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Linde Plc (LIN)
Q4 2020 Earnings Call
CORPORATE PARTICIPANTS

Juan Pelaez  
Vice President-Investor Relations, Linde Plc

Stephen F. Angel  
Chief Executive Officer & Director, Linde Plc

Sanjiv Lamba  
Executive Vice President & Chief Operating Officer, Linde Plc

Matthew J. White  
Executive Vice President & Chief Financial Officer, Linde Plc

OTHER PARTICIPANTS

Robert Koort  
Analyst, Goldman Sachs & Co. LLC

Nicola Tang  
Analyst, Exane BNP Paribas

David I. Begleiter  
Analyst, Deutsche Bank Securities, Inc.

Peter Clark  
Analyst, Société Générale SA (UK)

Jeffrey J. Zekauskas  
Analyst, JPMorgan Securities LLC

Duffy Fischer  
Analyst, Barclays Capital, Inc.

Vincent Stephen Andrews  
Analyst, Morgan Stanley & Co. LLC

Steve Byrne  
Analyst, BofA Securities, Inc.

P.J. Juvekar  
Analyst, Citigroup Global Markets, Inc.

John P. McNulty  
Analyst, BMO Capital Markets Corp.

Laurence Alexander  
Analyst, Jefferies LLC
MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, thank you for standing by and welcome to the Fourth Quarter 2020 Linde Earnings Call. At this time, all participants’ lines are in a listen-only mode. After the speakers’ presentation, there will be a question-and-answer session. [Operator Instructions] Please be advised that today’s conference may be recorded. [Operator Instructions]

I would now like to hand the conference over to your speaker today, Mr. Juan Pelaez, Head of Investor Relations. Sir, you may begin.

Juan Pelaez
Vice President-Investor Relations, Linde Plc

Crystal, thank you. And good morning, everyone, and appreciate attending our 2020 fourth quarter earnings call and webcast. I’m Juan Pelaez, Head of Investor Relations, and I’m joined this morning by Steve Angel, Chief Executive Officer; Matt White, Chief Financial Officer; and Sanjiv Lamba, Chief Operating Officer.

Today's presentation materials are available on our website at linde.com in the Investors section. Please read the forward-looking statement disclosure on page 2 of the slides and note that it applies to all statements made during this teleconference. The reconciliations of the adjusted numbers are in the appendix of this presentation.

Steve, Sanjiv, and Matt will now give an update on Linde's fourth quarter performance and will then be available to answer questions. Steve?

Stephen F. Angel
Chief Executive Officer & Director, Linde Plc

Thank you, Juan. The entire team responded exceptionally well in a year dominated by COVID. Our frontline workers in particular deserve special recognition for what they accomplished and what they continue to do for our customers, our patients and our communities. Despite the challenges of COVID, our key safety metrics continue to trend positively. We always say safety first here at Linde, and our people certainly walked the talk in 2020.

We ramped up our healthcare capabilities around the world. We developed new protocols to treat COVID patients in their homes, [ph] pruning out needed (2:05) capacity and overburdened hospitals. Since March, we have treated 90,000 COVID home care patients and, unfortunately, that number continues to grow. And we did that while caring for our existing base of some 1.6 million home care patients.

We kept our plants running reliably and maintained service to our customers. We started at new plants in challenging circumstances with minimal delays. With the help of virtual tools, we transitioned from central to distributed operations almost flawlessly. In light of the inequalities in our society exposed by COVID-19, we contributed an additional $1.5 million to our communities beyond our normal level of giving.

We demonstrated the resiliency of our business model. We quickly adjusted cost structures in line with local market conditions. We utilized our strong commercial terms and conditions to shield us from volume disruptions. We capitalized on more resilient growth opportunities in healthcare, electronics, and food freezing.
We delivered strong financial performance for the full year. Matt will provide more detail on the financials, but let me share a few highlights. Ex FX, we delivered 13% earnings per share growth on minus 2% sales. Our EBIT percent rose 260 basis points to 21.3%. Gross operating cash flow grew 21% to $7.4 billion. And the single most important metric to me, return on capital grew 180 basis points to 13.4%.

We won significant projects serving new semiconductor fabs, the largest of which is yet to be announced and is not yet included in the $3.6 billion sale of gas backlog number you see in the presentation. We won 36 small on-site projects in growing markets such as pulp and paper, lithium-ion batteries, and precious metals.

We advanced our sustainability initiative. We are the only chemical company in the world who has been recognized in the World Dow Jones Sustainability Index for 18 consecutive years. And MSCI recently upgraded our ESG rating to an A rating.

This time last year, we announced a new greenhouse gas emission intensity reduction goal of 35% by 2028. At this point, we're nearly halfway to achieving this goal. And we continue to develop applications that enable our customers to address their environmental challenges. We're currently working on several carbon capture utilization and sequestration projects that we expect to come to fruition in the coming months.

We made progress on our clean hydrogen initiative. We ramped up our JV with ITM to build PEM, Proton Exchange Membrane, electrolysis plants. We formed a dozen partnerships with fuel cell electric vehicle manufacturers, energy companies and renewable power producers. We closed several important projects in China, South Korea and Germany. We made significant progress on our diversity goals for women globally and minorities in the US. We conducted our second employee engagement survey and the results were very positive and improved year-over-year.

We maintain a strong compliance program. Establishing a strong culture of compliance is a fundamental responsibility of every leader in our company. We didn't ring a bell or anything, but the merger integration is over, thanks to the outstanding work of many people from both legacy companies. In short, we accomplished a great deal in 2020 and performed at an exceptional level, especially when considering the environment.

Now I've just made a lot of we statements and now I have one more. We are well-positioned for another outstanding year in 2021.

Now, I'll turn it over to Sanjiv to provide more details on the business trends and outlook.

Sanjiv Lamba
Executive Vice President & Chief Operating Officer, Linde Plc

Thank you, Steve, and good morning, everyone. As Steve mentioned, we had a strong finish to a challenging year. However, not all end markets have recovered and growth rates have been quite varied. Given the current uncertainty around the shape and speed of the economic recovery, I'd like to walk through the current business conditions, the key trends by end markets that you can find on the next slide, slide 4.

This slide represents our global end key market sales, excluding Engineering of course, for the last quarter. And the first point I'd like to make to you over here is that our sales are well-balanced with 40% in resilient markets like healthcare, electronics, food and beverage; and the other 60% in cyclical end markets such as metals, manufacturing, chemicals and refining. Clearly, the resilient end markets provided both stability and earnings accretion throughout the year.
These growth rates are more aligned with demographic and consumer trend. And of course, incremental application technology is especially true for our merchant and packaged supply modes. In fact, our strategic focus towards developing an integrated supply network across all three supply modes of on-site, merchants and package enables us to efficiently serve all these customers.

In healthcare, which is about 20% of our sales, we continue to make considerable investments around the world to serve patients in both hospitals and homes. We have expanded our medical-grade oxygen capacity. We've introduced an inhaled nitric oxide alternative in the United States and Canada, provided specialty gases for research and drug discovery, and of course, increased CO2 supply for dry ice production for the storage and transportation of vaccines.

