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Business Update Call
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MANAGEMENT DISCUSSION SECTION

Operator: Good day, ladies and gentlemen, and welcome to the Linde Plc Investor Update Call. At this time, all participants are on a listen-only mode. Later, we will conduct a question-and-answer session and instructions will follow at that time. [Operator Instructions] As a reminder, this conference is being recorded.

I'd now like to turn the call over to Head of Investor Relations, Juan Pelaez. You may begin.

Juan Pelaez  
Director-Investor Relations, Praxair, Inc.

Thanks, Tiffany. Good morning, everyone, and thank you for attending our first investor call as Linde Plc. Once again, this is Juan Pelaez, Head of Investor Relations and I’m joined this morning by Steve Angel, Chief Executive Officer; and Matt White, Chief Financial Officer.

Today’s presentation materials are available on our website at lindeplc.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 pro forma numbers are in the Appendix of this presentation.

Steve and Matt will now give us an update on Linde Plc. We will then be available to answer questions.

Let me now turn the call over to Steve.
Stephen F. Angel  
*Chief Executive Officer & Director, Linde Plc*

Thank you, Juan. Page 4, you can see key metrics of our new company on the left. I don't think they need any explanation. Obviously, market cap is a number that tends to move around. These numbers are adjusted for all divestitures. On the right hand side, you can see the competitive playing field and I think it's quite obvious that in terms of size and scale, it's pretty much a two-horse race.

Next page talks about our portfolio which is well diversified and we think very resilient going forward in the future. On the left hand side, you can see that we're very balanced geographically across the major regions: Asia, Americas and EMEA. Obviously, Americas continues to be the largest region. And that's because the U.S. is still a significant percent of our overall sales with a solid 30%. And based on the growth rates that we expect going forward in Asia and Americas, they will grow steadily as a percent of the total. And that -- and again, EMEA, we're not expecting growth of the magnitude of Asia and Americas.

On the right hand side, you can see that €24 billion of the €28 billion are gas. The largest segment is manufacturing which is to be expected is very much tied -- it's a broad category, very much tied to industrial production. This is where a lot of our cylinder gas is but also merchant liquids go into this segment.

And then, if you look at the top of the chart between electronics and chemicals and energy close to 30%, 29%. But if you were to turn to our backlog page in the back of your deck under the Appendix, you would note that those 30% of our sales today, 80% of our backlog it goes into electronics and chemicals and energy.

And as I look at this portfolio, another reason I think it's more resilient going forward is at least a third of the markets we serve would be deemed more defensive markets.

If we turn to the next page, page 6, what we're trying to do as a new company is to build a high-performance culture and to get 80,000 people aligned around that objective.

And the first question is where are we going. That's our vision statement, that's our mission statement. You'll see that on the next page. And then, the strategic direction is the how we will get there, that is the roadmap. And then, what we stand for are our values. And fortunately, coming into this merger, both Linde and Praxair had very similar core values, which makes the cultural integration that much easier, but we think the values as that which knits us together as an organization and it's that which provides a strong foundation going forward from which pretty much everything else is possible.

And then, on the right hand side, you see how do we do this, how do we do all of this. And I've listed four bullets. The last three, merger value, the aligned leadership team, the pay for performance compensation structure, I'm going to discuss later. The operating rhythm or the operating system is something that I'm very familiar with having practiced this for many years. And the only difference is rather than review 10 businesses monthly in terms of financial performance, cash flow, safety, et cetera, we're going to be reviewing 20 businesses.

If you turn to page 7 in your deck. This is the vision, the mission and values. I'm only going to talk about the vision statement today and I'll read it to you, to be the best-performing global industrial gases and engineering company, where our people deliver innovative and sustainable solutions for our customers in a connected world. So, there's a lot of words there that have a lot of meaning. But what I really want to focus on for the sake of this discussion is best performing. And when we think of best performing, we do think of financial performance. It means to have the best operating margins. It means to have the strongest cash flow. It means to have the best return on capital.
It means to have the best top-line growth. Those are the objectives, but it also includes being the best-in-class with respect to safety, compliance, diversity, sustainability, productivity, working capital management, price management, project execution. It really pertains to being the best performing in every aspect of being an industrial gas and engineering company.

If you will now turn to page 8, this is the strategic direction and you can see four bullets on this page: leveraging individual strengths of both companies across a larger global footprint; build network density in core geographies; capture the full value of the merger; and execute our robust backlog.

So, if I go to the top and think about in terms of leveraging our world-class engineering and technology capabilities, with this merger we have the full spectrum of plant, technology and engineering capabilities. And the objective is how to turn all of that capability into more sale of gas opportunities and it is turning more of that capability into ensuring that we have a competitive advantage when it comes to sale of gas offerings. And we have some early wins. You saw our announcement that came out yesterday with respect to our second large hydrogen project serving a major refinery in the U.S. Gulf Coast and this is indicative of what we want to do going forward which is combining the unique strengths of Linde Engineering, their technology and engineering capabilities with our strong onsite business in places like the U.S. Gulf Coast.

