06-May-2021

Linde Plc (LIN)

Q1 2021 Earnings Call
CORPORATE PARTICIPANTS

Juan Pelaez  
Vice President-Investor Relations, Linde Plc

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

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

OTHER PARTICIPANTS

Robert Koort  
Analyst, Goldman Sachs & Co. LLC

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

Tony Jones  
Analyst, Redburn (Europe) Ltd.

Nicola Tang  
Analyst, Exane SA (United Kingdom)

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

Duffy Fischer  
Analyst, Barclays Capital, Inc.

Jeffrey J. Zekauskas  
Analyst, JPMorgan Securities LLC

Steve Byrne  
Analyst, BofA Securities, Inc.

John P. McNulty  
Analyst, BMO Capital Markets Corp.

Peter Clark  
Analyst, Société Générale SA (UK)

Geoff Haire  
Analyst, UBS AG (London Branch)

Vincent Stephen Andrews  
Analyst, Morgan Stanley & Co. LLC

Kevin W. McCarthy  
Analyst, Vertical Research Partners LLC
Operator: Good day and thank you for standing by. Welcome to the First Quarter 2021 Linde Earnings Call. At this time, all participants are in a listen only mode. After the speakers' presentation, there will be a question and answer session. [Operator Instructions] Please be advised that today's conference may be recorded. [Operator Instructions]

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

Juan Pelaez
Vice President-Investor Relations, Linde Plc

Crystal, thank you. Good morning, everyone, and thanks for attending our 2021 first quarter earnings call webcast. I'm Juan Pelaez, Head of Investor Relations. And I'm joined this morning by Matt White, Chief Financial Officer, and Sanjiv Lamba, Chief Operating Officer.

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

Sanjiv and Matt will now give an update on Linde's business outlook and first quarter performance and will then be available to answer your questions. Sanjiv, all yours.

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

Thanks, Juan, and good morning, everyone. Once again the Linde team delivered another stellar quarter across all fronts, 32% growth in EPS, 57% growth in operating cash flows, operating margins expanding 320 basis points, and of course ROC at 14.5%. And of course very strong progress across our ESG goals of reducing carbon intensity and making strides in gender diversity.

Matt will walk through the more – through the details on the financial numbers, but frankly, they speak for themselves.

A few months ago we marked the two year anniversary of the merger. So I'd like to take the opportunity to recap both our performance and also provide you a medium term outlook on expected financial performance going ahead.

Let me move on to slide 3. Slide 3 shows our 2018 to 2020 growth relative to key competitors across four major financial metrics, EPS, operating profit margin, operating cash flows, and of course, very importantly, return on capital. From my perspective these are the four most important financial metrics to determine performance in this industry.

And it is of course quite clear from that slide as you see that we have led across all four. In fact, I'd say with some pride that Linde has the undisputed best performance in the entire industry since our merger.
Our employees have accomplished this while integrating two global companies during possibly the worst pandemic in a century. But of course this is nothing new. We have been the industry leader for almost three decades now.

And I want to move on to slide 4 and talk a little bit about that history of over 25 years from 1993 to 2017, as the last full year before the merger.

The compound annual growth rate of Linde's sales, EPS, dividend, and operating cash flow exceeds both competitors across the board. We have a long history of generating compound value for our shareholders, while sustainably and profitably growing the company.

And of course Linde's outperformance extends beyond just our industry. On the right hand side over there, you can see the EPS CAGR that we've had over the same period against the broader S&P 500. So it's clear we've been the industry leader for many years. And we fully expect to continue that trend for decades to come.

Our midterm strategy, which is on our next slide 5, provides a roadmap on how we plan to get there. Most of you have seen this strategy before. It's fairly straightforward and simple enough that we can summarize it on one page.

It starts of course with optimizing our base business of industrial gases and engineering. I've said this before. Our unique operating rhythm provides a real competitive advantage in how we extract value year in and year out, irrespective of the macroeconomic climate. We've of course proven this in the prior recessions and some black swan events, including the most recent COVID pandemic.

So while our resilient business model provides downside protection, we also have the ability to leverage and – any economic recovery due to our exposure to the cyclical end markets. Primarily here through merchant and packaged gases.

Of course the pricing structure here also helps, as it closely correlates with inflation. You've already seen some of that demonstrated in the last few quarters. And I anticipate further upside if the economy continues to recover.

Finally, we will continue to grow by capitalizing on future opportunities. Linde has demonstrated the highest compound growth rate in the industry across all key financial metrics. And we expect to maintain this distinction.

