4 billion that you referenced? Now, remember that \$4 billion is probability adjusted. I mean, if I was to open up the Pandora's box and tell you what the absolute value is, we are talking \$20 plus billion in terms of absolute value of those projects, but probably the adjusted on a reasonably conservative lender basis, as you would expect, we think about \$4 billion will come into kind of decisions, FID decisions for us in the next three years.

Matt White: And PJ, this is Matt, and I may just add to that as well. Recall that our definition of project backlog is really the most stringent in the industry. So, we have been executing right now some of those green projects as part of our base CAPEX. If you notice sequentially, it popped up here about \$130, \$140 million. So these are ones where we're building density. These are ones where we're converting to say blue or green on some existing hydrogen networks, so they are happening, but to make our project backlog definition, it requires a very stringent approach, but we fully expect to see some there in the future to Sanjiv's point.

PJ Juvekar: Great, thank you for that. And just a question on the flip side of these energy prices. So these high energy prices, does that accelerate your green, blue hydrogen projects, and just with higher power costs, what is the cost of green hydrogen today? Thank you.

Sanjiv Lamba: So PJ, that that that's a fairly broad question. Let me just take a step back and mention something to you, which I think is important to remind everyone, which is that one of the areas around energy transition. And we are seeing a bit of pragmatism in Europe, as you know now, because the taxonomy is now describing both natural gas and nuclears being in the green kind of zone, if you will. But one of the things to just remind ourselves, natural gas will continue to be very important as we look ahead. So I see certainly momentum building up on natural gas, more investments in the capital cycle that Matt referenced in his comments earlier on, we see some of that playing out and the projects that we are talking about in Linde engineering as well, a lot of them serving that natural gas, growing natural gas business and development are linked to that now. So that is important just to recognize because we see that as part of the energy transition, you'll see a role, a very important role that natural gas will play. Let me move on and talk about whether the energy costs are actually supporting this transition. And my view is there are two transitions happening, I believe, in the next decade or so, you will see scalable technology for blue hydrogen pickup now, get applied now and actually create a transition to that ultimate greener energy transition that is often talked about. So I really see blue playing a big role and really the kind of power pricing that you referenced earlier on, doesn't have a direct impact on that and therefore that momentum is on its own.

On the green side, yes, as you see energy prices move up, there is a bit of a challenge around that. And that'll get factored in, of course, all of this will normalize. The reality is what you see today isn't what what's going to be for the next five years. So we should look at green hydrogen



with that perspective. There is a lens of maybe a five to seven year development cycle. I've said this before, our technology roadmap suggests that there's a five to seven year cycle for that scale up to happen and for green hydrogen to start, then still be at a premium, but a more acceptable premium to maybe blue as we look ahead.

PJ Juvekar: Thank you.

Operator: We'll take our next question from Nicola Tang with BNP Paribas.

Nicola Tang: Hi everyone. And thanks for taking my questions. First, I wanted to dig a little bit more on the pricing dynamics. I think you mentioned that in your opening remarks that the cost inflationary pressure was bigger in Europe. So I was wondering why the sequential change in or the sequential margin squeeze was actually larger in Americas than it was in Europe, on an ex-cost pass through basis is that to do with, I don't know, America's not being as effective at pricing, or is it perhaps to do with pricing dynamics in Lincare? And I guess linked to that, could you talk a little bit about how the pricing dynamics in healthcare versus other industrial exposures and how the contract structures work? That's the first one. Thank you.

Matt White: Hi, Nicola. It's Matt. So first, we'll start with saying, there's no structural concerns. I just want to make sure we're aware of that and we understand that, and I think it's important also realize that, as you may recall in our last quarter, Europe right now is in the middle of some we'll call larger cost actions that they're taking as well. And you remember, Americas and APAC had done those earlier, and we always said that EMEA would be a little later, and so they're in the midst of those. So what you're seeing in EMEA is a combination of yes, higher inflation and pricing actions, but also in the middle of some cost actions that they're taking, which will help the margin profile.