Furthermore, we've been better prepared our home care organization to safely and reliably care for millions of high-risk patients right through this pandemic. It is, of course, difficult to say how much longer we'll face these challenges, but I can say with some confidence that we will continue to do our part to support and care for our customers.

Moving on to food and beverage, which comprises 10% of global sales, and this end market includes production and distribution for both bulk products and retail. Growth trends have been more prominent in bulk food freezing, dry ice for transport and specific trends like oxygen for aquaculture, CO2 for greenhouses. I anticipate these trends will continue based on the rise of food delivery services, concentration of food production itself, and of course, a growing demand for high-quality ready-to-eat meals.

Now, although the beverage market has been negatively impacted, particularly by the closure of restaurants, especially North America and the UK, that business has partially recovered through diner takeout trends that we see along with increased bottler demand. Overall, we see this as a stable market with some upside when there is return to restaurant dining.

Moving on to electronics, which is 10% of our sales, we also consider this a resilient market since it tracks closely to consumer trends rather than industrial cycles, and also because we supply critical products such as high-purity nitrogen, and specialty gases, and complex mixtures. Now these products enable our customers to make smaller and increasingly more powerful electronic devices irrespective of their technology platforms. This is, of course, one of our fastest growing markets both in the Americas and Asia-Pacific, as more investments are made into these integrated circuitry, memory, display, and solar panels.

Some recent examples of on-site project wins include the recently announced Samsung win in South Korea, and there are other Tier 1 fabs in Taiwan, China, and Singapore as well. In fact, this is a market where I expect the most project backlog opportunities in 2021 and as we are, of course, pursuing actively a large number of projects. That should result in an addition of wins being announced this year itself. Overall, the resilient end markets provide a healthy foundation for future growth while offering downside protection, as evidenced by our financial performance during 2020.

Then we move on to the bottom half of the slide, slide 4. That shows the cyclical markets. Some of those you can see I denoted in yellow, since they were negatively affected by the economic downturn, especially in Americas and EMEA. While many of these markets are underpinned by fixed fee payments, such as on-site contracts and metals and chemicals; on cylinder rental payments and manufacturing, the gas volumes are, however, exposed to industrial growth trends. Of course, this is also the part of our portfolio that will see the most leverage through recovery in the economy.
Metals and glass represents about 13% of our sales. Carbon steel production has been increasing in China, but of course a lot more volatile in developed markets like Europe and the US, especially when those mills are linked to auto production. However, quarter four saw some of the highest in 2020 due to catch-up demand after pandemic production shutdowns and, of course, a depletion of inventory in steel mills as well as end customers.

We're also seeing some recent trends in the space, including the efforts to decarbonize steel production, such as the use of oxyfuel combustion to reduce emissions and improve energy efficiency. We also see recovery in flat steel from a rebound in auto production. Of course, if we see any significant infrastructure stimulus spending, the metals industry will definitely benefit. We, of course, continue to have confidence in our portfolio of high-quality customer assets which have successfully navigated economic headwinds for many decades.

Moving on to chemicals and refining, that represents 19% of our sales globally and is well-balanced across the different segments. Now, similar to metals, we have focused efforts on partnering with high-quality assets and therefore our customers are some of the lowest cost producers in the world. Production activity for 2020 ended below pre-pandemic levels. But so far, this year, we have seen refining capacity utilization trend up to low-80s in the US.

The Gulf Coast refining system is a well-integrated and still has some of the lowest cost feedstock in the world. Our current chemicals and refining backlog of projects are with leading global companies and protected with strong contractual terms.

We recently announced and we signed a new project with Wanhua in Hungary, and of course, continue to explore new opportunities as our customers work to reduce their carbon footprint. A good example of this is the increasing trends in biofuel production requiring additional hydrogen for hydrotreating and hydroprocessing. So, while 2020 represented a challenging year for these customers, we see upside potential heading into 2021.

Let me move on to manufacturing, which at 19% contains a variety of end markets including aviation, automotive, pulp and paper, and general manufacturing, but also some growth markets like commercial space flight. Now, overall trends have been down due to weaker general manufacturing, as many small to medium-size manufacturing customers had to shut down operations for extended periods. And while aviation has decreased with overall travel industry, we continue to see strong growth in commercial space flight, albeit off a very small base.

In addition, we've seen pulp and paper customers add more capacity to serve consumer retail demand, which has enabled more small on-site oxygen plant wins. That's especially true in Latin America and Northern Europe. But for most part, manufacturing end markets correlates with industrial production and, thus, would be expected to move up or down with those trends.

For the overall gases business, we have a good balance of both resilient and cyclical end markets. 2020 has already demonstrated the downside protection and stability in our business. And while we remain somewhat cautious in our outlook, we are well-positioned to leverage any recovery in 2021.

Let me move on to Engineering. Our Engineering segment represents approximately 10% of our consolidated sales. It's a longer cycle business, so quarterly trends don't quite provide the full story. The last year was a culmination of a multiyear growth trend for order intake. Most of that primarily related to gas processing and petrochemical expansions. So, for 2021, we estimate a net decrease in the sale of equipment backlog from a lower capital cycle spend. However, as clean energy projects continue to develop, I expect these to steadily become a larger part of the Engineering portfolio.
Irrespective of the near-term outlook, we have a high degree of confidence in the sustainability of long-term margins and cash generation in this business, driven by captive sale of gas opportunities, unrivaled technology portfolio and focus on higher-quality engineering and services.

So, let me wrap up by sharing some of my priorities for 2021. On safety and compliance, which is always first in Linde, we must maintain a best-in-class performance and a culture with continuous improvement across all our KPIs. For sustainability, we must further progress in the goals we set last year. In particular, our focus will be on the reduction of our greenhouse gas emissions and density, and of course, increasing gender diversity.

Price and cost management is a hallmark of Linde. We will build upon the current best practices on pricing and productivity, while also remaining laser-focused on cash management. We will also remain quite nimble adjusting each local business to its environment for optimal results, yet always remaining prepared to capture any growth opportunities that fit our investment criteria.

I'm sure you've heard Steve say in the past, ROC is a truth serum for any capital-intensive industry, and I truly believe that. We've instilled a culture at Linde where capital isn't free, where we have to be good stewards of shareholder capital. And to do so, we need to continuously optimize our base CapEx, while also pursuing all good investment opportunities. That means projects, acquisitions and decaps as well.

Our approach to growth remains disciplined. We will pursue all growth opportunities that meet our investment criteria, double-digit, unlevered, after-tax IRR, with reputable customers who have competitive assets and in regions where we have confidence we can enforce our contracts. For such opportunities that we target, I am confident we will win more than our fair share. As we continue to improve the numerator, the after-tax operating profit and maintain the long-term and disciplined approach to investing, I expect to see our ROC continue to grow.

With that, I'd now hand over to Matt who will take you through the financial results and guidance. Matt?

Matthew J. White
Executive Vice President & Chief Financial Officer, Linde Plc

Thanks, Sanjiv. Please turn to slide 5 for an overview of fourth quarter results. Sales of $7.3 billion were 3% above last year and 6% higher sequentially. Year-over-year, gas volume trends have started to stabilize with an increase of 1% from 2019. This is driven by contribution from the project backlog, as most of our customers have started up as anticipated. Organic volumes were stable with prior year, as increases from electronics and healthcare were mostly offset by slight declines in manufacturing and refining. Sequentially, volumes increased across all geographic segments and most end markets.