Currently, there are secular growth drivers around two of our key markets that comprise about 30% of our sales. These are health care and electronics.

You're all familiar with what is happening in the electronics space today. Our customers are looking to expand production of chips to meet soaring demand, while improving and strengthening local supply chain logistics. We are an integral part of this development, as industrial gases are a critical component to successfully operating a modern fab today.

I fully expect electronics to comprise the largest portion of backlog wins over the next couple of years, as we continue to see high levels of interest for new customer builds.

Furthermore, the health care market continues to grow as well, combination of demographics and trend towards telehealth. As you know, our health care business, particularly the homecare business, served as a critical second line of defense during the recent pandemic.
And of course we expect future trends to create new growth opportunities, allowing us to leverage our leading dense network to support momentum towards a distributed health care market.

The combination of these strategic elements should enable us to grow annual earnings per share on average more than 10%. That is something we've demonstrated throughout our history. And we feel confident we can continue for the long term.

Now you will notice I said 10% EPS outlook, excludes the impact from the transition to clean energy. Currently, we view the benefits from this transition as incremental to our EPS outlook.

Clean energy of course is a hot topic, as you all know. In fact, I hadn't quite realized how many global hydrogen experts there really were until only six months ago.

However, producing, storing, and supplying hydrogen to enable cleaner fuels is something we've been doing for decades. In fact, hydrogen has been one of our fastest growing molecules over the past 10 years.

So given this, I'd like to use the last few slides to provide you a view on the overall clean energy market, explain why Linde is exceptionally well positioned to succeed, and share with you our overarching strategy going forward.

But before I start, I want to state that we are not providing specific guidance on either expected sales or wins from clean energy at this time. This is a rapidly evolving landscape with many countries taking different paths. So the pace of the transition is just too uncertain to make multiyear detailed projections.

However, what I can confirm is that Linde has the experience, the technology, and the asset network to be a significant player in the transition.

To further elaborate on this, I'd like to provide you our view of the clean energy market on the next slide, slide 6. It's safe to say that nobody really knows how the decarbonization market will ultimately play out. So it may be helpful to start with an overview of the potential opportunity.

We think of clean energy transition in two main pieces, the first being how we can provide solutions to managing carbon, and the second relating to clean hydrogen development.

Now we already have a number of significant applications that reduce, capture, sequester, or clean and monetize gas streams for use. A good example of this is our current carbon dioxide business at about $1.3 billion, serving several key end markets.

Looking ahead, we see more opportunities for our technologies and solutions to enable our customers to reduce their carbon footprint through capture and removal of their emissions.

Furthermore, we believe blue and green hydrogen will both play an important role in the transition to cleaner energy. In theory, the total available opportunity can be represented by the current $6 trillion of hydrocarbon market. However, that will be solved by a blend of solutions and will take years to evolve.

So as an example, one estimate assumes clean hydrogen will reach $100 billion by 2030, or say roughly 1.5% of today's hydrocarbon market. But time will tell.
Given the uncertainty, as I said before, I’m not going to provide you a specific estimate or timeline today. But I do want to reiterate that this is a significant opportunity for Linde and something we see as an upside to our base business.

So with this as the backdrop, it may be helpful to understand what Linde brings to the table regarding technology, asset network, and experience, which you can find on the next slide, slide 7.

Whether it’s production, distribution, or application and services, we have over 50 years of experience as an owner and an operator of billions of dollars of hydrogen infrastructure. We are agnostic to how that molecule is made, whether it’s through reforming, chemistry, or by electrolysis. We have the technology and the operating expertise for all of them.

Furthermore, we have the largest and the most dense hydrogen distribution network in the world. This will be crucial to ensuring a safe, reliable, and cost effective energy transition. Our technology, many proprietary applications, and extended service capabilities position us exceptionally well for this opportunity.

And finally, we also have the ability to leverage our engineering business to integrate various technologies into solutions and to offer sale of gas or selectively sale of equipment, providing us a unique competitive advantage.

Overall, we have a very long and successful history supporting the transition to clean energy. And I believe we are incredibly well-positioned across the entire value chain as this initiative accelerates.

I’d like to wrap up the clean energy discussion on the next slide, slide 8, with a view of our overarching strategy and give you some key supporting examples as well.

The strategy on the left is something we’ve mentioned before. It represents a proven approach to profitably growing an industrial gas business, including hydrogen. It starts with leveraging our leading integrated asset network. In addition to that, we execute locally market driven strategies. We believe many of these initiatives will vary by country.