Currently, we’re working on other large over-the-fence projects. And there’s one that we’re working on today that I have reviewed that would be orders of magnitude larger than anything either Linde AG or Praxair has worked on in the past. Best practice sharing or better said best practice identification and adoption is a major opportunity in our company. And if you look at our individual organizations pre-merger, we evolved in different environments. We had different challenges to meet and what happened is each has developed unique skills and capabilities and competencies that we can leverage across a much broader organization and a much broader footprint, and it really is this best practice identification opportunity that has thousands of people excited today with respect to what each has developed and how to take that and utilize it in their respective areas.

Build network density in core industrial gas geographies. When we think of network density, we think about the integrated supply chain which is the onsite to merchant to packaged gas and how we take advantage of the co-product economics across that integrated supply system and build density across each mode of supply.

Capture the full value of the merger. I’m going to talk about cost, CapEx and growth synergies later. But obviously, having a very successful integration is key to doing this, and I’ve already talked about the opportunity with respect to best practices. But we have had 25 work teams co-led from each organization that has spent the last two years pretty much developing integration plans across those 25 work streams. They have a day 1 objective – day 1 launch objective, a day 100 objectives and many other milestones beyond that.

And I’m pleased to say that today is the first day, and you probably have seen the announcement, that our hold separate order has been lifted and we are now free to operationally integrate our two companies across the globe without restriction. And we’re very confident in our integration plans and our ability to execute coming out of the gates.

The last comment you can see speaks to our robust backlog. Linde Engineering today has $5.5 billion of orders for third-parties in their backlog. So, that obviously bodes well for future sales, cash flow and profitability for Linde Engineering. But they – but we also have $3.5 billion of over-the-fence projects and you can see that breakdown on page 19 in the Appendix and you can see that the backlog is very much geared towards electronics in Asia and refinery and chemical projects in the U.S. Gulf Coast.
If you can turn to the next page, where we talk about our value capture. We've identified $1.1 billion of synergies that we expect to capture over the next three years. $900 million of that is cost synergies and we arrived at this number as we concluded 2018. We saw where each organization was and as a team, we determined that we believe we had $900 million of cost opportunity going forward as it pertains to the merger.

One-third of that number is in the first two comments which pertain to a decentralized structure which we have adopted across the board and corporate rightsizing. The remaining two-thirds of that number would be delivered through regional overlap and operational efficiencies as they pertain to things like procurement and productivity. That $900 million figure has been broken down and allocated across the segments and down through the business units and across the functions as well.

We expect to deliver about one-fourth of that number this year. And the reason it's not a number closer to a third, given I said that $900 million of synergies over three years, is because today was the first day that we’ve been able to operationally integrate our two companies, as I just mentioned. And that says that we pretty much lost the first quarter in terms of the ability to deliver synergies this year, but we do expect to deliver about one-fourth of that number this year and the remaining three-fourths will be delivered over 2020 and 2021.

CapEx synergies, we're still targeting about $200 million. You see the sources of the CapEx synergies, I would add to that, we're going to have a very tight CapEx spend process as you would expect. And with respect to additional synergies, again the HSO so was just lifted today. And what that means is we've been precluded until today in terms of looking at our individual commercial capabilities, our individual customers, pricing, applications, technology. We have not been able to examine that and to evaluate the synergy that we think would lie there in. But again, today the curtain has been lifted and that work will start as I – as we speak.

With respect to, again, the synergies, $1.1 billion delivered over the next three years, we believe that the cost to implement those synergies will be about $700 million.

Next page is the leadership team, the management committee is comprised of three individuals from Linde AG and three individuals from Praxair. It's a very experienced team. The only other comment that I will make on this page is that we made the decision to switch Eduardo Menezes and Bernd Eulitz. Bernd Eulitz today runs the Americas pole. Before that, he was Head of Europe, Head of EMEA for Linde AG. And likewise, Eduardo Menezes was located out of Danbury running the Americas and other businesses. Today, he is located in Munich, running our new EMEA region. And of course, Bernd Eulitz is located in Danbury running the Americas.

The reason for doing this should be obvious, but I'll just state it. This allows us to promote integration at a faster pace. It promotes the sharing of best practices and will also allow each individual who view talent within their legacy organizations to now have – to be able to learn the talent that we're going to have across a much broader organization.

If we can turn to the next page where we're talking about management compensation. To build a high-performance culture, we have to have a pay-for-performance compensation system with appropriate pay at risk. And this is a system that I'm very familiar with. If you look at the short-term cash bonus, the key metrics will be sales growth, net income and operating cash flow, 75% of the weighting is tied to net income and cash flow. With respect to long-term equity, the mix will include stock options and performance shares. This will be three-year performance shares tied to total shareholder return versus the appropriate benchmark like the S&P 500 and also the performance shares – performance will be tied to return on capital. And again, that is a three-year goal. We are going to have a stock ownership requirements that are representative of what we would expect management to hold in terms of the company shares, and this will ensure that everyone in the company thinks like a
shareholder. I think it's also important to note that the top 1,200 people in the company will all be on this same compensation design.

If I could turn to the next page and talk about key milestones. Merger closed on October 31. In mid-December, we announced our initial share buyback program and dividend. In January, right after our January board meeting, we announced our second share buyback program which Matt will talk more about. At the end of January, we held our first Global Leadership Conference. We had the top 120 people from our new company present. And at that conference, we talked about expectations, we talked about what good businesses look like, what we should expect from each other.

