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MANAGEMENT DISCUSSION SECTION

Operator: Good day and thank you for standing by. Welcome to the Linde Plc First Quarter 2022 Earnings Teleconference. At this time, all participants are in a listen-only mode. Please be advised that today's conference is being recorded. After the speakers' presentation, there will be a question-and-answer session.

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

Juan Carlos Pelaez
Vice President-Investor Relations, Linde Plc

Thanks, Sergei. Good morning, everyone, and thank you for attending our 2022 first quarter earnings call and webcast. I am Juan Pelaez, Head of Investor Relations. And I'm joined this morning by Sanjiv Lamba, Chief Executive Officer; and Matt White, Chief Financial Officer. Today's presentation materials are available on our website at linde.com in the Investors section.

Please read the forward-looking statement disclosure on page two of the slides and note that it applies to all statements made during this teleconference. The reconciliations of the adjusted numbers are in the appendix to this presentation. Sanjiv will provide some opening remarks, and then Matt will give an update on Linde's first quarter financial performance and outlook, after which we will wrap up with Q&A.

Let me now turn the call over to Sanjiv.

Sanjiv Lamba
Chief Executive Officer & Director, Linde Plc

Thanks, Juan and good morning, everyone. I'd like to start off by addressing the recent global events and the tragedy occurring in Ukraine. The senseless invasion has caused widespread casualties and destruction at a level not seen in Europe for generations. As a global company integrated within countless communities across the globe, Linde must do its part to help.

I'm happy to report that all of our 121 Ukrainian employees are safe. And I'm incredibly proud of the courage and determination they've demonstrated throughout the crisis, including several who have chosen to continue producing and delivering life-saving medical gases. We are supporting their needs directly and indirectly, including through contributions of approximately $2 million.

I can only pray that all the global pressure and support is enough to bring this war to and end and allow the efforts to begin towards healing and rebuilding Ukraine. Given these circumstances, we are scaling back gas operations in Russia. We have already ceased supply to certain customers and initiated the divestment process for some industrial assets, all in an effort to reduce our footprint, which is already quite small at approximately 1% of sales.

Furthermore, we have stopped new investments and business development while winding down several engineering projects. Given this, we have removed second half Russian earnings contribution from the guidance. Matt will speak more on this. However, we are scaling back responsibly, as we continue to support our employees and their efforts to supply critical gases for medical and safety needs.

Now in the light of uncertain economic climate, I thought it would be helpful to highlight trends we're seeing by end markets and geography. Let me now go on to slide three, which gives you a summary of Q1 growth rates by key end markets. Two overarching points are that the organic growth of 9% from a strong 2021 foundation, and broad-based increases across both consumer and industrial-related end markets.

At 17% of sales, healthcare trends are roughly flat as greater medical procedures in the developed markets were offset by lower hospital oxygen in developing markets such as Latin America and Eastern Europe. Now, fortunately it appears COVID oxygen needs are abating. So I expect healthcare to return to its long-term growth rate of mid-single-digit percentage as we continue to expand patient offerings, for both hospital and home.

Food and beverage continues robust year-on-year growth as most parts of the world have returned to restaurant dining, as well as increased applications for bulk food and beverage production. This resilient market should grow low to mid-single-digit percent. Note that the sequential trends are down due to normal seasonality from fourth quarter holiday season.

Electronics at 9% of sales remains one of our fastest growing end markets, especially in Americas and APAC. The primary gases sold to these customers are ultra-high purity nitrogen, hydrogen, helium and rare gases. That includes neon, which represents less than 1% of total sales. However, given the amount of attention this molecule has recently received, it's fair to say that we are well-positioned as one of the largest producers of neon in the world, with the vast majority of it being refined at our own sites in the US and Germany.

We are, of course, working closely with our customers to address their increased demand. The electronics market grew 13% versus last year with a mix of underlying growth and project start-ups. And I fully expect to announce more new project wins during the course of this year.

Turning to industrial end markets, chemicals and energy at 24% of sales grew double-digit led by the Americas, which drove more than half of that increase. We are seeing very strong demand across all phases of energy development as US refining rates are close to record levels, driving even more demand for hydrogen and other gases.

In addition, merchant hydrogen volumes rose by almost 60% from the last year in support of clean energy initiatives. Our chemical customers in the US are some of the lowest cost producers in the world and thus saw high demand for their end products, requiring significant onsite gas supply.

The current combination of high energy prices and transition to clean energy should drive continued growth in this end market for years to come. To this point, we are currently reviewing close to 300 clean energy projects with a probability-weighted spend exceeding $5 billion for these clean energy projects. So I feel quite good about our prospects for future growth in this space.

Metals and mining at 14% of sales grew 7% from last year and 5% sequentially, as lower volumes in China were more than offset by other regions increasing their production to meet global demand. Americas improved sequentially and from prior year as US-based steel mills increased production in support of higher industrial activity.

In APAC, lower Chinese steel volumes were mostly offset by higher production from other countries. As the world races to replace Russian-based mining, metals and energy sources, I expect to see our customers continue to increase their production and investment levels.

Finally, the manufacturing end market grew 11% from the last year and 4% sequentially. Versus prior year, growth was broad-based in every segment, but led by the Americas from increased aerospace and general manufacturing.