We also expect to continue to advance and grow our technology leadership in the space across the value chain by leveraging the expertise of our engineering team, as well as developing partnerships that provide us access, insight, and hopefully accelerate opportunities.

Now on the right hand side of the slide, you’ll see three projects we recently announced. I just want to remind you that these are part of our base CapEx and therefore not included in the $3.5 billion backlog. But these projects are over $350 million for green and blue hydrogen infrastructure in South Korea, Germany, and the United States.

Just to pick on the example in South Korea, we are partnering with one of the largest industrial conglomerates to build out a liquid hydrogen infrastructure to fuel municipality buses there.

We continue to evaluate a significant and growing number of opportunities from large megaprojects to very small ones. But irrespective of the size of the opportunity, we will always maintain our disciplined approach to pursuing projects that meet our investment criteria.

This summarizes our midterm strategy and how we currently see the clean energy market. But this is something I’ll provide more updates on in the future, as it continues to evolve.
Now before I hand over to Matt, I wanted to make one final point on our ESG initiatives. Simply said, ESG is embedded in our culture. It's part of our operating rhythm. And it's part of our compensation philosophy.

It has been an integral part of our values and forms the foundation of Linde's mission statement, making our world more productive. I'm pleased to say we're currently tracking ahead in many of the initiatives we laid out in early 2020, including carbon emission intensity reduction and increasing gender diversity.

But this isn't enough. We know we need to do more. We are therefore in the process of thoughtfully developing more ambitious ESG goals, which I expect to share with you in a future call. But until then, you can be certain that we will continue to improve our performance in this area.

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

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

Thanks, Sanjiv. Please turn to slide 9 for an overview of the first quarter results.

Before I jump into the numbers, I'd like to remind you that we deconsolidated a joint venture in APAC, which reduces sales and operating profit by about 3%, but has no effect on EPS, since we are maintaining a consistent ownership position. This deconsolidation is shown as a divestiture. And we provide further details in the APAC segment results, which you can find in the appendix.

Total sales grew 7% from last year and were flat sequentially. Underlying sales increased 5% from prior year and 2% sequentially.

Volumes continue to recover, growing 3% over last year and 1% over the fourth quarter. Sequentially, negative seasonal effects and temporary outages in the US Gulf Coast from Storm Uri were more than offset by a broad based increase in volumes.

Industrial production levels have consistently risen in most geographies, which supports volume recovery in the packaged and merchant supply modes. And note that while Uri had a temporary negative effect on sales for the first quarter, profit impact was immaterial due to our contractual structure.

Referring to our end market trends in the appendix, every end market grew sequentially and over prior year, except for food, mostly due to restaurant closures and seasonality in Gist, our distribution business in the UK.

Pricing improvements of 2% is in line with globally weighted inflation, since the majority of our contracts have mechanisms in place to adjust for local cost inflation.

Operating profit increased 25% over prior year from a combination of higher pricing, incremental volumes, and a lower cost base. Furthermore, operating margins expanded 320 basis points, which marks the seventh consecutive quarter that we have expanded operating margins more than 200 basis points.

EPS of $2.49 grew 32% from last year and 8% sequentially. You can see the wider than normal growth rate differential between operating profit and EPS, which is mostly driven by the joint venture deconsolidation.
We had another strong quarter in capital management with operating cash flow up 57% and return on capital reaching 14.5%. ROC levels have been trending well, as we continue to grow earnings by double digit percent, while maintaining a disciplined and focused capital allocation process.

CapEx is down 5% from prior year, as temporary declines in project backlog spending more than offset increases in growth projects categorized as base CapEx.

Approximately 40% of base CapEx is for growth, including the clean energy projects Sanjiv mentioned, as well as the majority of small onsite wins we announced yesterday.

Overall, these results clearly validate our positive leverage to the economic recovery, while offering significant downside protection as evidenced in 2020.

Slide 10 provides an update on our capital management process. It starts with cash generation, which you can see on the left side. Linde employees have done a great job focusing on cash conversion and thus making more capital available for the company to deploy.

Available operating cash flow, which we define as operating cash flow, less base CapEx, has exceeded $1.5 billion for the last two quarters.

And while we continue to generate healthy levels of cash, how we spend it is equally important, which is shown on the right half of the slide.

Our capital allocation process is simple and consistent. We have a mandate to maintain an A credit rating and raise the dividend every year. After which, our priority is to invest in growth that meets our criteria. And then any leftover cash is used for stock repurchases.