In the Americas, I would not say there's anything concerning or different. To your point, the healthcare profile on pricing will be different, right? That won't price as fast to inflation, it tends to be a little more structured. Now that being said, at least in the US, they are getting a large inflationary price increase that'll be effective here January 1st. So that's a normal part of the process, but I would say it's more a function of how the cost actions are being taken in EMEA right now on a delayed basis, which is causing that.

Nicola Tang: All right, thanks. And then just a quick one around volume, it looks like all end markets were up sequentially apart from metals and mining. And I know it's still a bit early in the year, but could you maybe give us a whistle top whistle stop tour of what you're seeing so far across some of your key end markets and I guess specifically comment on the metals and mining points?



Sanjiv Lamba: Sure. Nicola, why don't I do that? And what I'll do is I'll walk you through Q4 just to kind of build a base and then quickly talk about the outlook that we are looking at. And I'll talk specifically about metals and mining and China, as that's quite intrinsically linked. So let me start over with Americas as maybe the starting point. Overall in Q4, you saw a strong growth about 7% up. It was pretty broad based when I look at the market breakdown, metals, manufacturing, chemicals, and refining, all cyclical end markets strongest. Followed of course, by electronics and food and beverage, which also did quite well. And just very quickly, I'm going to cover refinery because I know a number of you're interested in that. Our refinery volumes are up higher than pre COVID levels, excluding startups. We're at about 15% up, including startups, about 24% up when I looked and compared to fourth quarter of 2019.

Now sequentially, we saw chemicals and energy continue to be strong, metals lagged a little bit in the Americas as well, largely as a result of customer turnarounds that happened in the last quarter. Manufacturing, slightly weaker, but that's kind of what we typically expect in the third and fourth quarter, so nothing unexpected over there. The other way to look at the economy is what happens in the package side of the business. And again in the US we saw good growth across all end markets, which is really good to see. Both gases and hard goods saw double digit year on year growth, pretty strong growth there. Sequentially gases might have been about flat, hard goods continue to grow. So again, that is good to see that.

As I look ahead into the current quarter, I can tell you that we are seeing that fundamental demand stay strong. There are the supply chain challenges, and obviously the inflation number that came out this morning will worry people, but we still see that underlying demand being pretty strong around the Americas and nothing that I can point out to that suggest any shift from what we've seen. Let me move on in EMEA and talk briefly. So again, broad based growth in the EMEA really led by industrials recovering, metals, manufacturing, high single digit in Q4. We saw a nice recovery in food and beverage. I thank everyone on the call who went out and bought a beer at a pub because we were up 20% overall and in the UK in particular. So that is kind of good news. Sequentially volumes are more or less flat, even though we had less work days in the quarter.

And again in EMEA, I see that trend holding for now. I can't see anything other than some margin adjustments on healthcare, where we had a bit of a spurt in a few countries around medical oxygen, but we are seeing elective surgeries pick up. So I see a bit of offset in that coming into the Q1 as well. APAC, volumes up 7%, about what I'd expect, led really by electronics chemicals and energy and manufacturing. And this is where metals and minerals or mining for us was lower than last year. And you've heard the story before; curtailments in China really the root cause of that. And again, sequentially in APAC and Q4 as well, we saw there were about 2% down, largely linked to metals and mining in China, some customer turnarounds in chemicals as



well. And then there was some seasonal adjustments for LNG volumes in south Pacific that kind of tends to happen every year.

Just on China, again, recognizing that people are tracking this quite closely. If I look at January in particular and look at some data that we are kind of tracking, I see steel a little bit holding back a little bit. I think in the first three weeks of January, it is down about 10 to 11%, the key production cuts and some constraints and curtailments that are in place likely to be there till early March in provinces like Hebei, Tianjin, Beijing, Shandong, et cetera. After that, I expect that we'll get back to last year levels, to 2021 levels and overall for the year, I'd expect that we'd probably see something which is flat or slightly up. Also looking at obviously some of this Q1 numbers get adjusted for the Chinese new year kind of impact.