Now, last week, we announced another new long-term agreement with a major space launch company to provide rocket propulsion gases out of our recently expanded Florida plant. Currently, rocket and satellite propulsion demand is at its highest level we've ever seen going as far back as the NASA's Apollo program. Linde is proud to be leading industrial gas supplier to all key players in the US space program.

Looking ahead, there are clearly concerns around energy security, especially in Europe, which could result in persistent inflation. Additionally, shortages of Russian-sourced commodities coupled with Chinese production curtailments from COVID could put additional pressure on global production levels.

Regardless of what ultimately happens in the economy, Linde has demonstrated time and time again that we weather the storm better than most. We have a committed team, a high-performance culture, and an integrated network across all three supply modes. That's why I'm confident Linde will continue being the best performing industrial gases and engineering company in the world.

Now I'd like to turn the call over to Matt to walk through the financial numbers.

Matthew J. White

Executive Vice President & Chief Financial Officer, Linde Plc

Thanks, Sanjiv. Please turn to slide four for an overview of the first quarter results. Sales of $8.2 billion increased 13% from prior year, but declined 1% sequentially from the fourth quarter. Versus prior year, cost pass-through increased 6% from the contractual billing of higher energy costs, but currency translation reduced sales by 3% from a stronger US dollar, primarily against the euro and pound sterling.

Excluding these items, organic sales grew 9% from 3% more volume split between project backlog and base, and 6% more pricing as we continue to price to inflation. Recall that actual price increases are much higher for the combined packaged and merchant gases.

Sequentially, when excluding the 1% currency headwind, organic sales increased 2%, as 3% higher pricing was partially offset by a 1% decline in volume. The volume decline was driven by lower EMEA medical oxygen and seasonal effects from food and beverage, Chinese New Year and Southern Hemisphere LPG.

Engineering volumes are up 1% from prior year, but down 2% sequentially, as we have begun winding down several Russian projects and we expect that trend to continue into Q2.

Operating profit of $1.9 billion increased 13% from 2021 and 3% sequentially. The operating margin of 23.2% is roughly flat with prior year, but up 100 basis points from the fourth quarter.

The contractual cost pass-through has no effect on operating profit dollars, but will impact operating margins as we adjust both sales and cost with energy prices. Excluding this effect, operating margins are up 130 basis points from prior year and 120 basis points sequentially. You can see the table to the right showing underlying margins by geographic segment, with almost all up triple digits across both periods.

Despite the unprecedented geopolitical events and subsequent inflationary pressure, the business quality continues to improve. And we anticipate that margins, ex cost pass-through, should increase going forward.

You may have noticed the higher than normal Engineering segment margins at 19.6%, and lower than normal, global other operating profit at a $44 million loss. These are driven by project timing differences and one-off costs, which both should return to normal run rate levels by the second quarter.

EPS of $2.93 increased 18% from last year and 6% sequentially as we continue to demonstrate strong leverage down the entire income statement. Disciplined capital management is supporting lower interest cost and a reduced share count, which I'll speak to more on the next slide.

The final number I'd like to highlight is return on capital, which represents one of the most important financial metrics in our industry. Three years ago, this figure was 10.4%. Today, we're at 18.9% and still growing.

This progress doesn't happen overnight. It requires a sustained high performance culture across all levels of the business. We're quite confident that Linde is and will continue to be a long-term value compounder with a healthy blend of high quality growth, tremendous resilience, and significant shareholder returns.

Slide five provides more color on our capital management trends. Q1 operating cash flow of $2 billion was slightly below last year due to unfavorable working capital timing in January and February. While March was a much stronger month, it wasn't enough to catch up.

I expect improvements in Q2 as our DSO and DPO levels are still quite stable. Also recall that Q1 tends to be one of the weakest quarters of the year due to cash payment timing. Engineering cash flow was positive in Q1, but down year-over-year on project payment timing.

In light of the accelerated Russian project wind downs, I expect more payment outflows to vendors as we close out several projects, consistent with how all projects are closed out but at a significantly faster pace. Overall, I still anticipate a full-year operating cash flow to EBITDA ratio in the low to mid 80% range.

As far as how we deployed that cash, we announced a 10% dividend increase for 2022, which marks the 29th consecutive year of dividend increases. We also announced a new $10 billion share repurchase program on February 28, of which we've already spent $1.7 billion by the end of April. And of course, we will always reinvest in the business, which is our priority for capital.

Despite the economic challenges, we still have access to low cost capital, as evidenced by our most recent bond deal. We issued over €2 billion across three tranches. And as you can see the attractive pricing, we had a weighted average maturity of 10 years with a weighted average coupon of 1.4%. Irrespective of the economic climate, we will maintain a steady and predictable capital allocation policy to invest in the business while rewarding shareholders.

I'll finish up on slide six, which provides the updated earnings outlook. Second quarter guidance range of $2.90 to $3.00 represents 7% to 11% growth over prior year or 10% to 14% when excluding currency translation impact. For the full-year, the new guidance range is $11.65 to $11.90, a 9% to 11% growth rate from 2021 or 11% to 13% when adjusting for currency.

Both estimates have two key underlying assumptions. First, there is no assumed base economic growth at the midpoint. Consistent with last quarter, this is not our economic projection, but rather a placeholder for the guidance. You can insert your own view of the economy, if it does better, we will do better and if it does worse, we'll take actions to mitigate.