The pie chart represents how we spent the first quarter operating cash, investing $0.8 billion to grow and returning $1.4 billion to shareholders. This approach provides balance but, more importantly, forms the foundation of the strategy and earnings outlook provided by Sanjiv.

I'll wrap up with guidance, which you can find on slide 11. The second quarter guidance range is $2.50 to $2.55. The midpoint represents an increase of 33% over 2020 and 38% over 2019.

I believe it's important to provide the 2019 comparison to properly distinguish between true growth, which this demonstrates, from mere recovery, which other companies may be showing.

This guidance includes an estimated year over year FX tailwind of 4%, since Q2 of 2020 was the low point on foreign currency weakness. Sequentially, this range assumes stable economic conditions with a moderate improvement related to normal seasonality. In other words, the Q2 guidance range does not assume any improvement in the underlying economy from Q1.

Note that preliminary April results came in better than our internal estimates. So if these conditions persist, Q2 EPS would be at the upper end or above this range.

The updated full year guidance range is $9.60 to $9.80 or $0.50 higher than what we provided last quarter. The midpoint of the range is 18% above 2020 and 32% above 2019.
I'd like to explain how we approached full year guidance, especially as it relates to the half year comparisons. At this point, we have updated full year for the better performance in Q1 and the latest Q2 outlook, of which this first half year combined was approximately $0.50 better.

However, we have not updated the second half guidance. In other words, we left the second half alone until we get a better sense of the recovery pace.

Rest assured, we will capture any improvement in the economy, as we have recently demonstrated. Furthermore, we will provide a more detailed update next quarter.

However, today, we are refraining from adjusting the back half until we get more visibility. Of course, if economic conditions hold or improve, we will be above this full year range. But for now, we believe this is the most prudent approach, given the global uncertainty.

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

**QUESTION AND ANSWER SECTION**

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

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

Q

Thank you very much. Good morning. I appreciate the comment, Sanjiv, on the hydrogen markets. And obviously a lot of uncertainty as to how it all develops.

I was curious. You put forth maybe an implied green hydrogen price in the future that's still two to three times the price of gray hydrogen. And I'm just curious. Do you think the world is going to need some carbon tax or some other ways to incentivize adoption of green hydrogen? How do you sort of see that developing?

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

A

Thanks, Bob. That's a great question. I'm sure a lot of people are discussing that very fact as we speak, Bob.

So you're absolutely right. Today, we do see that differential between green hydrogen to gray and blue hydrogen. Obviously, blue hydrogen is somewhere in the middle, providing a more immediate scalable option.

But green hydrogen, for it to kind of get to a point of inflection where adoption really happens, essentially three things need to happen.

The first, regulators across the world need to get to a view on what carbon tax, what carbon pricing, or other mechanisms that create that incentive to go and do something about it are put in place. We can talk about what that range might look like if you like, but that's a necessity.

The second is, you've got to see the technology evolve and get down to a point where you're seeing significant reduction in cost. There are two costs of green hydrogen as you're well aware, Bob. One is obviously renewable
energy becoming cheaper. I know there's a lot of work happening in that space. And equally, we are doing a lot of work on the second option, which is about making sure that our planned CapEx comes down.

So working through ITM on the PEM [polymer electrolyte membrane] option as an example. But also making sure that efficiencies around that, the membranes, improve sufficiently to give us a little bit of lift there as well.

So all of those three things need to happen, Bob, for really adoption to happen, the inflection point that I referenced earlier on.

Robert Koort
Analyst, Goldman Sachs & Co. LLC

Terrific. Thank you.

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

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

Yes. Hi. Good morning. First of all, I want to thank you and give a shout out to your employees in India who helped tremendously in getting oxygen to hospitals during this tragic situation. So thank you there.

And then my question is, as commodity prices go up for all kinds of commodities with strong demand in metals and chemicals and general manufacturing, if your customers are seeing inflation, is it – does it help you to get price as well from those customers?

And then your pricing in America seems to have accelerated in 1Q compared to last few quarters. So can you just talk about this pricing dynamic? Thank you.

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

Thanks, P.J. So I appreciate that shout out. And with family in India, I'm kind of acutely aware of how challenging the situation is there.

I want to take maybe just a couple of minutes, P.J., before I get to your question to just talk briefly about how proud we are over here on our team in India, who are currently working round the clock to support hospitals, patients, saving lives. Everything they do, it's kind of focused on that.