The Engineering business drove a 1% decrease in sales from prior year. As you know, this is a longer cycle business, so quarterly trends are less indicative of overall conditions. Currently, projects are being completed faster than order intake, thus resulting in a slightly lower backlog of $4.7 billion, which is about 1.5 to 2 times annualized sales. Despite the lower fourth quarter sales, the team improved EBIT margin 110 basis points and ended the full year with margins above 15%. Looking ahead, we expect Engineering EBIT margins to average low-double-digit percent throughout the cycle.

Pricing remains healthy at 2%, as most business units are keeping up with local inflation. Proper contract management is an integral part of our operating model and therefore provides long-term confidence in the ability to maintain positive pricing in any environment. Foreign currency was a 2% tailwind as the US dollar weakened
against most currencies in APAC and EMEA, although the Americas still has a headwind due to weaker Latin American currencies.

The combination of stable volumes, higher pricing, and strong productivity and cost management resulted in operating profit of $1.6 billion, which is 20% above last year. The 22.2% margin is 320 basis points above 2019 and represents our sixth consecutive quarter of expanding operating margins more than 200 basis points.

Earnings per share of $2.30 increased 22% from prior year and 7% sequentially. The incremental growth rate versus operating profit is primarily due to the lower share count. Operating cash flow of $2.4 billion was our highest quarter yet, ending at 12% above last year and 29% above the third quarter. In fact, it represents another quarter where the operating cash flow to EBITDA ratio exceeded 100%. We had a strong finish in working capital, especially in the Engineering segment, but I'll speak more to that on the next slide.

CapEx of $1 billion was 1% above last year and 30% higher sequentially. As a reminder, project CapEx represents opportunities over $5 million in spend with returns supported by long-term contracts. These projects often take three or more years to build, so spending patterns fluctuate from construction and delivery timing. Therefore, a better indicator is the sale of gas project backlog which stands at $3.6 billion, similar to the third quarter.

Base CapEx has increased from both periods, primarily due to quality growth investments that meet our return criteria, but not all requirements to be included in the project backlog. Example investments include small on-site, specialty gas plants, hydrogen mobility and expanding medical gas capacity.

Ultimately, all capital decisions roll up to ROC, which continues to trend in the right direction with Q4 ending at 13.4%. You can see a continual improvement from substantial earnings growth on a stable capital base. As Sanjiv mentioned, we as management are stewards of shareholder capital. So this metric is the best way to define long-term success in deploying that capital.

To build off that, I'd like to spend some time reviewing the full-year 2020 capital management on slide 6. As you can see on the left side, full-year operating cash increased 21%. This was driven by a combination of higher earnings, lower merger costs and better working capital management. Cash from operations grew steadily over the two-year period despite the challenges related to the pandemic, including the second and third quarters of 2020.

The right side represents how that capital was deployed. Linde has a stable and predictable cash allocation approach irrespective of any short-term disruptions around the world. The underlying mandate is an A credit rating with a growing dividend each year. In fact, just two weeks ago, we announced a 10% dividend increase for 2021 to mark our 28th consecutive year of increasing dividends.

Our capital priority is to invest back into the business. It can be for projects, decaps or acquisitions. We view them equally under our consistent investment criteria. All growth must meet a proper risk/reward balance because mistakes in this industry can result in long-term losses that exceed the initial investment. During 2020, $3.5 billion met our investment standards and I expect this number to increase over time.

Finally, any excess cash left over after dividends and investments is used for stock repurchases, and you can see that number was $2.4 billion for 2020. We recently approved a new $5 billion stock repurchase program, which further validates our confidence in the ability to generate significant excess cash flow.
The path to long-term compound value generation requires annual growth of earnings and cash flow with a consistent, disciplined capital deployment model for both the good and challenging years. Furthermore, building local density in diverse end markets provides Linde downside protection with significant leverage to growth cycles. 2020 validated the resilience of this model in a tough year, and we look forward to demonstrating how we can perform in a recovery.

I'll now wrap up with guidance, which you can find on slide 7. Initial EPS outlook for full-year 2021 is $9.10 to $9.30. This represents an 11% to 13% growth rate with an estimated 1% FX tailwind. Excluding FX, the 10% to 12% range assumes minimal economic benefit at the bottom end and a low-single-digit economic growth at the top end. In other words, and consistent with prior statements, we have confidence we can grow EPS double-digit percent with minimal help from the economy.

And while we don’t provide revenue guidance, I do want to mention for modeling purposes that, effective January 1, we have deconsolidated a 50% joint venture in the APAC segment. Our ownership and economic interests remain the same. However, we had some incremental shareholder rights that expired in December, which both parties agreed not to renew.

The effect of this deconsolidation will be shown as a divestiture and will reduce annualized sales approximately $600 million at average OP margins. Note, this change will not affect EPS due to the proportional increase in equity income. Stated simply, this is merely an accounting change that will not impact our economic benefits.

Turning to the first quarter, we are providing EPS guidance of $2.20 to $2.25, or 16% to 19% growth rate, including an assumed 2% FX tailwind. This range assumes a normal seasonal decline from the fourth quarter, including Chinese New Year and Brazilian Carnival. At this point, we are not assuming any meaningful improvement in sequential volumes from Q4. And while we started 2021 with a stronger January than anticipated, we're not in a position to update guidance at this time.

Consistent with prior quarters, we believe it's prudent to remain cautious on the outlook as the pandemic evolves. But rest assured, if there is any economic upside, we will capture more than our fair share as demonstrated by the second half of 2020. And if the economy does improve more than our baseline assumptions, we will likely be at the upper end or above this guidance range.

I'll now like to turn the call over to Q&A.
QUESTION AND ANSWER SECTION

**Operator:** Thank you. [Operator Instructions] And our first question comes from Bob Koort from Goldman Sachs. Your line is open.

Robert Koort  
*Analyst, Goldman Sachs & Co. LLC*

Thank you very much. Good morning.

Stephen F. Angel  
*Chief Executive Officer & Director, Linde Plc*

Good morning.

Robert Koort  
*Analyst, Goldman Sachs & Co. LLC*

I wanted to ask a bit about the forward-looking to 2021 in context of, obviously, did a tremendous job in 2020 on a cost basis. I think your operating profits expanded over $500 million in your sales are actually down almost $1 billion. So you had – you broke the calculator on the incremental margins.

How should we think about it going into 2021 and what might underlie that earnings output that you guided us towards in terms of a sales evolution relative to an EBIT evolution and our operating profit? And do you see some of the expenses that maybe were diminished in 2020 rolling back in, in 2021, as the world moves towards a more normal business operating condition?

Stephen F. Angel  
*Chief Executive Officer & Director, Linde Plc*

Okay. Thanks, Bob. This is Steve. Thanks for the question. First of all, I need to give a shout-out to my daughter today. It's her 30th birthday. So, happy birthday, Logan. She only cares about the share price, by the way. She won't be listening in.