And then, in February, coming out of our board meeting earlier this week, we announced our dividend increase. Again, the hold separate order was lifted as of today, March 1st. We intend on completing the Linde AG squeeze-out of minority shareholders sometime in the second quarter of this year and we anticipate completing our divestitures in Asia which are principally in South Korea and India sometime during Q2 and maybe spills over into Q3.

And with that, that concludes my remarks. And now, I'll turn it over to Matt White.

Matthew J. White  
Chief Financial Officer, Linde Plc

Thanks, Steve, and good morning, everyone. I'd like to start on slide 14 which shows a summary of the 2017 and 2018 income statements. As most of you know, it's a fairly complex transaction that combines two global companies. Their different accounting standards and significant divestiture requirements have made analysis and comparability more difficult.

To assist in understanding the financial performance, this slide provides adjusted pro forma statements. The adjustments removed items not indicative of ongoing business trends which are primarily merger-related costs and the purchase price accounting impact. A reconciliation of those adjustments to the preliminary U.S. GAAP figures can be found in the Appendix. In addition, these are pro forma statements which have restated both periods as if the merger occurred prior to January 1, 2017. We believe these modified statements are useful to investors and provide a more appropriate baseline comparison against future financial performance.

So, turning to the numbers. You can see 2018 sales of just over $28 billion, which increased 5% from 2017. Approximately 1% relates to positive foreign currency translation and energy pass-through, the remaining 4% of growth comes from a combination of price and volume. Each legacy company grew mid-single digits during 2018, which aligns with this figure. Note that our intention is to continually add more meaningful variance data with each quarterly investor call until we can lap a full year as one company. So, I appreciate your patience as we integrate and standardize internal practices.

Gross profit is up 6% resulting in a 40-basis-point margin increase. Pricing improvements are the primary driver with positive contribution from organic volume growth. Operating profit of $4.8 billion rose 7% with an operating margin improvement of about 30 basis points. Both depreciation and SG&A expenses grew mid-single digit. And as Steve mentioned, this will be an area of intense focus to achieve the cost synergies.

Diluted earnings per share rose up to $6.19 which is 8% higher than 2017. EPS and net income are growing faster than operating profits due primarily to lower net interest expense from the combination of lower debt and higher yielding cash balances.
Over the next few years, we will continue to optimize the capital structure to identify future savings. These are the most up-to-date baseline figures we have for 2017 and 2018 on this basis. Over time, we will provide more information on key operating metrics as well as pertinent balance sheet and cash flow information. Until then, we plan to file our 10-K in two weeks, as we are utilizing the allowable time extension. We believe it's wise to maximize the preparation time, especially in light of the significant purchase price accounting requirements.

Finally, we expect future income statements to remain adjusted pro forma until we finalize the Asian divestitures. And while it's possible that historical pro forma information could be updated again, we aren't anticipating anything material at this time.

I'd now like to discuss capital allocation priorities which you can find on slide 15. First and foremost, we want to maintain a A/A2 credit rating while consistently growing the dividend every year. A large part of our ownership base appreciates the value of long-term compound dividend growth, which we've been doing for over 25 years and have no intention of changing.

The A/A2 credit rating is consistent with industry standards and provides access to low-cost capital including Tier-1 commercial paper. In fact, low cost and dependable liquidity is an important element of success for the long-term sale of gas model.

With the capital structure and dividend policy established, our next priority is to invest in the business where we can consistently achieve double-digit returns. However, we must also maintain discipline because these investments carry the highest risk to the company. A prudent approach to achieving healthy returns well above cost of capital while mitigating risk is the path to significant value creation.

As Steve mentioned, return on capital is a critical metric and an important part of our compensation which plays a large role in evaluating investment performance. After dividends and investments, we still anticipate excess capital leftover while maintaining the target credit rating. We intend to return this surplus cash to shareholders in the form of stock repurchases. This is the most flexible use of capital and has tax benefits to the investor while reducing the dividend obligation to the company.

Furthermore, the industrial gas industry has counter-cyclical trends where our free cash flow is greatest when the capital cycles are at their lowest point, enabling attractive entry points to repurchase stock. Since the combination of our two strong companies was a cashless merger, we have significant excess capital available to deploy. Slide 16 summarizes some of the recent actions we've taken to share that surplus with our owners.

On December 10, 2018, the board approved a $1 billion share repurchase program. We repurchased $6 million or 1% of outstanding shares and completed the program on February 15th. On January 22nd, the board authorized a second $6 billion share repurchase program which we are currently executing in the market.

On top of this, we fully expect to complete the Linde AG squeeze-out by June of this year which is essentially equivalent to a one-time $3 billion share repurchase at a pre-determined fixed price. In total, we have $10 billion of share repurchases anticipated over a two-year timeframe which represents approximately 11% of the current market cap.