Second, we have removed contribution of Russian earnings by the second half of the year. As we continue to wind down engineering projects, cease certain operations and sell industrial assets, we felt it was appropriate to remove Russian earnings from the outlook and associated projects from the backlog. These actions are ongoing, so we anticipate some residual earnings in Q2 which are projected to cease by Q3. While this is a fluid situation with many complexities, we are committed to following all sanctions and scaling down operations in a safe manner.

Overall, despite economic uncertainties, we are raising the full-year outlook. In fact, as Sanjiv mentioned, Linde has demonstrated industry-leading performance year after year. We only need to look at the last three years to prove that. At the start of 2019, when some investors doubted the merits of the merger, we quickly came together as one and grew EPS 19%, finishing the year at an all-time high stock price.

Moving into 2020 when the pandemic struck, Linde stock was sold off from apparent concerns of too much cyclicality without enough resiliency, only to ultimately achieve 12% EPS growth and finish the year at a new all-time high stock price.

And when 2021 began, Linde stock was once again sold off, this time from apparent concerns of too much resiliency without enough cyclicality. And yet, we grew EPS by 30% and once again finished the year at another new all-time high stock price.

Now in 2022, Linde stock has been sold off again from concerns of economic uncertainty and high inflation. Time will tell how we ultimately finish this year but personally, I like our odds.

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

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Our first question comes from Mike Sison from Wells Fargo. Please go ahead.

Michael Sison
Analyst, Wells Fargo Securities LLC

Q

Hey, guys. Nice start to the year. I guess at the midpoint where you're talking about no assumed economic growth, what type of volume growth will you be able to generate? And maybe talk about each of the regions as you sort of walk us through that.

Sanjiv Lamba
Chief Executive Officer & Director, Linde Plc

A

Hey, Mike. So this is Sanjiv. I just wanted to kind of first lay out the guidance point that Matt just talked about and then talk a little bit about what we see in the regions going across. So Matt pointed out that at the midpoint of our full-year guidance, we have currently assumed there is no help from the economy at all, right, so that's a 0% kind of volume benefit that we are getting over there.

And he's also suggested that you can go ahead and put your assumption on what you think the economy is going to do and recognize where that end result might look like. If the economy does better than that, obviously, we'll do better. If it doesn't, again, to just kind of reiterate what he said, we will take mitigation actions as you've seen us do previously.

Now I think I want to just kind of relate that and then move on and talk about the end markets. And really give you a sense of how I see the three important segments that we have. I think that will give you a sense of what the market is currently looking at. So, let's start off with the Americas.

Strong underlying demand in there, we are seeing that reflected across all the key end markets we participate in. Chemicals and refining are doing extremely well. Healthcare has been flat, but there is a there is an offset of increased elective procedures versus a slight decline certainly in Latin America, if you will, on the COVID need for medical oxygen as well, which is a good thing in truth. And then, we are obviously seeing semiconductor continue to see growth as well.

Manufacturing and largely kind of manifested through our packaged and hard goods side of the business doing extremely well, the US packaged and hard goods kind of running at about well, double-digit growth for the quarter again, which has been fairly consistent over the last few quarters.

I want to maybe highlight refining specifically if I may, up about 30% year-on-year for us, very strong, solid growth coming out of refining. Obviously, we're seeing that includes some startup impact there for us as well. But we are seeing refineries run flat-out, utilization rates above 90%, crack spreads at $38 at the moment. We haven't seen these levels since mid-2000s, if you will. So again, all looking pretty strong from the underlying demand patterns we see out of the Americas.

I'll move on quickly to APAC and just tell you that we see broad-based, consistent underlying demand growth. I'm going to talk about China for a moment and briefly cover that as well. But broad-based across the rest of Asia Pacific and kind of reasonably strong and stable underlying demand as we see the markets today.

China, clearly you're reading the press all about lockdowns, et cetera. We are seeing those lockdowns play out in Q2, if you will. I'm finding the onsite side of our business holding reasonably well. Yes, there is some impact on the merchant side, small and medium enterprises obviously, a little bit more impacted over there.

We did see the volumes kind of take a little bit of a drop early on in April, but they have stabilized. Still a little bit short of where we expect them to be. My forecast is for the rest of the quarter we aren't likely to see anything significant happen over there. And just so you know, we factored that into our guidance as well.

Lastly, EMEA and that really is a bit of a wild card I have to tell you. I have been surprised by how the EMEA business has held up, the onsite volumes as well as the merchant side of the business, huge resiliency over there. Obviously, you know what's happening to energy prices, and you can see our pricing numbers in EMEA as well making sure that we are pricing to inflation and even catching up on prior catch ups that we talked about.

We said to you previously we kind of catch up on pricing on one to two quarters, you can see that come through. And obviously the operating margins ex pass-through demonstrating that, up 130 basis points year-on-year sequentially, 120 basis points up across every segment that we have as well. So, again pretty solid in terms of the quarter one.

Really, I think the unknown over there is what happens to energy more broadly. And of course, you hear the news about what happens to natural gas sourcing, et cetera. I'm not going to speculate there, Mike. Just as far as the underlying business itself is concerned and how we are managing it, I'm really pleased with how the EMEA guys, the team is managing that. And they are – they will work through every contingency that happens. We've got a strong team over there able to do that.

So, it's a bit exhaustive as an answer, but I just thought I'd kind of give you that broader perspective.