So, Bob, as we think about continuing to expand margins, obviously, that's in our sights. That's built into our plans. We're giving clear guidance on double-digit earnings growth. And as Matt described, even at the low end, there's no real volume expectation. And at the higher end, there's low-single-digit volume expectation.

So, obviously, we're going to lever up the EBIT quite a bit off of a pretty small volume assumption and then we will lever that further through share buybacks. And I didn't really go back and calculate the number, but clearly it's going to be another significant move. That's the plan in terms of EBIT margin expansion.

And I think as Matt probably said a couple of times, we don't really know what's going to happen this year. I mean we are looking at January, obviously, and the results are pretty encouraging. One month doesn't make a quarter and one month certainly doesn't make a year. So we certainly have to be a little more cautious in terms of what could happen in the second half of the year.
Matthew J. White  
*Executive Vice President & Chief Financial Officer, Linde Plc*

Yeah. And, Bob, this is Matt. I'll just add one thing to that as well. I mean, long range, we look at the equation of price productivity cost inflation to be an accretive component to how we think about our earnings and our margins on a go-forward basis. So, this is beyond the merger. This is beyond anything like that. We don't anticipate temporary cost savings that pop back or anything to that extent, as we've discussed in prior calls.

So we see it as a compound value opportunity, as Steve mentioned, and this doesn't assume much volume help at all at this stage on the organic. Obviously, we'll have our backlog volume and then we'll just have to see what happens to the economy. We'll take it quarter-by-quarter and we'll keep giving updates as they occur. But January was better than what we expected and we'll just have to see how it plays out in the next two months, and we'll give you another update come our next call.

Robert Koort  
*Analyst, Goldman Sachs & Co. LLC*

And can I ask a hydrogen question? You're building the PEM electrolyzer in Leuna, and I assume some of that gets shoved into your pipeline network. How do you distinguish sales prices for green versus mingled hydrogen through that pipeline into your customer base?

Stephen F. Angel  
*Chief Executive Officer & Director, Linde Plc*

Well, I mean we, obviously, think coming off the electrolyzer that volume that we're selling through the pipeline system to some existing chemical customers, I mean, we can identify those molecules, that's not a problem. It's clearly at a premium, a substantial premium.

And just while you're on that point talking about this project, this is kind of the quintessential industrial gas supply project where we have multiple modes of supply in one targeted geography, which is in Leuna. So we have gas molecules going down the pipeline as we just discussed. We have gas molecules that will be going into tube trailers to supply train stations, to supply buses. We're liquefying some of those molecules to distribute to trucking and general industry.

So it really is a typical integrated supply system. It just happens to be around green hydrogen this time. And it's in a location where we already have a strong presence, to your point.

Robert Koort  
*Analyst, Goldman Sachs & Co. LLC*

Terrific. Thanks, guys.

Nicola Tang  
*Analyst, Exane BNP Paribas*

Hi, everyone. Thanks for taking my questions. I wanted to ask a little bit about the backlog. I think back in Q3 you were citing that actually the backlog might decline through 2021 just related to capital cycle corrections. But you actually sound quite upbeat today thinking about the opportunities. And if I look at your CapEx guide for 2021, it
looks kind of flat versus 2020. So I was wondering if you're actually seeing better project activity than you initially expected or are you setting up the base CapExperhaps.

And then, within the double-digit EPS guide, could you kind of give us a scale, so how much is driven by new project startups? And then sort of tagged onto this, if I can squeeze it in, on electronics, again, it sounds like you're pretty upbeat there in terms of opportunities. Can I ask whether the sort of current situation with the semiconductor bottlenecks is impacting you in any way with the plus 8% growth in the quarter and also whether you think that this could drive an acceleration in the investments going forward? Thanks.

Stephen F. Angel  
Chief Executive Officer & Director, Linde Plc

Okay. So, backlog contribution, 2% is kind of, I think, the right number you should use, kind of 2% on the top, 2% on the bottom. That's really kind of been our ongoing rate. We have a fairly strong CapEx lineup of start-ups in 2021. Of course, it's during different times a year, so you don't get all the contributions in 2021. They tend to roll over.

It's always difficult to talk about what you think a year-end backlog number is going to be because it's really a function of – you know what you've got in front of you that you're going to book. And I have certainly alluded to a very large project that we're looking forward to telling you more about in the not too distant future. But what happens during the remainder of the year is kind of a function of, I'd say, the pace of clean energy projects, maybe the pace of other electronics projects.

If demand comes back, that generally provides projects for – we see more project activity more of our traditional industries like petrochemical and metals. But that kind of – we have to kind of wait and see. There's not much going on, obviously, in that latter category at this point. It's more around electronics and clean energy.

So the CapEx spend is pretty consistent. Again, it doesn't move that much unless the backlog really starts to drop year-over-year-over-year. Then you'd see that large project spend continue to drop. The base CapEx is more consistent. There's lots of little growth opportunities inside of that. I said 33 or 36 small on-site that we booked in 2020. We have a very strong focus on that. We like those projects. There's good opportunities in some of these markets that Sanjiv alluded to that we'll spend some CapEx against to capitalize on that growth.

So, yes, I do think semiconductors will continue to be a very strong opportunity. Sanjiv talked about that in his comments as well. It's how we work today virtually. It's the Internet of Things. It's chips that are going to go on everything, especially in automobiles. So, semiconductor opportunity is going to be very strong. We've been talking about this for two years. We're well-positioned in places like South Korea, Taiwan and China, which is really kind of the axis of where all the semiconductor fabs had been built. There is some new activity. Obviously, the US is trying to go more prime in terms of having domestic semiconductor fabrication.

Nicola Tang  
Analyst, Exane BNP Paribas

Okay. Thank you. And happy birthday, Logan.

Stephen F. Angel  
Chief Executive Officer & Director, Linde Plc

Thank you.
Operator: Thank you. Our next question comes from David Begleiter from Deutsche Bank. Your line is open.

David I. Begleiter
Analyst, Deutsche Bank Securities, Inc.

Thank you. Good morning. Steve, can you just tell us how your refining and helium businesses have improved from the lows of the pandemic?

Stephen F. Angel
Chief Executive Officer & Director, Linde Plc

Well, I think with respect to helium, I mean, it's down year-over-year. We did see some sequential improvement from Q3 to Q4. We'll kind of have to wait and see what happens this time in coming out of January and during the quarter. But if you kind of look at some of the elements of that, there's a significant piece that's electronics, obviously, that's going to do well.

I think the industrial volumes will kind of move as the industry recovers. Balloons are clearly down, have been down, will continue to be down, and I don't have to explain why. And then there's a piece of it for us that's also tied to MRI that looks kind of stable to maybe slightly up. So it looks to me like there's going to be sequential improvement, not at a rapid pace, but certainly sequential improvement on volumes going forward.

I would say in terms of refinery volumes, and what I look at is hydrogen, clearly in Q4 we were down something like 7% or so year-over-year, so up a little bit from Q3. And starting off in January, I'm looking at like January versus December and I'm seeing plus 8% kind of numbers on volume. So they are starting to improve. I think you know what the drivers are behind their end markets. Clearly, jet fuel is very weak still; diesel had been strong; gasoline is weaker.