And this week, we announced a 6% increase to the annual dividend, which would result in almost $4 billion of dividends paid over the same two-year time period. Overall, we expect to distribute back to shareholders approximately $14 billion or $25 per share over two years while still investing heavily in our industry-leading project backlog.
I'd like to wrap up with a very brief outlook of 2019 and which is on slide 17. As I mentioned earlier, we still have a lot of work ahead of us to dig into the details of both companies. The restrictions of the FTC hold separate order were removed today, which will enable global coordination and cooperation towards these efforts. We will continue to refine and tighten our outlook as more information becomes available across the organization.

At this point, we anticipate 2019 sales growth to be lower than the 5% we experienced in 2018. The primary driver is from a 2% foreign currency headwind in 2019 versus a slight tailwind in 2018. In addition, global industrial production is projected to be lower in 2019. That view has been supported by first quarter indications of softer conditions in parts of Europe, Americas and specific markets like automotive and metals. However, we fully expect positive contribution from the project backlog as well as pricing. All in, these assumptions would imply a low single-digit sales growth rate.

Despite the top line outlook, we are expecting strong leverage down the income statement with adjusted pro forma EPS growth rates in the range of 8% to 12% or 10% to 14% excluding FX translation. Cost and capital structure synergies combined with a lower share count will all contribute to the improvement and profit margins should steadily increase through the year as we execute synergies.

In summary, we expect to deliver on our commitment to create value irrespective of the uncertainty around the macroeconomic climate.

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

QUESTION AND ANSWER SECTION


Duffy Fischer
Analyst, Barclays Capital, Inc.

Yes. Good morning. First, I just want to say congrats on an excellent deal for you, guys. First question is just around the EPS guide. If you take the midpoint, how should we think about tax and share count impacting that, say, 10% of the [indiscernible] (30:19) growth?

Matthew J. White
Chief Financial Officer, Linde Plc

Hey, Duffy, it's Matt. I think we could first start just a baseline in share count. So, on the historical numbers we showed for 2017 and 2018, we included in that share count the full effect of the squeeze-out. So, that will have no effect anticipated on a go-forward 2019 basis. That being said, we clearly are in the market repurchasing shares and I do anticipate that will help the EPS. A little bit is baked in into that guidance right now. I do think there is a little more upside. That being said, we may have some risk on more currency, negative currency translation. We may have risk on the macroeconomic front. So, I think right now there is a little bit of the lower share count baked in. There probably could be a little more upside on top of what's there now. As far as taxes right now, I think on an ETR basis, the best estimate is that should be flat, about 25%. How we showed 2018 pretty much has the full effect of U.S. tax reform. We're not anticipating any significant changes in that. Now, cash taxes will be very
different. We will have a large cash tax payment in 2019 related to the divestitures, that’s just a timing. But on a accounting ETR, I’m not expecting much change.

Duffy Fischer
Analyst, Barclays Capital, Inc.

Okay. And then, just because you brought it up, the cash side of it, can you give us a broad walk of what the cash calls are going to be this year kind of from that EPS if we can convert into a net income number? So, like, roughly what the cash flow statement might look like.

Matthew J. White
Chief Financial Officer, Linde Plc

Well, I would say this, Duffy, there'll probably be three large merger-related cash items that will be sort of one-off in nature, you'll have a fairly large cash tax effect as I mentioned on the divestiture, that could be about a $0.5 billion. You would also have whatever cash restructuring costs would be incorporated. And usually, those tend to be about a one-year payback. So, you could argue what's in the P&L probably will be in the cash, as I heard. And then, we have some change in control IRS-triggered retirement obligations, that could be another, say, $100 million expense on that.

Other than that, those one-off merger cash items, I expect things should flow down. The synergies obviously will offset the cash costs given how we view that and the remaining P&L should flow through fairly standard. Working capital, we're still getting our arms around, so that's something we have to – we'll have to determine. I know that the Linde Engineering business had some significant customer prepaids in 2018 given a very strong order intake. Whether that repeats or not in 2019, we'll have to see. But I think the rest of it should flow pretty much as you would anticipate.

Duffy Fischer
Analyst, Barclays Capital, Inc.

And then, just base CapEx for this year?

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

It's a little over $3 billion. I'd say very similar to what the spend was in the combined companies' last year. But obviously, a large project has increased that number a bit.

Duffy Fischer
Analyst, Barclays Capital, Inc.

Great. Thank you, guys.

Operator: Thank you. And our next question comes from David Begleiter with Deutsche Bank. Please proceed.

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

Thank you. Matt and Steve, just on the long-term margin potential of business. If you think about – look at the 2018 margin of roughly 17%, if you look at three to four years, where can that – can that be above 20% in your view?
Stephen F. Angel  
Chief Executive Officer & Director, Linde Plc

Well, David, when we – from the very beginning, when we looked at this merger and we pulled out the pieces that were not core gases, so to speak, we believe that the operating margins would be – could get to the point of where Praxair was at that time. Now, that doesn't mean that Praxair was static or whatever, could not improve upon that level of operating margin quality, but that is what we believe. And when we look at the original synergies, it would equate to a number like that. So, we'll see where we get to. But clearly, the synergies are going to increase the operating margins. And then, just as we work as an organization continuing to focus on productivity and efficiencies and price management and bringing good large projects online, that will all contribute to better leverage down the income statement.

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

Very good. And Steve, just one more thing. On Lincare, is that a core asset long term?