Michael Sison
Analyst, Wells Fargo Securities LLC

Q

No, thanks for that. And just a quick follow up, industrial gases tends to help customers reduce their energy cost. So, your sale of gas backlogs is pretty steady at $3.5 billion. Are you seeing sort of more bidding potential and does the backlog potentially go up in this inflationary environment?

Sanjiv Lamba
Chief Executive Officer & Director, Linde Plc

A

Absolutely, Mike. So the short answer to that is, yes, we are seeing a lot more proposal activity. On the sale of gas backlog, just a reminder that about $1 billion of that is coming off this year, which means we are starting up projects, the best kind of projects I like, that gets started off, bring revenue and earnings in the course of the year. So that's good to see.

We're filling that back up with $1 billion more of project wins that we expect or are kind of developing and fairly advanced. And I expect – I do expect actually the backlog to continue to creep up and move in the right direction. So, yeah, lots more activity and across a whole range of end markets as well, energy, refining, chemicals, electronics, manufacturing. So again, broad-based, solid proposal activity, which I think will translate into wins. We just have to see how quickly we can lock that in.

Michael Sison
Analyst, Wells Fargo Securities LLC

Q

Thank you.

Operator: Our next question comes from Kevin McCarthy from Vertical Research Partners. Please go ahead.

Kevin W. McCarthy
Analyst, Vertical Research Partners LLC

Q

Yes. Good morning. Sanjiv, can you comment on your outlook for return on capital? You had an impressive level of 18.9% in the quarter. Can you continue to move that higher? And how do you view ROC in the context of rising interest rates? Are you starting to bake higher cost of debt, for example, into your project bidding, and have you seen that in the marketplace as well as it relates to your peers?

Sanjiv Lamba
Chief Executive Officer & Director, Linde Plc

A

Hey, Kevin. I'll kind of quickly give you a response to that I think, and then get Matt, he is passionate about this. I'm going to let him have a walk through this as well. ROC, I've said this before, you've kind of heard and I've been quoted on this, truth serum for an industry like ours. I'm sometimes surprised when I look at our peer group that we really do stand out.

There's a lot of hard work that goes into that. Managing both the numerator and denominator remain critical. And we do that day in and day out, as you know. That's how we run our business. We run it every day to make sure that we kind of get through on that.

So these are record ROC levels for our industry. Our industry hasn't seen this record and comes from that daily operational aspects of the business, and then managing a very disciplined capital approach, all of that kind of feeds into that. Our aspiration will remain to continue to grow that. But obviously, as you know, it's a function of the various factors that go into play that I mentioned earlier on. And as we see CapEx buildup happen and the ramps take place, there will always be some catch up that happens around the ROC piece. Matt?

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

A

Yeah, sure. Kevin, I can just add a few points to that. I think as far as the outlook, it's probably safe to say we're overachieving what some of your expectations probably were. And the obvious answer is we're growing earnings faster than our capital base. But I think the underlying thing to take into consideration is we are less capital intensive than I think people realize.

We have a lot of avenues of growth that don't require significant capital. We're demonstrating that through our end markets, we're demonstrating that through our supply modes of packaged and some of the other services we have. And we see a continued opportunity to see expansion of return on capital through significant growth that does not require significant capital.

Now, of course, we have great opportunities for large projects that we're going to pursue and that we're going to win. But we also have a very diverse business that allows us strong year in, year out growth without the need of significant capital.

And as far as the inflation impact on what you asked, we get asked this question when rates rise, when rates fall, we get asked over and over again. And we have the same answer, which is we take a very long term view, right. When we lock in these projects, these are 15, 20-year views, and we don't try to estimate what inflation or rates will do.

Rather, we protect ourselves against inflation on how we contract, both on the execution and the long-term fees that we will charge for facility fees. So given that we build a model that is independent of what feds do around the world and how inflation is structured, and I think our results recently have demonstrated that. And I think our results during the disinflationary periods post the great financial crisis showed that. So from that perspective, we build it agnostic of it and just to generate value for the long term.

Kevin W. McCarthy
Analyst, Vertical Research Partners LLC

Q

Thank you for that. And Matt, secondly, if I may, can you walk us through the financial impact from your exit in Russia as it relates to earnings and also any cash flows associated with the exit cost there?

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

A

Sure, Kevin. So to be clear on how we did this, it starts with the guidance. And what we wanted to do in the guidance, as we stated, is by the second half, remove any impact from Russia, and that includes projects or our business in the gas, which is about 1%.

As we stated on the prepared remarks, it's a fluid situation. This is something that we are committed to scaling back. We're committed to reducing our footprint, obviously, following all the sanctions. And it's something that we're continuously working on. But we wanted to take the prudent and conservative view of removing that impact going forward.

As we stated, the gas business is about a little less than 1% of sales and corresponding operating profit and assets. And the Engineering business, obviously, you saw the effect in the backlog of those projects and they're continuing to work through.

From a cash perspective, I'd separate into two pieces, there is obviously the normal aspect, as I mentioned, where when you wind down projects in this type of percent completion business, it is a normal outflow. That is a normal part of this business. You get paid upfront and then as you work the project down, you pay your vendors and you cover the costs to build that project. We fully expect that same effect. It'll just be on a more accelerated path than what it normally would have been.

Separately, on the deposits that we have upfront, at this stage, we see the need for them. That is something we don't see a significant effect other than obviously working through paying vendors and paying the cost to wind down the projects.