And what one would have to expect is, as you get deeper into the year and COVID gets behind us particularly in places like the US, that you would see hydrogen volumes improve and should improve considerably. We also have some new project start-ups that will augment that. And then, if you get into like liquid hydrogen volumes, which aren't necessarily tied to refining but some piece might go into biofuels, that's on a pretty positive trend itself.

So, that's kind of the status of our volume to the refining industry, still down year-over-year but starting to see some improvement. I would expect that to improve – could improve quite a bit in the back half of the year.

David I. Begleiter
Analyst, Deutsche Bank Securities, Inc.

Very good. And just lastly, on share buybacks, you announced a new $5 billion program last month. How should we think about the level of buybacks in 2021?

Matthew J. White
Executive Vice President & Chief Financial Officer, Linde Plc

David, yeah. This is Matt. I can answer that. So, as you saw, we did $2.4 billion net in 2020. And so, we're going to continue to sweep the excess cash that we have and we'll be buying back. Our expectation is we'll be in the market every day. And then, where we see opportunities, we may go heavier. That's kind of how we normally play that out.
But the $5 billion program, we had to put an expiration date on it as required for Europe. So we just put something out there in kind of July of 2023. But we'll continue to execute and use our excess cash, and we'll be in the market daily.

David I. Begleiter  
*Analyst, Deutsche Bank Securities, Inc.*

Thank you.

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**Operator:** Thank you. Our next question comes from Peter Clark from Société Générale. Your line is open.

Peter Clark  
*Analyst, Société Générale SA (UK)*

Yes. Good afternoon, everyone. [indiscernible] (44:52). Well done. Just a quick question for you, St eve, to begin with. On the return on capital, and you say obviously the most important metric, you're up I think over 300 basis points now at 13.4%. If I go back 10 years ago, Praxair hit the peak at 14.7%. Any reason with the platform you have now with Linde plc why we can't see that continue to go up to that sort of level?

And then following on from that, very interesting announcement with Afrox, where obviously you've delisted, you're talking about the opportunities here. I know it's relatively small in the context of Linde plc, but the operating margin may look sort of mid-teens level for a clear leader in the market. Just wondering your thoughts within the context of what you do on efficiency and productivity for what – sort of an example of what you can do in a business like that. Thank you.

Stephen F. Angel  
*Chief Executive Officer & Director, Linde Plc*

Yeah. Sure, Peter. Thanks for the questions. Yes, you are correct. I remember those numbers as well as you do. I didn't have to go look at them to know what we at Praxair once operated, which was pushing 15%. I don't see the reason why this business can't do that as well. Continue to grow earnings kind of in double-digit range. That, obviously, does a lot to drive the top line and being very efficient in terms of how we allocate capital below the line. And we continue to get a little better at that all the time, continuing to invest in good return projects. Again, I see no – I'm not going to call – somebody told me a long time ago, you give them a number or a date, but don't give them a number and a date. So, that goes back to my GE days.

But I don't know when, what year that's going to be, but that's something that's clearly in our sights. And 30% of our long-term incentive is tied to return on capital. So, it has the highest weighting in our LTI. So, I'm not the only one that thinks that's an important metric. I think we have thousands of people. I see Sanjiv smiling that we all know it's the same.

Afrox is just – is an example of our view in terms of portfolio optimization. I don't like joint ventures, normally speaking, I think especially for traditional industrial gas businesses. And this was a case – this company had a public float. So, you could imagine the distractions that go with having a small business in a country like that with a public float. And so by essentially eliminating the public float, buying all of those shares and being able to run that country just like any other country that we operate around the globe, we can focus on all the things that we know are important, which is making that business better every day, price management, efficiency, and there's quite a bit of opportunity, and continue to grow cash flow, being very prudent with capital, working capital, safety, compliance. It's the same list for every country.
So I'm pretty confident that we're going to see a pretty nice step up in that case. But there are other examples of that too that clearly is on our target list of places that we want to, I'll say, seize and control, so we could run them the way we think they should be run.

Peter Clark  
*Analyst, Société Générale SA (UK)*

Got it. Thank you.

Operator: Thank you. Our next question comes from Jeff Zekauskas from JPMorgan. Your line is open.

Jeffrey J. Zekauskas  
*Analyst, JPMorgan Securities LLC*

Thanks very much. Your cost of goods sold was down year-over-year in the fourth quarter and your revenues were up, I don't know, a couple of hundred million. Can you explain that? And secondly, when you look across your divisions, which is the division, which is the geographic area with the most margin opportunity from here going forward?

Stephen F. Angel  
*Chief Executive Officer & Director, Linde Plc*

All of them. I'm going to – I think Asia certainly has some opportunities. I know Sanjiv would agree with that. He made a lot of progress in a very short period of time, but he would see more going forward.

I think, in EMEA, I mean, certainly a 25% EBIT, you'd probably surprise some people with the quality of that performance. But we have more work to do there. And we've really kind of just been getting into running EMEA the way that we know an industrial gas company should be run. They've made excellent strides and I'm very proud of everything they've done there on price management, on efficiencies, but there's more continuous improvement that can take place there and they know that too.

So, maybe Asia and EMEA may have a little more opportunity than the Americas. But no one gets a pass. No one gets a clear victory. And we think there's opportunity everywhere. And just like I said, Afrox, there's a bunch of those scattered around that we can continue to improve.

Matthew J. White  
*Executive Vice President & Chief Financial Officer, Linde Plc*

David – or sorry, Jeff, this is Matt. I can try and help on the COGS one. I mean, it's going to be a couple of things as you can imagine. Clearly, with the synergies – while the fixed costs we were able to get at early in most regions, the variable costs tend to take a little more program. Sometimes they take some capital. And as we've been evolving on that, we've got a better stride there.

Also, as you know, the Engineering business, it runs most things through COGS. And they had a margin expansion. They were running better through some of their absorption. As they were more efficient on how they executed projects and completed projects, that would also have an effect on that given they run through inventory and COGS on a percent completion.

So, a little bit of mix, but also a lot of the effort around the world to just improve the efficiencies across our whole costs stack, not just fixed costs but variable costs as well. So this is an area that we're going to continue to focus on and it's part of our productivity programs which is part of our DNA.
Jeffrey J. Zekauskas  
*Analyst, JPMorgan Securities LLC*

Okay. Great. Thank you so much.

**Operator:** Thank you. Our next question comes from Duffy Fischer from Barclays. Your line is open.

Duffy Fischer  
*Analyst, Barclays Capital, Inc.*

Yes. Good morning, guys, and congrats on a good quarter. First question is just around the healthcare business. Obviously, last year was very volatile within healthcare, a lot of COVID stuff with a lot of other stuff that didn't happen in hospitals. So I was wondering if you could just walk us through what was the impact of healthcare on the volume/price numbers for the Americas and for Europe where it's sizable.

And then just to follow on, when COVID finally gets put back in the bottle, is there going to be a speed bump there where things are going to decline for a little bit before they can start growing again?