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

Well, if we look at – I think it's important to look at the healthcare market holistically to begin with, 17% of our sales are healthcare. We do business with hospitals all over the world. That's very good business, very similar to what we do in the industrial space. The remainder is homecare. Homecare can be very good businesses. It really depends on the regulatory environment in a given country. It depends on the payer structure, et cetera. And we have to evaluate all our homecare businesses really on that basis.

What I'll say about Lincare is that 2018 was better than 2017. As I looked at the 2019 plan, it's going to be a better performance than 2018. I think they've got a good two years with respect to 2019 and 2020 because there will be no competitive bidding in that space. And we'll continue to evaluate the business as we go forward, like we would any other business. But it is a best-in-class U.S. homecare company and there are a lot of positives that are taking place with respect to what they're doing in that business and some other opportunities that they have in front of them.

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

Thank you very much.

Operator: Thank you. And our next question comes from Geoff Haire with UBS. Please proceed.

Geoff Haire  
Analyst, UBS Ltd.

Good morning, gentlemen. Thanks for the presentation. I just got a few questions. I was wondering if you could help us with the phasing of the costs for the cost savings over the next three years, that $700 million you mentioned. I also just want to check the organic number you mentioned of I think was 4% for the group. Certainly, in the third quarter before you merged, both businesses were growing, I think, quicker than that. Does that imply there was a fairly marked slowdown in the fourth quarter in organic growth from gases?

And then, finally, I just wonder if we could ask you if you could talk a little bit about surface technology and where that fits in and I noticed that wasn't in the mission statement in terms of engineering and gases.
Okay. So, phasing in the cost of $700 million you're talking about, some of that is merger integration related costs, some of that are severance costs. I would say, close to half of that will probably be spent in 2019. Your question with respect to organic sales growth, was it slowing or is it slowing in the fourth quarter. And so, fourth quarter is always a little weaker than the third quarter. And then, coming into the first quarter, you have things like holidays, Carnival, the Chinese New Year and it so happened that if I look at the United States, for example, you always have weather, but we had very intense cold during the first quarter of this year. And we also had a government shutdown and it was – with respect to the intense cold, we had some customers that had operational issues that continue to have operational issues.

So, as I look at the first quarter coming out of the gates, it's kind of choppy and it remains to be seen what the underlying demand will look like, but most people think that the U.S. will continue to grow, but not at the pace it has been growing. Matt already commented about Europe. I don't think that's any surprise that growth has been slowing. That has been the public reports. You have the prospects of Brexit, what does that mean. Certainly, not a positive. If you look at Latin America and Brazil, lot of optimism but nothing really has changed structurally on the ground yet. So, all that it is is optimism. And at this point, it is stable which is a good thing. And then, about – turning to Asia, certainly manufacturing growth has slowed in China, still growing, that's not a surprise. You know the numbers on automotive production, that has a downstream effect on products like steel products which we would be affected by. But again, general slowing in the manufacturing economy in China.

If you look at the New Year in times past when the economy was rip roaring, sometimes they'd work through the New Year or certainly not take the full time during the New Year. This year, a lot of time was taken out. They took the full time for the New Year. And I think that's all just indicative – you add to that what's going on with the trade discussions, the tariffs, all that really is kind of indicative of an economy that's not growing at the pace that it has been. But I think long term, the Asian economy certainly should be – I expect it to grow as I do the Americas, especially with respect to the U.S.

So, our outlook to the extent that you might think it's conservative would be affected certainly by what we are seeing coming out of the gates in the first quarter. Clearly, if the economy performs better, then we will see the benefits of that and that will be leveraged down the income statement because we're quite confident in our ability to leverage any volume growth that we see. Your last question is with respect to PST, PST is a business that has been a family for a long time. It is principally inorganic coatings. We have a joint venture underway with GE where we are providing EB-PVD coatings, primarily to aircraft engines and to the hot sections of the engines. We're in the middle of a ramp. The business is doing quite well. It certainly is best in class with respect to inorganic material coatings. And right now, we certainly don't have any plans to do anything with that business.

Okay. Thank you.

Operator: Thank you. And our next question comes from Nicola Tang with Exane. Please proceed.

Nicole?
Nicola Tang  
Analyst, Exane Ltd.  

Hi, everyone, and then thank you for taking my questions. Hi there. Firstly, in your introductory remarks, you highlighted your ambition to be a sort of best-performing company and apply best-in-class – share best practices. Now, that you can start operational integration, could you give some examples of where Praxair was doing something that was particularly best in class and which you can now show at Linde and also vice versa? And then – sorry, then the second one would be, you signaled that you want to leverage your gases offering with the sort of Linde Engineering side and we've seen that demonstrated with some of the contracts that have been awarded so far. Can you talk about how this fits into your assumptions on the CapEx – on the synergies and also on your sort of CapEx guidance? Thank you.

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

Well, clearly, with respect to the last question, being able to utilize an internal supplier is lower cost than going outside and buying a plant from somebody who's passing on their overhead and their mark-up. So, it is a part of the CapEx synergies absolutely and certainly gives us the ability to be more competitive. And you've already seen some examples of that.