So once we look at that, we find the other segments, electronics holding its own pretty, pretty solid so far. Automobile production up a little bit, up about 6% for the first three weeks of January. Again, that's a good signal. The last week of January, you have to ignore because that's the week before Chinese new year. So things start kind of shutting down and that's just a normal course of events. So we're watching closely to see what happens in China on the recovery next week onwards, that's when the recovery post CNY or post Chinese New Year will happen. So we'll kind of figure out how that plays out as we look ahead into the rest of the quarter.

Nicola Tang: That's great. Thank you so much for the detail.

Operator: We'll take our next question from Bob Koort with Goldman Sachs.

Bob Koort: Thank you very much. Sanjiv, I want to go a little deeper on the pricing and the electricity and power costs in Europe. It seemed like there was quite a bit of investor consternation. Some market players were talking about four and five fold increases in those costs. So you guys did a remarkable job in the quarter. Do we have more to come? Is there a peak pinch point coming up in the first or second quarter? And then if you could, could you just talk about how you specifically introduced price through your three primary distribution methods? Thanks.

Sanjiv Lamba: Sure. Thanks, Bob. So let me, maybe what I might do, Bob, is just take a step back and talk about inflation in general, because it seems to be on everyone's mind. Talk about how we address inflation more broadly and then talk about the different supply modes and how we kind of work our way through that. So in gases, about 70% of our costs are really in three buckets, power and natural gas the first, wages and distribution the other two. Now really energy cost increases are a part and parcel of the industrial gases business. I mean, it's something we manage every day. If power and natural gas costs go up, we make sure all our onsite contracts are passing that energy costs through, and you can see that in our pass through line, you see 6% year on year for the quarter, 3% sequential. And Matt said this earlier, it's one of the highest in



the decade. So that's pretty high, but again, it's part of, kind of the norm, the business that we just run, that we manage that on a day to day basis and pass through.

In parallel, our merchant and package businesses know what needs to be done. They're out there in the field pricing our products to cover these cost increases every day. There's price escalation clauses, there are charges, surcharges, et cetera. So when you see that overall pricing line 3% year on year, 2% sequential, that kind of means merchant and package pricing is about double of that amount. I could tell you that across segments, I see a range somewhere from mid-single digit to low double digit. Now, clearly not enough cover the power inflation in the quarter itself. And we both referenced this in our remarks earlier, but we tend to have a lag of maybe one to two quarters to recover the full cost inflation. But you should know, we will continue to see pricing going forward and we will recover that cost inflation as we have done over decades. So again, not something new, that's kind of how we think about it.

Wages is the other cost bucket I talked about. It's something that we I particularly keep a very close eye on, and our team knows that productivity needs to offset cost inflation. I'm really pleased, and I've said this before, with how we've embraced that productivity culture across this new merged organization. And I see progress in all fronts there, we'll have a productive review in the next few weeks. I'm confident that the Linde employees across segments will have several hundred projects focused on efficiency, focus on automation, leveraging technology to make our work streams even more efficient. So it's an ongoing piece it's kind of in our DNA. It's what we do and work through, and wage inflation gets offset through a lot of activity that happens on the productivity side.

Finally, distribution costs. I can't say that we are not seeing driver shortages and cost related to that, but I can also tell you that we have charges and surcharges in place today to mitigate that cost. Now more work needs to be done clearly, particularly in hiring drivers, which is a bit of a challenge in the business, but also in ensuring that each business is passing that cost inflation through. So again, all in team is working to pass the cost inflation through. We currently see at every element, of that cost inflation is looked at by those teams. We reviewed at our GBR every month. And they've kind of do, done a fairly good job, but there's more needed to offset the cost inflation in its entirety. And you should expect continued pricing and productivity to reflect that as we go forward.