Stephen F. Angel  
*Chief Executive Officer & Director, Linde Plc*

Well, while Matt is looking up that number, I'll kind of give some – he has it, but I'd just give some commentary on that. Clearly, we had to ramp up a lot of healthcare capabilities around the world to fight COVID. Unfortunately, that's not going to be behind us for a while. I think we can see – you can look at the pace of vaccinations and the advance of these new variants, and I think it's very possible that these variants are going to outpace the world's ability to vaccinate the population and therefore they're going to be consuming a lot of oxygen well into 2021. And we might be talking about this again in this time in 2022. So I don't think this is going away anytime soon.

You correctly pointed out that while we're providing more oxygen to fight COVID, that there are people that are not having elective surgeries. They didn't go into hospitals. Hospitals are focused, obviously, on fighting this primary virus. And so, there's not as much oxygen that's being sold for more of the elective type or more of the non – more of the traditional types of activities.

I think post-COVID, obviously, the latter will come back. I do think that our businesses like Lincare have clearly demonstrated to the government and large managed care operators how important it is to have a very strong, capable, with wide breadth of capabilities services, nurses, clinicians, the whole works that can step in and be a very strong second line of defense for hospitals.

And so I think in terms of pandemic preparedness going forward, I think we're in a new world now with respect to our relationship with the government. I feel very confident about that. And so I think that's going to be a positive. So, that's I guess a silver lining, if you will, of this COVID. It gave us a chance to demonstrate what we could do on a home care basis, not just a broad hospital basis.

But it might be this time next year before we're really talking about a world after COVID. And, of course, as oxygen subsides maybe to fight specifically COVID, then the manufacturing side of the business, the industrial side of the business, there will be more volumes going that way. I mean, I can talk about oxygen being up quite a bit. I can also look at argon still being down quite a bit because manufacturing has not come back yet. And so there are tradeoffs obviously.
Duffy Fischer  
*Analyst, Barclays Capital, Inc.*

Great. Thanks. And then maybe just one on cash flow. So, Matt, you hit on a lot of it but EBITDA up $500 million roughly in the year, op cash up $1.3 billion. How should we think about the ratio of op cash to EBITDA going forward?

Matthew J. White  
*Executive Vice President & Chief Financial Officer, Linde Plc*

Duffy, yeah, I can answer that. So we've said low-80s. Obviously, we've been doing better than that. We finished mid-80s here this year. We still did have in 2020 roughly $0.25 billion of cash related to merger outflows. As you recall, about a year ago, we said we expect that number to kind of decline down to about $200 million, $250 million. So I think we were pretty close on that. Looking into 2021, maybe it'll be $100 million to $200 million and it'll start to just phase out by the end of next year – or end of this year 2021.

So, I still am gunning for low-80s and we, obviously, internally want to do better than that. And we'd like to try and maintain these mid-80s where we can. But in the 80 percentiles is where we want to be. And obviously, there's seasonality patterns, as you know, to our cash, so Q4s are higher Q1s tend to be lower. But this is something we look to grind higher and improve on year-in, year-out.

Duffy Fischer  
*Analyst, Barclays Capital, Inc.*

Great. Thanks, guys.

Stephen F. Angel  
*Chief Executive Officer & Director, Linde Plc*

Thanks.

Operator: Thank you. Our next question comes from Vincent Andrews from Morgan Stanley. Your line is open.

Vincent Stephen Andrews  
*Analyst, Morgan Stanley & Co. LLC*

Thank you and good morning, everyone. Maybe just to start off with – you mentioned – or Sanjiv mentioned the renewable diesel opportunity. I think that's what you're speaking about when you speak about biofuels. How do you think about that? I presume that's more of a merchant opportunity than an on-site opportunity. But I'm just thinking about that business being very reliant on government subsidies. So, how do you think about servicing that industry and customer base?

Sanjiv Lamba  
*Executive Vice President & Chief Operating Officer, Linde Plc*

Thanks, Vince. So, let me kind of just elaborate on the point I made earlier on, which is we see a developing opportunity around the biofuels. We see both – some regulatory pressures there, which is kind of driving the demand. And therefore, we see interest in kind of growing that piece. Now, we don't see that as a merchant opportunity. We see that as an on-site opportunity. The hydrogen requirements are reasonably substantial. We're looking at a number of projects at the moment where we are working with folks who are looking at developing that further.
So we see that interest in the market. We see the demand coming through. We see the interests driven from a couple of different governments who are kind of providing some sponsorship for that, governmental agencies that are providing sponsorship for that in the US in particular. And we see that as an area where more hydrogen is needed because the process itself requires greater hydronprocessing and hydrotreating.

Vincent Stephen Andrews  
**Analyst, Morgan Stanley & Co. LLC**

Okay. And as a follow-up, could we just get an update on the trends in hardgoods versus packaged gas sales in the US?

Stephen F. Angel  
**Chief Executive Officer & Director, Linde Plc**

Yes. I'll take that. If we look at the fourth quarter, it's flat to probably slightly up year-over-year on packaged gases in the US. And so, we kind of got back to normal gas and little stronger than hardgoods in Q4. As I look at January coming out of the blocks, the trend is stronger. So, gases looks in pretty good shape and hardgoods is still slightly negative at this point, but gases looks stronger than what I saw in Q4.

So, what drives that? Agriculture is doing well. Automotives have been strong. Apparently, a lot of people are buying recreational vehicles. Maybe some of you on the phone are buying them, too. And specialty gases continues to be strong.

Vincent Stephen Andrews  
**Analyst, Morgan Stanley & Co. LLC**

Okay. Thanks very much.

Operator: Thank you. Our next question comes from Steve Byrne from Bank of America. Your line is open.

Steve Byrne  
**Analyst, BofA Securities, Inc.**

Yes. Thank you. I got to believe that you're among the largest electricity consumers in the regions that you operate in. And I suspect it gives you significant negotiating power for rates. In one of your slides, you mentioned more than a third of the energy is low carbon. Can you comment on the pricing that you're getting on that versus carbon-based energy sources?

And maybe more broadly, do you see this as giving you an advantage in green hydrogen? Like, for example, this 24-megawatt electrolyzer that you're going to build in Leuna, Germany, I can only imagine the contract that you're going to get on the power or the electricity just to drive that electrolyzer has to be significantly different than if ITM were bidding on that job on their own.

Stephen F. Angel  
**Chief Executive Officer & Director, Linde Plc**

Yes. I think that's a good point. In that project specifically, there's two ways you can buy power. You can buy it off the grid. You can use your green certificates as part of – this is all part of their renewable energy directive, something like that. I don't remember the name exactly. And then also we can negotiate directly with the utilities, which we have been doing. I feel very confident with where we're going to come out.
The way we think about renewable energy, obviously, we are a large user, which gives us some advantages. And being able to combine that to make green hydrogen or make green hydrogen by using renewable power source in terms of just what you can get off the grid through electrolysis, I think, is important to being able to produce and sell 100% carbon-free hydrogen.