With respect to best practices that each is bringing or competencies that each is bringing to the equation, Praxair clearly is known for operational excellence. We have had a very robust productivity program for many, many years. It's very much ingrained in our culture, in our operating model. Linde has productivity tools as well that we're certainly going to learn from going forward. Praxair has put a lot of emphasis on pricing tools and pricing systems. We'll learn what Linde has with respect to that.

If you look at applications, Praxair is very strong at oxygen combustion. We have people that we say have grown up in steel mills. Linde has very good portfolio of clean fuels technology. They're very strong in health care. I'd say, we're both strong in food and beverage. We both have worked on different ends of the digitalization spectrum, but together we should have a very compelling offering as we look at that more closely. I think with respect to production practices, again, we've worked very hard at that. In Praxair, it's been a big source of our productivity as we've learned how to optimize our plants based on time of day power costs and things like that. I'm sure I'll find similar practices that Linde has on the distribution side. Linde was one of the first companies to implement cylinder tracking which is very important with respect to asset utilization around cylinders. Linde has done very well with respect to shared services.

So, it's a long, long list of capabilities that we each bring to the equation and what I just described is kind of like what Praxair legacy brought, what Linde AG legacy brought, but really this day going forward I'm really only talk – I'm only interested talking about the collective practices and capabilities of One Linde Plc going forward. But that gives you an idea of what's out there.

Nicola Tang  
Analyst, Exane Ltd.  

Thank you. Yes, that's very comprehensive.
Stephen F. Angel  
Chief Executive Officer & Director, Linde Plc

Okay.

Operator: And our next question comes from Jeff Zekauskas with JPMorgan. Please proceed with your question.

Jeffrey J. Zekauskas  
Analyst, JPMorgan Securities LLC

Thanks very much. What do you expect your D&A expenses to be in 2019? And can you describe your balance sheet in terms of your cash and your debt and your pension expense and proceeds you expect to come in from asset sales?

Matthew J. White  
Chief Financial Officer, Linde Plc

Jeff, this is Matt. So, you basically want me to tell you the 10-K over the phone.

Jeffrey J. Zekauskas  
Analyst, JPMorgan Securities LLC

You could give me the abbreviated format.

Matthew J. White  
Chief Financial Officer, Linde Plc

Yeah. I think the D&A obviously, we're going to be adjusting out the PPA step up.

Jeffrey J. Zekauskas  
Analyst, JPMorgan Securities LLC

Right.

Matthew J. White  
Chief Financial Officer, Linde Plc

We'll give more clarity on that number, but it's a number that's going to be in the $2.5 billion range, plus or minus. And we'll give a little more granularity on these pro forma P&Ls with each successive call. As you can imagine, with the work we've done to-date while we feel pretty good about this, it's a lot of work. You're essentially restating the past to put it on a comparable basis. We have to take two different systems and put them on a like-for-like U.S. GAAP basis. So, we may have some line swappings and things like that. Hence, why we haven't given a full, I'll call, detailed line item. But I would say, at this point, you're in that range and that's something we'll look to give more clarity.

As far as the balance sheet, right now we don't have what I'll call an updated adjusted pro forma balance sheet. And as you know, there really is no such thing as a cash flow adjusted pro forma, just you can't really go back in time and say what you would have done with your cash.
So, you'll see the 10-K when it's filed in two weeks. On the balance sheet, what you'll see is that on the Americas assets for Linde AG, they are considered disc ops for purposes of how we've done it given that the purchase agreement was already in place.

We will have the Asia-Pac assets and the Linde AG assets will be shown as assets held for sale on the balance sheet. So, what I'll tell you is when you see this, it's a pretty good indicator of what the balance sheet will look like on the combined company once you isolate out assets held for sale. The cash flow statement obviously will only reflect essentially 11 months of total Praxair, one month of Praxair without Europe, and then two months of Linde AG. So, that's going to be a little more complicating on the cash flow. But with – like I said with each call, we want to try and bring more information and we'll try to bring more details to help you with that. But at this point, I'd say start with the balance sheet you'll see in a couple of weeks and we'll build it from there.

Jeffrey J. Zekauskas  
**Analyst, JPMorgan Securities LLC**

So, when you answered Duffy's question at the beginning, I think you said you had to pay out $500 million in taxes. What are the proceeds that reflect that $500 million in tax payments?

Matthew J. White  
**Chief Financial Officer, Linde Plc**

That's the Europe proceeds that we already got in December. So, the proceeds obviously were wired on the transaction closing, just the timing that we're paying them will actually occur in calendar year 2019. So, that will show up in operating cash flow as you know. But obviously, it was related to proceeds that came earlier, just the way the structure of the deal was.

Jeffrey J. Zekauskas  
**Analyst, JPMorgan Securities LLC**

And lastly, I think Steve started off by saying that it may be you're working on a deal that's much larger than any of the deals you've done before, should we assume that that's a [indiscernible] deal?

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

You shouldn't assume anything. Other than it's a large project, it's something that we have a lot of interest in. I think, again the unique capabilities that the two companies bring is what is creating this opportunity. And obviously, we'll talk more about it as the time draws closer.

Jeffrey J. Zekauskas  
**Analyst, JPMorgan Securities LLC**

Thanks very much.

**Operator:** Thank you. And our next question comes from Peter Clark with Société Générale [indiscernible]. Please proceed.