For the three different segments, I hope, Bob, I've given you enough, but the onsite piece pass through is kind of direct action. On the merchant piece, there is a lot of work that happens on both the merchant and the packaged side. And we kind of leverage that on an ongoing basis. And again, going back into our history, if you go back, I don't know, 20 years maybe, there's never been negative pricing. We've always been pricing positive, and that's just the way we run



the business. And as I said earlier, managing this cost inflation and energy cost increase in particular part and parcel of an industrial gas business.

Bob Koort: That's terrific. Very comprehensive. Thanks, Sanjiv.

Operator: And we'll take our next question from Duffy Fischer with Barclays.

Duffy Fischer: Yeah. Good morning, gentlemen. First question, just around the guide. So 2.75, if you annualize, that gets you 2.11. Your midpoint is 70 cents higher than that, so can you just talk about, as we go from Q1 through the next three quarters where that 70 cents comes from?

Matt White: It's Matt. So first, as I mentioned in the pre-remarks, as you well know, Q1 is always our seasonally weakest just given some of the seasonality we see, whether it's Chinese new year, Brazilian carnival, a lot of the events that happen in the first quarter. So you always have that component. Furthermore, our backlog is starting up. Our projects are contributing. They will continue to ramp forward and bring value. And we mentioned we still expect strong pricing throughout. So we fully feel good about that full year guide. We're obviously giving our first quarter based on how we see the seasonality. I mean, if you go back traditionally Q4 to Q1, it's usually flattish or even slightly down when you exclude things like FX. So I think you are seeing a little bit of improvement there, but as I mentioned, we're taking a very neutral assumption on the macro.

And if we see some growth in the macro, that will be some upside to how we're thinking about this, but right now we feel quite good about that full year. And we should see some ramping and improvements in the EPS, just given project contribution, pricing actions, cost actions, etc., as you normally see in a business like this.

Duffy Fischer: Great. Thanks. And then could you talk a little bit more in depth about the healthcare business? How has it grown over the last year relative to the overall business, and more importantly, particularly like the home healthcare delivery business, how does it price? Because as I recall, its mechanisms a little bit different with bids and stuff like that. So how does it price in a situation like this where you've got a lot of inflation?

Sanjiv Lamba: Duffy, I'll kind of cover that as you've kind of made the question in two parts, right, let's talk about the business that deals with the hospitals and where we supply product. And as you know, our teams did a fantastic job in the course of the year, making sure that very, very critical of medical oxygen needs were met across the world. Now that business, we said this before, we've seen those medical oxygen volumes start to trend down. We've seen normal elective surgeries trend back up, and we've seen that kind of offset each other and see mid, our view of kind of long, mid to long term growth in healthcare, mid-single digit. And we are seeing that business trend to that over that kind of horizon, you see about 3% growth in year on year in the



first quarter. So I don't expect anything exceptional over there more broadly, but we do see that kind of trending to that mid-single digit number.

As far as home care is concerned, we again saw some peaks happen and with the COVID infections going up, we saw oxygen pick up. There is, when you think about volumes on the home care side, there tends to get offset then, because some of the other businesses that we have tend to kind of not get prescribed as much, and therefore you see that offset in volume. We kind of saw that, we saw nothing unusual. We've kind of seen that for the pandemic right through, and we saw that right happen through this period as well. Again, just as a reminder, I think that business dealt with maybe about 150,000 patients at once, if I'm not wrong, 150,000 patients that we supported through the pandemic, ensuring that home oxygen was available to them as they came out of critical care and so on and so forth.

So again, a good way of just contributing to that, to the fight against pandemic, if you will. Pricing on that, there is some history there, Duffy, but essentially, the CMS and a lot of basically in the US in particular, the agencies are recognizing the critical need of that. And if we haven't seen that comparative bid piece play out in the last two or three years, more than that now, actually three years plus, and I think that there is some degree of stability on, on pricing in there at, at the moment.