The pricing that we see, I mean, we have a fairly sophisticated group of people because, again, we buy a lot – we buy – I think it's $3 billion last year of power around the world. So we buy a lot of power. We're pretty sophisticated in terms of how we negotiate contracts. What I've seen, it's been on par with what we would normally get. And so, we're not looking to sacrifice economics to claim we have a higher percent renewable. We want to accomplish both.

And I think we're up to 37% renewable now. I think we were at 34% or so, 33%, maybe a couple of year ago. So, we're making some progress. The goal was to double the original number. And if I remember right, that's like going from $1 billion of renewable power purchases to about $2 billion. So it is something that we're focused on here. And it's obviously – if the ultimate goal is to be carbon-neutral by some date, then obviously by either proactively contracting renewable power or just countries naturally greening their grids, it's going to be an important part of how we ultimately get there.

Steve Byrne
Analyst, BofA Securities, Inc.

And Steve, you're a couple years into this merger. You mentioned productivity as a margin driver in all three segments. Where would you say you are and what inning are you in, in this vision that you had about where this merger could get in terms of the structure and to improve the productivity of the merged entity? Where would you say you are at in that process?

Sanjiv Lamba
Executive Vice President & Chief Operating Officer, Linde Plc

Yeah. Steve, I'm going to jump in here. This is Sanjiv. Just to give you a quick flavor of that, and I'm going to try and cover that from two different aspects. So I think Steve and I spend a lot of time talking about this. This is something that we see deeply embedded in our businesses. I've described this previously on previous conversations we've had in the earnings calls, saying, I see the fact that we've got productivity entrenched in the business at a level where we've got to generate in different countries hundreds of projects to make sure that they are actually delivering on a continuous basis. And I think you've heard Steve say this before, every day we look at our businesses, we kind of figure out how we can be better than we were yesterday.

So, it is a continuous program. It's something that's deeply entrenched in the business. It's something that's embedded in the DNA of people who work in our business and we look at it every day. It isn't a program that we run; it's something that we live and breathe. So, that's kind of the cultural aspect of productivity, if you like. And I mean, I can ask Steve later on, but I feel that he agrees with my view that we've made substantial progress in this journey. This was new to half the organization, if you will, but the way they've embraced it and kind of moved forward with it has been very, very encouraging.

I want to give you a different slant on productivity as well. One of the things that we drive at is sustainable productivity, productivity that helps in our sustainability targets and ensuring that we're contributing to those goals that we set up. And we do that through making sure we've got sustainability initiatives, again, within the business on efficiency, on energy management, on managing emissions, etcetera, all of which actually contribute not just to the bottom line, which is very important for me, but also impact to the sustainability goals that we've set up as well.
And again, I'd say there's a lot more work to be done, but we are really off to a great start in that space. So, as I see it, I think we are well on our way on this journey. Obviously, we can see a lot of benefit ahead of us if we continue to keep the pace and momentum on this.

Stephen F. Angel  
*Chief Executive Officer & Director, Linde Plc*

Just one more point to add to that, Sanjiv. You’ve covered it beautifully. If you go back and look at, again, Praxair’s history, if you go back and look at that 25-year history, we grew earnings per share double digits over that 25-year time span. And that’s through recessions, that’s through weak growth periods, that’s through energy crisis, commodity bust, I mean you name all of that. And we were able to do it not because volume was just tremendously strong for 25 years; it was a factor, but clearly good price management and strong productivity.

And that’s – so, we have a track record of knowing how to do this. And the fact that we now have a much larger organization that hasn’t been at it quite so long, I think, is very encouraging. I am very pleased and very proud of what really the whole organization has done in terms of grabbing on to productivity. But it's not a 3-year, 5-year, 10-year, 25-year thing. It's something that you'd do for the rest of your life.

Steve Byrne  
*Analyst, BofA Securities, Inc.*

Thank you.

Operator: Thank you. Our next question comes from P.J. Juvekar from Citi. Your line is open.

P.J. Juvekar  
*Analyst, Citigroup Global Markets, Inc.*

Yes. Thank you. Steve, on these calls, you said before that green hydrogen costs are high and they need to come down by 50% to be competitive. Your 24-megawatt sort of green hydrogen project in Leuna, what is the sensitivity of that project to price of green hydrogen which is likely to fall in the coming years, and how do you plan for that – for a project like that?

Stephen F. Angel  
*Chief Executive Officer & Director, Linde Plc*

Well, obviously, this project met our return criteria. I mean, the costs are higher. Why? Because renewable power costs are still relatively high around the world. They need to come down as we scale up. So I'm kind of looking at, as you get into bigger projects, so that's a factor.

This is a relatively large PEM. As I said, it's the largest one announced, 24 megawatts. So, this is not where it's going to be 10 years from now in terms of cost. It's at kind of the early days in terms of producing projects of this size. So the CapEx costs are higher. The OpEx costs are higher. So we know costs need to come down both through the whole electrolysis process but also in the renewable power. Renewable power is a significant factor of that. So those costs are going to come down.

We clearly receive subsidies in this project. In fact, most of these projects, we do receive subsidies. So, that clearly helps with these projects and that's probably important till the costs do come down, so that green hydrogen can be competitive, I'd say, on its own with gray hydrogen. Though there's always going to be some gap, but I
think closing that gap is very important. And obviously, a carbon price, as it's assigned to carbon molecules in the future, will help do that.

But this project works. Obviously, we have negotiations that have been completed before we ever made the announcement. So we know that the prices work. But there certainly are sensitivities around the market price on the non-contracted piece, like there would be with any merchant liquid business. And there are sensitivities around the input side on renewable power. And we took very conservative assumptions going into this thinking that we probably were going to end up with a better deal that would help us when we finally conclude the power negotiations.

So, that's how I'd answer that. But you're right I've said 50%, it's probably 60%. It's probably closer to the truth.

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P.J. Juvekar  
Analyst, Citigroup Global Markets, Inc.

Okay. Thank you. And just a quick long-term question on the refining. The writing is on the wall, if you see announcements in California, what GM said recently that diesel and gasoline demand is going to go down by 2030, 2035. So what is the future of the hydrogen business and can those plants be repurposed into making green hydrogen or something else?

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Stephen F. Angel  
Chief Executive Officer & Director, Linde Plc

Yeah. I mean, I think the other answer to your question is, yes, they can be repurposed. And unlike perhaps other industries, you got to keep in mind, they use a lot of hydrogen today, you know that, but it's gray hydrogen. So, dropping in blue hydrogen, which I think would probably be a very good solution for them and even green.

If you look at Texas, there's lots of renewable power. There's, obviously, lots of natural gas. You have depleted oil reservoirs. So I think blue or green can be substituted for gray. I think it'd be very helpful to the refineries if the costs come down to enable that. So, there is some ability to do that. And I think that's going to happen.

I think, longer-term, it's kind of like probably other industries in the past that have been – haven't – they've seen their better growth days perhaps. I'm not the official spokesman on what happens in the refining industry. But what I think is you take a place like the US Gulf Coast, which you have very strong, large scale, very efficient refineries, they can use – you know the story, they can use heavier sweet feedstocks. They're very complex refineries. They can produce the full suite of transportation fuels. They're heavily integrated with the petrochemical industry at large in the US Gulf Coast.