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

Yes. Thank you. Well done for getting to this stage, anyway, but can I focus on the backlog? Three quick questions about that, I hope. We're well aware of the quality of your backlog [indiscernible] on the Gulf
Coast [indiscernible] (50:03) Praxair won anyway. Can – have you got any feel at all on those early days, on the Linde won, I know 70% was coming from Asia and I presume that was pretty intact, that the – the quality you feel about the backlog there.

And then, secondly, the Gulf Coast assumption that you had, you were aiming to grow the footprint there, I think, 50% 2016 to 2020 obviously are my numbers anyway, you've won over $2 billion of contracts. You're ahead of that and obviously now you've got Linde as well. Clearly, a lot of these projects or all the projects won't come on before 2020, but just your thoughts on the Gulf Coast and looking ahead now with Linde.

And then, the third point allied to that, you won obviously the Sweeny contract, very rare to see a brownfield contract won off the competitors. So, just wondering the thought on that sort of offering you have with Linde and the potential for that sort of contract win as well. Thank you.

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

Okay. So, thank you for that three-part question, Peter. With respect to the quality of the backlog, I've had a chance to look at that very, very recently obviously because we just had the hold separate lifted and only was really looked at at a high level. Based on my conversations with all the Linde people, they go through a very, very, very similar evaluation of project quality as we do with respect to risk and return. So, that's a good sign. And as I look at what the expected returns would be on the backlog, the numbers look, again, similar to what we have experienced.

With respect to your 2016 to 2020, 50% increase in capacity, I've actually kind of rolled forward the objective. And as I look at where we are today, it looks like from 2018 to 2021, and again, the 2021 number is just a function of starting up the contracts – the contracted projects that we have announced and are currently in the backlog, that will grow our hydrogen capacity from 1.2 billion to 1.7 billion.

And again, I'm just talking about hydrogen capacity today, so you can do the math, but that's another 40%. So, we continue to do well. Obviously, in the U.S. Gulf Coast, we have five projects today that we're working on and over $1 billion of CapEx.

With respect to winning projects, I'd say in the U.S. Gulf Coast in general, a key determining factor is the reliability of supply, and these are very large customers down there, very large chemical customers, very large refineries. And obviously, having a reliable supply of hydrogen is very important to them. And we've been able to achieve very high levels of reliability, it's something that we continue to work on, but largely by making significant investment, significant capital investments. So that, we have the right balance of on-purpose hydrogen and by-product hydrogen, building a hydrogen storage cavern to ensure that we have the reliability at various points in time during the cycle. Working very hard from an operational excellence standpoint, some of our best people in the company with respect to operational excellence are located in the Houston area.

So, when we are asked to provide a proposal or to work with a refinery, usually these things take years before they come to fruition. But clearly, our ability – our demonstrated ability to provide reliable supply to them is very important along with our commitment to sustain that going forward.

Peter Clark  
Analyst, Société Générale SA (UK)

Okay. Steve, can I just follow up on the first point, I think on the backlog, I mean you, your backlog to sales growth, you're pointing at 2% I think and closer to 3% on the bottom line. Linde was near that 1%, obviously the
Stephen F. Angel  
Chief Executive Officer & Director, Linde Plc  

Yeah. I would say, in 2019, it's closer to 1%. And the reason is that the timing of the start-ups, we have some projects that large projects are starting up towards the end of 2019, beginning in 2021. So clearly, we're going to get the benefit of that and Linde's profile is somewhat similar to that, but we're going to certainly get the benefit of that in 2020 and beyond. So, it looks more like a 1% contribution in 2019, but a 2% to 2%-plus contribution going forward in 2020 and 2021.

Peter Clark  
Analyst, Société Générale SA (UK)  

Thanks very much. Very clear.

Operator: Thank you. And our next question comes from Steve Byrne with Bank of America Merrill Lynch. Please proceed.

Hi. Thanks. This is [ph] Ian (55:40) on for Steve. Could you help us give some indication of what the net debt of the company will be either once the divestitures are complete or at year-end?

Matthew J. White  
Chief Financial Officer, Linde Plc  

Yeah, [ph] Ian (55:54). This is Matt. So, I can tell you this. What you'll see on the balance sheet that we'll put out here for the 10-K is a net debt number of about $10.8 billion. Now, about $0.5 billion of that for the most part relates to various step-ups that we had to do on the purchase price accounting. But the number will be $10.8 billion. So, we'll definitely have some obviously additional proceeds coming in here into calendar year 2019, of which the Americas proceeds which we just closed on today, they're actually – part of a hold separate order was lifted because those were wired. So, those are in-house. And then, we'll have Asian proceeds. And you may recall from the last filing we did, the combination of those two were in the neighborhood of close to $5 billion-ish or more on a gross basis. So, that's how that number would look. But then, we will have obviously to pay taxes on that. We will have buybacks, we continue to be and as you saw the approvals, dividends and our CapEx. So, you could probably do the math from that point, but our starting point will be $10.8 billion net debt for January 1st of this year. And then, you can get an idea of some of the moving parts.

Thank you. That's very helpful. And then, on the outlook for perhaps pursuing some of these larger projects, is that something that is contemplated in the current backlog today or it would be additional as we move forward?