Duffy Fischer: Great. Thank you guys.

Sanjiv Lamba: They do get an inflation adjustment that Matt pointed out earlier, Duffy, in case I'd missed that.

Operator: I'll take our next question from Jeff Zekauskas with JP Morgan.

Jeff Zekauskas: Thanks very much. In one of your slides, you say that you've sourced more than a third of your global electricity from low carbon sources. Do your customers want you to do that? Do they want to pay a premium for electricity from low carbon sources, and how do you manage the issue of passing through raw material costs if you're accessing more from low carbon sources and that electricity is more expensive? How does that negotiation work with your customers? Can you expand on this?

Sanjiv Lamba: Sure. Jeff, so this is something that we've been doing for some time, Jeff, so it's not new. And there are various parts of the world where we have the ability to source renewable and low carbon energy and power in particular. And we've been kind of doing that and passing those costs through. You're right, in some markets, we are more advanced than others. The UK's a good example, parts of Europe, a good example, where these are well understood by the customers. And that the pass through mechanism has been built in around that, and they accept



that. There's a separate stream of green products that are now coming out. And again, we are getting premium for that. This is a very small nascent market, so I'm not going to stress too much on it other than to just tell you that there is a growing demand, small at the moment, but growing where our customers, for their own requirements, because they want to be able to certify their end products as being having green components are seeking green products from us, which we are able to provide because of some of the sourcing that we do. And there you do get some premium, again, it's not exorbitant, but there is some premium over normal product that we'd be able to provide.

Now, as we go forward, a large number of customers across the world, in fact, are speaking to us about how green are we going to be longer term in terms of our power sourcing. And again, there are two components to that Jeff that we need to always remember. One is that the grid itself is greening, and we do see that, and the other is how actively will we go and get renewable or low carbon power? And I think those are the two elements that actually bring up that number that he talked about, the thought that we have today and growing. And again, as the grid greens, there is a broader momentum around that. So that gets picked up and that's kind of reflected in the grid pricing that comes through and where we do active there. I think clearly we have a blended rate that goes to the customer and gets recovered. The only thing I can tell you is that today we are recovering fully on our energy costs and our power costs even with this blend of 35% renewable and low carbon.

Matt White: And Jeff, I would just add when you think about low carbon, you have to think holistically. So while I know the first thing that comes to mind is always solar and wind, which clearly can be a little more expensive, you also have to think of hydro, right, and hydro power we use extensively where we can. It tends to be lower cost power, and so by blending some of that hydro in, and especially with some of the other new green opportunities, it can still give us a very attractive average cost of power.

Jeff Zekauskas: And then secondly in the quarter, was there maybe \$75 or \$100 million of increased energy costs that you weren't able to recover from pricing that you expect to recover in the future? What's your gap right now?

Sanjiv Lamba: So, Jeff, without getting to the numbers, the principle that I want to tell you is that we absolutely expect to recover the lag that we have from the previous quarters inflation that we've seen. And as a principle, you should expect that our pricing will ensure that that lag is covered.

Jeff Zekauskas: Great. Thanks so much.

Operator: We'll take our next question from Peter Clark with Société Générale.



Peter Clark: Yes, good morning. The first one is on productivity actually. It never ends, of course. And I saw on the APAC slide, it's being stepped up. Now, if I remember rightly obviously APAC started quite early after the merger started. So just wondering what's going on there. And then within Europe, you alluded to the fact productivity, of course, was a help in the fourth quarter. Am I right in thinking there's still a bit of productivity momentum in Europe, so when we go maybe Q2, Q3, as you get over the lag, you're expecting a little bit of a margin bump coming through in EMEA? Thank you. That's the first one.