So I happen to think that if people think they're going to turn into a dinosaur, they'll probably be – the last dinosaurs walking around are going to be down in the US Gulf Coast.

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P.J. Juvekar  
Analyst, Citigroup Global Markets, Inc.

Great. Thank you for the color.

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Operator: Thank you. Our next question comes from John McNulty from BMO Capital Markets. Your line is open.
John P. McNulty  
*Analyst, BMO Capital Markets Corp.*

Yeah. Thanks for taking my question. Steve, you had mentioned in, I guess, your opening remarks that you had a couple of projects that it sounded like you were close to closing on the carbon capture side. I guess can you help us to understand if with all the green talk, we've actually reached the tipping point when it comes to carbon capturing? And if so, I guess how are you thinking about seizing the opportunity as you look out, say, over the next three to five years?

Stephen F. Angel  
*Chief Executive Officer & Director, Linde Plc*

I mean, there are several projects we have in our sites that we're close to closing, where we need the CO2 for commercial purposes. So the customer has an incentive with the cost of CO2 emissions going up. They have an incentive to have us capture that carbon and we have a use for it in terms of commercial, whether it's for greenhouses, whether it's to make dry ice, pH control, carbonation of beverages, all of those are our uses of CO2. So we have specific projects which I think certainly help with the economics where you have an end market use for the CO2. We have several projects like that.

We have others that we have worked on or working on with, say, coal-fired utilities that are looking at carbon capture. We, obviously, have solutions around – we have multiple solutions around carbon capture, but it can be post-combustion, it can be pre-combustion. And I think, for some of those to move forward, particularly in a place like the United States, you need a more defined cost of carbon, of CO2. But I think when that happens, and you have to think that this administration is very determined to make that happen, you will see some of these projects move forward.

I don't think it's going to be as large as I look at it today, I could be wrong, as perhaps the straight hydrogen opportunities, but they can be significant too.

John P. McNulty  
*Analyst, BMO Capital Markets Corp.*

Got it. Thanks for the color on that. And then, I guess, just one question on pricing. So, when we look at the trends regionally, it seems like at least the ones that you're reporting, Asia doesn't seem to have quite as robust of a pricing dynamic. And I guess, the question is, is that a function of the business mix that you have, where you have some of these huge electronics applications, where maybe there's not a lot of merchant or packaged product? Or is it really just more competitive dynamic in those regions? I guess, how should we be thinking about that?

Sanjiv Lamba  
*Executive Vice President & Chief Operating Officer, Linde Plc*

So, let me jump in. This is Sanjiv here. Let me kind of give you a little bit of color on that. So the market in Asia-Pacific, as you might imagine, is quite varied. And the largest market in there for us is, obviously, China. So the dynamic around pricing that we see is twofold. One, obviously, we have many large on-site projects. So,
obviously from a portfolio perspective, the opportunity around the merchant side pricing, in fact, that we can fully bring to bear is a little bit more limited than potentially some of the other segments.

But more importantly, I think in a market like China, where we’ve got some significant end-user customers, which is where we focus our efforts and energy on. But at times, we would use the distributor model as well to make sure that we’ve got our plants running at optimal levels. And in 2020, in particular, that became quite important. So, we wanted to make sure that channel was fully utilized. And when you do that, then the pricing impact actually does get moderated down a little bit.

And you’ve seen that happen in 2020. It is an area of focus. And just as I talked about productivity, the other piece I’d say is pricing is an area of focus every day. And the guys in China, in particular, know that we are watching that very carefully. We review that every month at the GBR. And they do have a bit of a tough time around that. So, there is a lot of action happening in the marketplace around that, which hopefully will reflect in the quarters ahead.

John P. McNulty  
Analyst, BMO Capital Markets Corp.

Great. Thanks very much for the color.

Operator: Thank you. And our last question comes from Laurence Alexander from Jefferies. Your line is open.

Laurence Alexander  
Analyst, Jefferies LLC

Good morning. I had two questions. One is, what do you see as a reasonable timeline for blending of hydrogen into natural gas pipelines for heating applications becoming material for Linde in Europe or the US?

And secondly, with respect to acquisitions and how you think about the boundaries for the business model, if we think about, like, kind of the forays that you’ve done into adjacencies, specialty gases for healthcare, electronic chemicals, COJET, there's been – where do you see kind of logical extensions of the business model?

I mean, for example, like remote monitoring of industrial boilers or would you ever engage in vertical integrations of total production of ammonia or methanol? Just how do you see the boundary conditions for what you would look at in terms of either acquisitions or flexing the business model a bit?

Stephen F. Angel  
Chief Executive Officer & Director, Linde Plc

Yeah. Well, I think – as I think about that question, Laurence, there are so many uses for our basic core products, CO2, oxygen, our rare gases, all of our products that they become new uses. And we talk about CO2 for greenhouse gases. And of course, you have this little thing called cannabis which is a growing marketplace; dry ice for biopharma, dry ice to carry vaccine – dry ice has been around a long time.

So there we continue to find good uses and applications, new uses and applications in markets that are growing. If you look at commercial space, we’re selling hydrogen, we’re selling oxygen. We are selling nitrogen as rocket propellants, they call it. And what its use depends on the rocket and the platform and the company. We also sell rare gases that are used in, I’ll call it, satellite mobility.
So, a lot of new markets that are developing that consume our basic gases. And as far as – I don't like to stray too far away from, I'll call it, our core knitting. Our business model is pretty good. And we think we are pretty good at executing this business model. So, history has shown us that you never want to lose sight of your strengths, and we won't do that. But, certainly, any opportunity that's developing that we think lends itself to an industrial gas approach, model approach, we'll certainly pursue. We all like growth here and certainly that's not a problem.

So, in terms of acquisitions, I think that you'll be seeing a lot more. We'll be doing a lot in the package gas space. I think we'll do it in the healthcare space. I think those are natural. Decaps kind of come and go. You can look at the same decap for five years and nothing moves forward. So, that's more opportunistic in my mind.

As far as blending hydrogen into natural gas, I mean, that is the clear intention of this partnership that we formed with Snam in Italy, which is the largest natural gas operator in Europe. And they're very committed to blending hydrogen in with their natural gas. I have to go back and look, I think it's probably at the 10% level. But even that, if you did that across the entire world, that's a very significant amount.

There are some limitations because you got to start changing up burner equipment on the other end. Compression, we might change out the compression depending on how high the mix you got with hydrogen and certain kind of metallurgy you have to take a closer look at as hydrogen grows. But it is something that I think is getting closer to fruition.

Laurence Alexander
Analyst, Jefferies LLC

Thank you.

Operator: Thank you. And that does conclude our question-and-answer session for today's conference. I'd now like to turn the call back over to Juan Pelaez for any closing remarks.

Juan Pelaez
Vice President-Investor Relations, Linde Plc

Yeah. Crystal, thank you. And thanks everyone for participating. Have a great rest of your day. And if you need anything else, feel free to reach out. Take care.

Stephen F. Angel
Chief Executive Officer & Director, Linde Plc

Okay.

Operator: Ladies and gentlemen, this concludes today's conference call. Thank you for your participation, and you may now disconnect. Everyone, have a wonderful day.