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

No. It would be additional. The only thing that's in the backlog today are contracted projects. So, if we don't have them signed, sealed and delivered, we don't put them in the backlog. They just remain a very promising opportunity which we don't include in any backlog descriptions. Okay.

Matthew J. White
Chief Financial Officer, Linde Plc
Hello?

Operator: Okay. Thank you. And our next question comes from P.J. Juvekar with Citi. Please proceed.

Hi. This is [ph] Scott (58:05) on for P.J. Thanks for taking my question. So, I think your total share of cylinder in bulk distribution is close to two-thirds of your revenues. And I think on a pro forma basis including Lincare, that's just a bit higher than where legacy Praxair stood. Longer term, how do you envision that mix of supply [indiscernible] (58:28) distribution changing? And if you don't, why does it make sense to keep it that way?

Stephen F. Angel
Chief Executive Officer & Director, Linde Plc
Well, it's a real question with respect to onsite to merchant to a cylinder gas type business. And if you look at the strength of the backlog that I'm describing and what I believe will be the opportunity slate going forward, it would say that the onsite will grow at a pace greater than the rest of the portfolio. It does not mean that the rest of the portfolio is not going to grow, we certainly believe it will and we have every intention to try to make that happen. But it is just a fact that the onsite opportunity slate is going to drive the onsite to grow at a faster pace. So, I would say that onsite will increase percentage wise, probably 1% to 2% per year over the coming years.

Okay. Got it. That's helpful. And just on the cash to achieve synergies, I think in your $700 million estimate, if I remember correctly, it's about 30% less than what you guided to when the merger was first announced and the cost relating charges maybe just a bit less than what you first thought, understanding that a lot has changed since then, but can you help us understand why that's a – why that number seems a lot lower than when you first announced the merger?

Matthew J. White
Chief Financial Officer, Linde Plc
Yeah. [ph] Scott (01:00:02), it's Matt. Because lawyers and bankers aren't free, right. We had to pay them, right. So, part of that it was already incurred in 2018. When we guided those numbers initially, obviously it depend upon where you are in time. It was always a forward looking. So, payments are – have been made throughout. If you go back to the S-4, you'll see it's a combination of not just costs to effectuate the synergies, but it also included cost to complete the merger. So, merger completion costs, a lot of them have been expanded. And then, going forward this is more of true costs to get synergies. So, it was kind of a combination in that billion-dollar number that you're thinking about, and that was kind of a holistic kind of cash costs for merger.
Okay. Got it. And just to make sure, the cost – that cash [indiscernible] (01:00:54) synergies, does that include the $300 million [indiscernible] (01:00:57) cash to achieve legacy Linde's list savings program?

Matthew J. White  
*Chief Financial Officer, Linde Plc*

The $1 billion was kind of all-in, but on a forward-looking basis including cost to complete the merger. So, really I think it was excluding any existing program cash cost that anyone had in their legacy business. And it was more of a combined company look, other than what I'd call merger completion costs. So, bank, banker, success fees, lawyer, cash fees to actually execute the merger.

Okay. That makes sense. Thank you.

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

Yeah.

Operator: Thank you. And ladies and gentlemen, we have time for one more question. Our next question comes from Mike Sison with KeyBanc. Please proceed.

Michael J. Sison  
*Analyst, KeyBanc Capital Markets, Inc.*

Hey, guys. Thanks for fitting me in and congrats on getting the deal done here. So, in terms of the first $250 million in synergy, I guess, and I know nothing is easy, but is it pretty well planned out that should be smooth sailing and assuming that this year and is there any upside near-term in that?

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

Well, it's certainly planned. And as I said earlier, we have – we've been working on this for quite some time. And we have targets that have been broken down and pushed through the organization. So, I feel quite good about that with respect to can the number be higher remains to be seen. We're going to have to build from here. We've got, essentially three quarters – perhaps 10 months to do that. But I would certainly expect that we'll have more momentum on the synergy front as we leave the year going into next year.

Michael J. Sison  
*Analyst, KeyBanc Capital Markets, Inc.*

Okay. And then, quick follow-up. You talked about EPS growth at 8% to 12%. Could you give us any thoughts in either some FX headwinds and a lot of moving parts, but does adjusted operating profit grow in line with that. And then, the first half of everybody's year seems to be more challenging? Is it that you have a little bit more of a first half, second half type of outlook?
Stephen F. Angel  
Chief Executive Officer & Director, Linde Plc  

Well, I think you could probably tell from my comments that I expect a choppier first quarter, and first quarter is always weaker in any year, so – because of some of the factors that I mentioned. But I think the first quarter could be a bit choppy. I think certainly with respect to operating margin growth, it’s – Matt mentioned earlier with respect to the share count and the leverage that you get from net income to EPS on that interest expense were probably be a bit lower. So, that would kind of tell you about where the midpoint should be with respect to EBIT growth.

Michael J. Sison  
Analyst, KeyBanc Capital Markets, Inc.  

Great. Thank you.

Operator: Thank you. Ladies and gentlemen, thank you for your participation in today’s conference. This concludes the program. You may now disconnect. Everyone, have a great day.