And as I stated, we still anticipate that operating cash flow to EBITDA will be low- to mid-80s for this year considering all these items. So that's how I think you should think about it and model it.

Kevin W. McCarthy
Analyst, Vertical Research Partners LLC

Q

Very good. Thank you.

Operator: P.J. Juvekar, Citi, please go ahead.

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

Q

Yes. Hi. Good morning. Sanjiv, some have suggested that with the rise of natural gas prices in Europe, the cost of green hydrogen today is same as cost of gray hydrogen. So you would think that Europe would accelerate green hydrogen, which would make sense from sort of energy security standpoint. Have you seen any increased discussions and initial orders or anything about green hydrogen in Europe?

Sanjiv Lamba
Chief Executive Officer & Director, Linde Plc

A

P.J., that's a good question, obviously, very topical at the moment. So what we are seeing is clearly the intent in Europe. Even prior to this current crisis, the intent in Europe to move down the path of green, obviously, that difference between green and gray is narrowing certainly in Europe. The constraints, so from a policy point of view, clearly, we see that there is greater momentum, if anything, coming out of this current crisis leading to that green road map.

The challenge, P.J., lies in the ability to scale up green production, in the ability to access renewable energy, and the ability to get all of that together to then produce hydrogen and find a carrier that makes it cost effective once it's landed at scale, and that's where the challenge lies.

So we are obviously working closely with a number of different customers who are very keen to go down that path. You will have seen announcements we made. We got two into 100 megawatt. So that's a 200-megawatt order from RWE to work to kind of get their energy balance up from a green hydrogen point of view. But again, all of those projects take time, and the scalability continues to be a little bit of a challenge.

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

Q

Thank you. And I have a question on neon. You mentioned you have supply in the US and Germany. I believe you're adding some new capacity as well. And can you talk about sort of supply-demand of neon? I know a lot of that was in Ukraine. And then, also you talked about onshoring. And if electronics are onshoring, you see Intel, big clients, do you have the supply in the US to supply if the need comes up?

Sanjiv Lamba
Chief Executive Officer & Director, Linde Plc

A

P.J., sure. So let me just take a step back and give you the overview and then let's get into the details in terms of where we stand. So, the overview is about a third of the world's refined neon comes out of Ukraine and Russia, about a third.

Most players around the world have that sourcing built into their model. We are lucky in that our refining capacities really sit in Germany and US and feed the entire world. So our kind of dependence on Ukraine and Russia is in the mid-teens, if you will, relative to other people being around a third. That positions us well.

Obviously, prior to all of this happening in terms of the war in Ukraine, last year, we had already made decisions recognizing that semiconductor growth, and in fact, even space were likely to make rare gas demand continue to grow. So we're going to see some of that capacity come online this year and some early next year as well.

As far as things stand, you referenced Germany and the US, we produce refined neon in Germany and the US in multiple locations, which ensures that we're able to meet the entire global demand out of these locations. Of course, we can also meet all the offshoring needs that our customers like Intel, Samsung, TSMC and others have in terms of coming out of either Germany or the US as well. So we are very well-positioned and we are, of course, the largest producer of refined neon in the world.

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

Q

Thank you.

Operator: Thank you. Our next question comes from Jeff Zekauskas from JPMorgan. Please go ahead.

Jeffrey J. Zekauskas
Analyst, JPMorgan Securities LLC

Q

Thanks very much. When I look at your electronics sales or sales growth, it seems that you're taking market share in that area as best as I can tell. Is that true? And Air Products and Air Liquide and Linde are all very, very competent companies that supply the electronics industry. Is there something that you can now technically do that the other two companies find it more difficult to do? Or are the wins that you're achieving more the result of intangibles, better service or better customer relationships?

Sanjiv Lamba
Chief Executive Officer & Director, Linde Plc

A

Thanks, Jeff. So the electronics wins that we had last year, Jeff – and you've heard me say this before in the last quarter as well, we did about $1 billion worth of project wins last year. And I may not have said this already, but I'm going to just say this now, which is that I expect that we'll have a healthy project backlog growth this year from electronics as well.

So clearly, it does point to the fact that we are providing a solution to our customers that is very appealing for them. And that's really a combination. I think you hit on all of the elements within that. We have some great technology. We've been able to take the relationships that we had with the Praxair relationship with Samsung, with Linde's relationship with TSMC and both dealing with Intel. We've been able to take that and be able to kind of create both solutions, leveraging relationships and of course, operational excellence, which is critical in as far as electronics business is concerned. Those fabs want to see highly reliable, extremely safe operations, and we are able to package all of that and bring it to bear to get those win rates up where we like to see them.

Jeffrey J. Zekauskas
Analyst, JPMorgan Securities LLC

Q

Okay. And just to follow up, when I look at your income statement, it seems that your SG&A costs again, I think last year they were about flat. And this year, at least in the first quarter, they're up a couple of percent. There's really no movement in research and development expenses. How do you keep your overhead growing at such a slow rate?

Sanjiv Lamba
Chief Executive Officer & Director, Linde Plc

A

I'm going to kind of touch on the principle of that and just kind of tell you how we look at that business every day, essentially, Jeff, as you've probably heard me say it before. So when we think about how we manage our business and how we leverage what comes at the top line right down to the bottom, we think about it coming through a variable margin. So that's where the productivity measures kick in.