Sanjiv Lamba: Peter, why don't I start with Europe first? So the answer is yes, there is a lot of activity ongoing on productivity generally, but more importantly in Europe, specifically in a number of high cost countries, there is a specific cost program that the European business is pursuing. You saw us take a restructured charge, I think it was the quarter before, and that is going through. So that will have consequences of course, positively, so on the margin that you've just referenced. As far as APAC is concerned, you've heard me say this before, a lot of the businesses in APAC kind of embraced that productivity piece and have built a lot of momentum around that. There is an active activity at the moment globally, but APAC kind of trying to take a bit of leadership on this, around seeing that a significant portion of that productivity from digitalization effort. We believe digitalization provides the right booster for our productivity at the moment. And again, I've set some internal goals that they're pursuing quite aggressively, and I'm pleased to see the progress they're making on that.

Peter Clark: Okay. Thank you. And then Matt, you alluded to the fact the backlog is ramping up this year. I think you have the target now for the backlog providing mid-single digit to EPS. Just wondering if 2022 is going to be one of those years or the first years of that, and then potentially what that might mean for the top line kicker from that because I think 2%, I think in the fourth quarter you alluded to, so presumably it's going over three towards four. I don't know. Thank you.

Matt White: Sure, Peter, and to your point, the 2% I alluded to would be specifically on the sale of gas because we were talking about the base volume. So when you think about the total backlog and totality of sale of plant plus sale of gas, you're absolutely right, mid-single digit is how we think about it. That's clearly through 2022. And we can see that in several years out just given the size of the backlog and the time to work it through. So we feel very good about that, and that's something we reinforce and will be part of our continued performance and outlook.

Peter Clark: Good. And I'm looking forward to the new share buyback. Thank you.

Matt White: So am I.



Operator: And we'll take our next question from John McNulty with BMO Capital Markets.

John McNulty: Hi, good morning, Sanjiv and Matt. This is Bhavesh Loyada on behalf of John. Thanks for all the color on the pricing and the inflation side. A quick follow up on the volume side of things. Are you seeing any impact from the ongoing higher pricing, either through demand destruction or are just delays in the volume recovery in the economy? And is that something that could come back once price has moderated?

Sanjiv Lamba: So the simple answer to that is no, we are seeing underlying demand growth continue to be there. You saw that in the America's, up 7%, you saw it in APAC, up 7%. EMEA, plus 2% and growing. So I can't see, I can't reference any demand destruction. I think we are on a solid kind of demand pattern at the moment. Impact really comes from supply chain issues and logistics and things like that.

John McNulty: Fair enough. And then looking at your backlog, so you've clearly been very active in the semiconductor's electronic space. Those customers are investing a lot in the capacity for multiple years now, can you add some color as to how the electronics part of your backlog looks right now? And then how do you see the share of electronics as a percent of the sales go from the 18% that you show right now?

Sanjiv Lamba: Absolutely. So it's my favorite topic. So I'm glad you asked. So from a market perspective, I'd say it's one of those end markets that I referenced earlier on saying that we won \$1 billion of projects in the last year to serve top end customers, the top 1, 2, 3 in electronics to end markets with those wins. I'm also very pleased to say that I am confident that electronics will probably be the strongest growth contributor to our sale of gas backlog for the next couple of years at least, this year and maybe another two. So again, it's an area that our technology and operating expertise carries a lot of weight. We have customer relationships that are very critical. It's currently only 8% of our sales, and I expect that to continue to grow and I certainly see that as double digit.

John McNulty: Got it. Thank you.

Operator: We'll take our next question from David Begleiter with Deutsche Bank.

David Begleiter: Thank you. On the sales gas backlog at a high level, do you see this increasing over time, or do you think it'll stay in this roughly \$3.5 billion plus range?

Sanjiv Lamba: Hey, David. So the way I'm looking at the backlog and I kind of referenced a little bit around what we saw on the electronic side and what we see happening there, I'll talk a little more about proposal activity because that feeds into that question, but this is my view. We've got a backlog of about \$3.5 billion at the moment. We'll have about a billion of startups, mostly



at the backend second half of the year, if you will. So a billion of that's going to come out of the backlog and I'm glad it does because that starts generating revenue and profits for us. I'm seeing a fair amount of proposal activity as we speak. And that really gives me some encouragement to say, I expect that we'll fill that backlog in, and be at this level or maybe a little bit higher by the end of the year.