And then tight management of total cash, fixed cost, that's something that gets attention every month. It's something that our guys are managing every day. And as part of that, the sales and admin costs are something where we spend a lot of time scrutinizing.

Now, how does productivity play a role over there? Jeff, you've heard me talk about digital solutions previously. One of the things we do extremely well around our productivity actions, particularly when it comes to the fixed cost piece is actively provide a lot of digital solutions into that space to make sure you're automating, to make sure that you're taking out where possible you're taking out heads, where possible you're taking out effort. And I think all of that plays into that effort around managing your total cash fixed cost, and within that, the subset being SG&A.

Jeffrey J. Zekauskas
Analyst, JPMorgan Securities LLC

Q

Right.

Sanjiv Lamba
Chief Executive Officer & Director, Linde Plc

A

So I won't say to you there's rocket science there, Jeff. It's just the grind of managing that every day.

Jeffrey J. Zekauskas
Analyst, JPMorgan Securities LLC

Q

Looks like rocket science to me. Okay, thanks so much.

Sanjiv Lamba
Chief Executive Officer & Director, Linde Plc

A

I could get excited about rockets but we'll talk about that later.

Operator: Thank you. Our next question comes from Nicola Tang from BNP Paribas Exane. Please go ahead.

Nicola Tang
Analyst, Exane BNP Paribas

Q

Hi, everyone. Thank you. I wanted to ask a little bit more around kind of energy security and energy diversification, which has obviously been a topic in Europe in particular on the back of the conflict. And we talked a little bit about green hydrogen already on this call, but I was wondering if you could discuss whether Linde could play a part in terms of helping to diversify energy sources say, through LNG, for example, which is part of the EU's REPowerEU initiative.

And then the second question also related to energy security is, if we did hypothetically, see energy rationalization or curtailment, in terms of access to Russian gas, et cetera, can you discuss what the impact might be on Linde in that scenario? For example, would your take-or-pay contracts on the onsite business still be valid? I'd just love to understand a little bit more. Thank you.

Sanjiv Lamba
Chief Executive Officer & Director, Linde Plc
A

Thanks, Nicola. So let me start off by just talking about the energy diversity actions that are happening across Europe in particular as we speak, and the role we could play in that. So we have actually – as you think about it, as more capacity gets released on the engineering side, we have now the ability to go out and provide a greater focus around supporting governments and countries in their search for that energy diversity.

So I clearly see us playing a role around the LNG development that happens given that we have that core competence around that. And obviously, we are in dialogue at the moment with a number of governments in looking and developing projects that will help support that. Now, that does take a little bit of time. As you know, these are complex projects. But we are pleased that we have a role to play in there.

Of course, EU's focus on – and the REPower kind of effort and policy statements clearly have set out the intent of how that diversified energy portfolio will become crucial. We talked a little bit about clean hydrogen earlier on. I do see that in all our discussions that we are having with a number of these governments, that that intent will translate into action.

I have to tell you that I am a little more optimistic now that there will be a role between green and blue. I think the recognition around the fact that blue hydrogen or blue ammonia will provide a good bridge to ultimately going green, which is what we think a pragmatic policy direction would look like. I am seeing that there is a little more traction to that and there is a general realization that scale up on blue can happen more quickly.

Now, all of this does mean, however, that there will be a combination of local projects, many of which will be green and important in elements of carriers that will provide either ammonia as an energy source, as an example, or hydrogen itself, either piped or in liquid form.

And we see again, that there's greater openness to understanding how those logistical challenges will get dealt with across countries and kind of setting out regimes, just as Germany has, using contract for differences as an example, to try and make sure that they get access to these developments that happen elsewhere in the world, allowing that import market to actually be set up and build the infrastructure that then allows that distribution of that energy to take place as well.

So all-in, I'd say to you that Linde has a role to play, both from a point of view of the engineering that we can provide into that space. And also in participating in the kind of downstream efforts that happen once that energy is made available. So I do feel good about that.

I have to be honest and tell you though, that all of this does take longer than people would like it to take. All of us would like to see this happen in the next few months. But unfortunately, these things tend to take years rather than months.

Now, just talking about the energy curtailment piece that you briefly referenced. Obviously, as you would expect, we have a business continuity planning effort in Europe, across most of our countries in fact. And in Germany in particular, we have run a number of different scenarios. We are actively engaged with both the power and natural gas providers, but also with the governments locally.

There is a – as you would appreciate, there is a part of our business, the air separation side, where we are providing crucial products, including medical oxygen to hospitals, which gets prioritized by government. So we appreciate that they understand that criticality of that. And then on the other side, we don't have any direct exposure to Russian natural gas, but we do recognize that some of our customers will do that. And we are kind of working with governments and customers to make sure that we have those contingency plans in place.

I can also – I know the Polish example is top of mind for everyone. Just to give you a kind of sense on that, from our perspective, we will see little or no impact from those developments.

Nicola Tang
Analyst, Exane BNP Paribas

Q

Thank you. And maybe I can give you an opportunity, Sanjiv, to talk about rockets, and just ask you a little bit on the helium side of the business? I see on helium, you've announced this offtake agreement with Freeport from 2024 onwards. Can you talk a little bit about your expectations for the helium market, given I think there's some supply disruptions elsewhere. And just remind us just maybe how big your exposure is? Thank you.

Sanjiv Lamba
Chief Executive Officer & Director, Linde Plc

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Sure. So, thanks, Nicola. I appreciate that question. I'm going to talk about rockets first, get excited about it, and then touch on helium a little bit and wrap it up. So as far as rockets are concerned, aerospace for us represents about 2% of our sales. And at some point, I think we're going to designate its own end market. It's been growing strong double-digit for us for quite some time. And Linde is the largest supplier in this entire sector. So we're quite proud of that.

Now rockets consume many gases. And while it's primarily liquid oxygen, liquid hydrogen, some helium, often liquid nitrogen for densification of the fuel that is used, we also use krypton and xenon to help satellites with their propulsion systems to keep them in orbit.

In addition to that, the reason I get excited is because here we are able to bring the full benefit of Linde's portfolio, and we provide atomized powders for advanced manufacturing or 3D printing as you – as it were, for specific components and parts. And we also provide some specialized coatings out of our PST unit.

So all-in, it's kind of a comprehensive package of solutions that we can bring to these companies. And obviously, they greatly appreciate that. And I expect this to grow as you can see from the number of launches you see in the news every other week now. So it's a good growth market. We are excited about it. We have some great, tremendous solutions over here and that really positions us extremely well. And the US market is growing leaps and bounds.

On helium itself, as you know, helium is short. There are two major components at the moment kind of driving that. There is BLM in the US, which has the most significant impact. And most people were banking on some helium coming out of Amur in Russia. And we recognize that that's going to be delayed. So it's likely for the rest of this year I expect helium to remain quite tight. We're obviously seeing that incremental costs and pricing reflect a lot of that as we speak. So from our perspective, we didn't have any Russian helium in our sourcing last year.

We have a good balance of sources across the world, multiple sources to exactly manage these kinds of issues that ultimately come up. So managing dozens of sources, ensuring that we kind of mitigate that risk in meeting our customers' needs is really kind of where helium is at. And we're seeing pricing trends hold up. I expect that to hold up for the rest of the year as well, given the tightness in the market.

Nicola Tang
Analyst, Exane BNP Paribas

Q

Thank you.

Operator: Thank you. Our next question comes from Peter Clark from Société Générale. Please go ahead.

Peter Clark
Analyst, Société Générale SA (UK)

Q

Yes. Good morning, everyone. First one for Matt, actually. You made the very good point about the sell-off that Linde seems to suffer much more than its closest peer tends to be in the first quarter of the year. Obviously, that creates the opportunity for the share buybacks. And you've always made it clear when there's a correction in the share price, you go in big. You could certainly argue the share price remains depressed. You've been big entering Q2. I assume the pace of share buybacks is going to continue at quite a pace unless the shares correct upwards? That's the first question.

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

A

Peter, sure. So I can say we have very healthy cash flow. As you know, we follow our very disciplined capital allocation policy, which to repeat for those on the call, is we have a mandate to maintain an A rating, raise the dividend. Our priority is to invest in the business and all the excess cash goes to our buybacks.

And, right now, we still have a lot of excess cash. We expect a lot of excess cash and we have the $10 billion authorization program. So to your point, we did about $1.7 billion or so in Q1. We are in blackout right now into the 10b5-1, just given we're into the earnings. We'll be active again come Monday. And yes, we will continue to sweep excess cash to the buybacks and we see that as a great opportunity right now, frankly, based on the pricing. So we will be active and we will be in the market every day.

Peter Clark
Analyst, Société Générale SA (UK)

Q

Excellent. And one for you, Sanjiv. On Europe. I think you made the comment, you're surprised it held up so well, I think, in terms of the activity, maybe, I don't know. But I mean, certainly one of your peers pointed to the bulk gases starting to get sluggish through the quarter. I'm just wondering your thoughts on Europe, particularly when I look at bulk and cylinder, I guess your merchant pricing must be something like 20% now as you pass on this energy surge. Just wondering how you feel about the demand outlook in Europe particularly? Thank you.

Sanjiv Lamba
Chief Executive Officer & Director, Linde Plc

A

Thanks, Peter. So that is the point I was making, that I was really pleased to see how resilient the merchant, i.e. the bulk and the packaged side of the business had been right through the first quarter, despite the fact that we had to put significant price increases through as a result of the energy cost increase that we saw. So that's held up reasonably well.

Peter, I'm hesitant to try and speculate what that market might do. There are, of course, a number of variables in that market. But I was surprised, pleasantly, that that it had held and been quite resilient. And I have to say that as we move beyond the first quarter, that trend hasn't changed in any significant way thus far.

Peter Clark
Analyst, Société Générale SA (UK)
Q

Excellent. So there's no evidence of demand destruction at this point on pricing or anything like that?

Sanjiv Lamba
Chief Executive Officer & Director, Linde Plc
A

All I look at is a volume trend line at the moment, Peter, and that's not suggesting that for now.

Peter Clark
Analyst, Société Générale SA (UK)
Q

Thank you.

Operator: Thank you. Our next question comes from John McNulty, BMO Capital Markets. Please go ahead.

John McNulty
Analyst, BMO Capital Markets Corp.
Q

Yeah. Good morning. Thanks for taking my question. Sanjiv, so early in your remarks, you kind of highlighted on slide three the various business segments, and you mentioned health care was arguably maybe – I hesitate to quite put it this way – but overearning just given COVID, and that might – that's come off a bit and it may continue. It sounds like to come off at least a little bit.