Just where is that coming from? So we are seeing strong electronics opportunity pipeline, and I fully expect, as I said a minute ago, that electronics will continue to be a strong contributor to our SOG backlog for this year and a couple more. So that's kind of a good starting point. Chemicals demand also remains reasonably strong. We kind of see some projects coming up in that space. There are, in addition to our more traditional projects, we are also seeing methanol and ammonia projects come up in that space. So again, seeing a number of companies evaluate the investments in those segments. So happy to see that that progressing as well.

On refining, we are seeing requests for blue and green hydrogen studies ramping up significantly. Customers are also reaching out to see how we can help them kind of capture carbon and if we can provide some services around that. So again, we see some opening of there as well. And then I mentioned to you the 300 odd kind of decarbonization projects overall, if you will, all of which kind of look like they're moving forward, some of them will come for decisions into the backlog this year, but of course they have their own lead times that kind of have to be worked through

David Begleiter: Very good. And just back on healthcare, Sanjiv, anybody parse out the benefits from COVID this year, but that might not repeat next year or in 2022?

Sanjiv Lamba: David, the way I'm thinking about this is I am seeing that trend down, for sure. And we are seeing normal healthcare volumes. So what happened was in hospitals, in particular, all surgeries came to a stop and the hospitals got dedicated or are really primarily served COVID patients. As COVID infections and hospitalizations in particular are going down, there are a number of very critical elective surgeries that have been postponed, which are now coming back and which need oxygen for their procedures. So we are seeing that ramp back up and that's probably the best way to think about that. We are seeing that offset intrinsically in the healthcare volumes by itself.

David Begleiter: Thank you.

Operator: And our last question comes from Laurence Alexander[?] with Jefferies.

Laurence Alexander: Good morning, two quick ones. Some of the questions assumed or implied that the pricing, which would catch up to the cost gap within a quarter or two, just want to clarify if that is true? Or do you think it would take longer than that? And secondly, as you look at the



longer with the energy transition and the uncertainty around the industrial architecture and how that might be rearranged, does that affect at all your interest in doing larger kind of portfolio optimization streamlining the number of countries you're operating in?

Sanjiv Lamba: Hey, Laurence. So the simple answer to pricing is that whatever gap there is, we will recover that. So that's kind of how we operate and look at this and there is no gap at the end of that process, so hopefully that helps. Talking about energy transition and industrial architect, it's a great question. It merits a longer discussion, but in a nutshell, the way I'd describe it to you is we think of the energy transition and we see opportunity arise as a result of that. And we are seeing that either through the blue ammonia, blue hydrogen route, in due course developments around green hydrogen, green ammonia as well. And we are seeing different industries open up and different opportunities open up as a consequence of that transition.

Coming to the portfolio rationalization piece, we kind of look at that anyway, irrespective of the energy transition. If there is some overlap there, obviously that'll get factored in, but irrespective of that, we kind of constantly look at our portfolio to try and understand positions that we feel give us a leverage that we want and look at. And you've seen that strategy being executed over the last year, wherein we've exited number of businesses, but also we've bought out minority shareholders in others where we know that we are able to do a better job and we can focus a team to kind of deliver on what it needs to deliver rather than get distracted by listing requirements. So, all of that kind of plays in every day as our kind of strategy gets executed on that.

Laurence Alexander: Thank you.

Operator: That concludes today's question and answer session. Mr. Pelaez, at this time, I will turn the conference back to you for any additional or closing remarks,

Juan Pelaez: Christina, nice job. And thank you everyone for participating in today's call. If you have any further questions, you know where to reach me. Take care.

Operator: This concludes today's teleconference. Thank you for your participation. You may now disconnect.