Can you help us understand in terms of the other major end markets that you serve, where they are relative to kind of the pre-COVID levels in terms volumes? Are there some that are still kind of noticeably below? I think you indicated food and beverage was seeing a nice recovery. I'm not quite sure if that's back to normal yet or not, but maybe you can give us some color as to relative to kind of "normal expectations or normal volumes" where each of those businesses are at this point?

Sanjiv Lamba
Chief Executive Officer & Director, Linde Plc
A

Sure, John. So let me first clarify health-care and then let me talk about some of the other end markets as well. So on health care, we saw the trend was flat. And really, what I was emphasizing was in the developed countries I'm finding that elective surgeries are increasing. As you know, these have been kind of put on hold through the COVID period. They are all coming back. That's where a lot of the oxygen usage is there. And then we are finding COVID volumes offsetting by declining, particularly in the emerging markets. So that trend is why we are seeing the flattish kind of volume around the healthcare piece. And I said earlier, I expect healthcare will be back at its kind of long-term trend of mid-single-digit in due course.

Coming back to your other question around pre-COVID levels versus where we are on all our end markets, and I'll say to you more broadly, most end markets across most geographies are at or above pre-COVID levels. So we've seen good recovery.

We've seen that embedded in those different markets. And we've been quite pleased to see that recovery. You saw most of that in 2021 as well. And clearly, the momentum as you can see from that slide three that I put up, there's a lot of green on that slide, which is a good sign, as you can see.

So if I kind of maybe pick up a couple electronics, no need to comment on that. As, you know, it's well above pre-COVID levels, and has been highly resilient and continues to grow. And as I said earlier, I expect that growth to continue. Momentum around investments is still there. And we are winning more than our fair share of that. So I feel good about that.

The ones that that I think people kind of are watching carefully, chemicals and energy. Again, very strong market movement over here. We are finding that, 17% year-on-year year growth, pretty solid number out there, John. But, also, as I think about our footprint in the US, and just to emphasize this, this is where I see the growth going to be as we go forward.

That is crucial because the US refiners and the US chemical companies have a natural advantage from competitive natural gas pricing that gives them that ability to export into markets elsewhere, where that energy price increases make local production a lot less competitive. And I expect that momentum to continue in the mid two – so I'll say next two to five years, if you will.

Metals and mining, again, impacted really around the Chinese curtailment, the dual control policy, et cetera, which is helping the rest of the world pick production up. And again, I am seeing continued investment in that space. We will see some decarbonization efforts happen in that space as well, which will provide a different kind of growth for us. But notwithstanding that, again, we expect to see that continue.

Manufacturing is where a lot of people have questions. Obviously, supply chain challenges, chip shortages for auto, et cetera. And again, the underlying growth over there, the underlying demand looks solid. And we feel good about where that stands today. Obviously, we'll have to watch carefully how IP develops. And that's going to kind of be driven in part by how manufacturing continues to demonstrate that resilience.

John McNulty
Analyst, BMO Capital Markets Corp. Q

Got it. Thanks very much for the color. Definitely helps fill in some blanks.

Operator: And we'll now take our last question today from Mike Leithead from Barclays. Please go ahead.

Michael Leithead
Analyst, Barclays Capital, Inc. Q

Great. Thanks for squeezing me in here. Just one for me. Question for Sanjiv, I just wanted to ask on the 300 or so decarbonization projects you're looking at, I think last quarter you sized the probability-adjusted investment potential at around $4 billion or so. And then today, I believe you said $5 billion. So just really just trying to get a sense, are there more projects you're looking at now or just getting more confident in some of these projects actually getting to realization?

Sanjiv Lamba
Chief Executive Officer & Director, Linde Plc A

Mike, the number of projects have held around 300 that I spoke about last quarter as well. What tends to happen is really the portfolio of projects churn quite a bit as you would expect. And we are adding some larger projects. I'm really pleased that on the industrial side I'm seeing a lot more activity. That's right in the wheelhouse. We are incumbent in many of those positions. We are working with existing customers and that really gives me a lot more confidence.

And as you know, we are very discerning around the projects that we want to do because we feel that we want to have an offtaker part of that kind of contractual positioning around clean energy. And then we need to have the ability to be able to serve that, whether it's blue or green from technologies that we can access easily and have a demonstrated operational capability on.

You put all of that together, that's kind of what's leading to that $5 billion number. I wouldn't read too much into $4 billion and $5 billion, to be honest. The absolute number is in $20 billions. We put a fairly stringent probability adjustment to that portfolio to get to that $5 billion. It's likely more than $5 billion to be honest. And I feel good about the quality of projects we are seeing. And there is, as you're right in pointing out, that there is higher degree of certainty around those as we continue to work with our customers and partners on them.

Michael Leithead
Analyst, Barclays Capital, Inc.

Q

Great. Thanks.

Operator: Thank you. With this I would like to hand the call back over to our speakers for any additional or closing remarks.

Juan Carlos Pelaez
Vice President-Investor Relations, Linde Plc

Sergei, thank you. Thank you, everyone online. Really appreciate it. If you have any further questions, please feel free to reach out. Have a great rest of your day. Take care.

Sanjiv Lamba
Chief Executive Officer & Director, Linde Plc

Thanks, guys.

Operator: Thank you. This concludes today's conference call. Thank you for your participation, ladies and gentlemen. You may now disconnect.