The team has also kind of reworked their whole operating philosophy to produce more than 3,000 tons per day of medical oxygen. That's almost tenfold what we were producing and delivering just four weeks ago. So a huge amount of work has gone in there.

We've deployed about 1,200 drivers on the roads, serving about 1,000 hospitals in the country. There's been phenomenal work being done on that. I thought it's appropriate that I just take a moment to kind of cover that.

Of course, being a global corporation, Linde globally has been able to help as well. We've airlifted 40-plus ISO containers. They are now helping the supply chains in the country. And another 40 to go in the days ahead.
Government's obviously taken on many of our ideas. You've seen the Oxygen Express that's going around India. Also that's something that we've helped put in place. And using the armed forces in many cases to move oxygen across various locations in the country. So a country in deeply challenging situation, but we're doing all we can as is appropriate.

I also want to just maybe quickly add a quick word of appreciation for our teams in Brazil, Mexico, other LatAm countries. Obviously they didn't get the same kind of press. But the reality is they were faced with similar challenges and have done enormously good work to support hospitals and patients.

So I'm really proud that our teams across the world are doing their bit to support our communities through this pandemic.

Now, P.J., I'm going to kind of more specifically talk to your question on inflation and our view on inflation. As you know, we price to a weighted average on inflation typically.

And as we think about inflation, our kind of natural conclusion there is that we will see prices going up as inflation happens. And we, as you know, have a great track record of being able to do that consistently.

In fact, even when inflation wasn't quite there, you've seen us perform on our pricing. Our history on pricing is positive if you go back 20 years as well. And that's kind of the DNA that the team carries to move forward on the pricing piece. So fully expect to see that happening as inflation does come into play.

And, P.J., this is Matt. I may just add one or two things to what Sanjiv said. I think, as a reminder, as you well know, any commodity cost or inputs we have, we pass all them through. That's contractual.

And then the only second thing I'd add is, what we've seen in these patterns before, and 2011 is a good example. I'd say 2006, 2007 are a good example, and even 2016. When you do see some rebound in commodities, our customers' volumes tend to increase a lot. Their consumption of gases also tends to go up.

So we'll see to what extent you can see that as well. I mean we're starting to see parts of it. But that also tends to be a positive tailwind with just overall industrial activity.

Thank you.

Operator: Thank you. Our next question comes from Tony Jones from Redburn. Your line is open.

Yeah. Good morning from London, everybody. Thanks for taking my question. I wanted to ask about margins. And there are two parts to the question.
So first, you reported margins which continue to surprise. We've got 100 basis points or so of sequential improvement. I wanted to just ask, is this now a sustainable level? I know you call out the deconsolidation effect. But are there any temporary gains we need to adjust for with OpEx down now around $2 billion?

And then the second part of it, and maybe it's more important, is this as good as it gets? Or do you think there's further potential for margins to improve as you get further productivity improvements over time? Thank you.

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

Yeah, Tony, this is Matt. I could probably handle that and see if Sanjiv has any other input. So I think on the margins going up, yeah, absolutely we see it as sustainable. There's nothing temporary.

And just to confirm. The deconsolidation had no effect on margins. Even if you look at the APAC in the appendix, where we show kind of the effect, you can see the margins are pretty much the same. So the deconsolidation had no effect. And again, I'm referring to operating margins obviously as well here, operating profit.

So we absolutely see it as sustainable. This is something that – this is the hard work that everyone in the world is doing. This is about putting together quality business and making sure we run it efficiently and effectively.

And as far as good as it gets, we get asked that question every quarter. But I would say this, and I said it before, just look at the segments, right? When you look at the geographic segments of Americas, EMEA, and APAC, there is nothing that is fundamentally different between those three segments. We do the same thing. It is a very homogeneous business. They supply across all three supply modes. They have end market distributions that aren't drastically different.

So that kind of defines what the opportunity set is. And if you go back to 2018, Americas was 23%; EMEA was 17%. Now EMEA is over 25% and Americas, 28%. So you're seeing the improvement across the board. APAC as well, almost 25%, was 17%.

This is part of what we're doing to run this business. And I don't see any temporary aspect. And I would say whichever segment is leading is kind of showing the way.

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

The other thing, Matt, I add is that...

Tony Jones  
Analyst, Redburn (Europe) Ltd.

Thank you.

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

...both EMEA and APAC are heading for that Americas margin, right? They're pretty competitive guys out there.

Tony Jones  
Analyst, Redburn (Europe) Ltd.

That's great. Appreciate the detail. Thank you.
Operator: Thank you. Our next question comes from Nicola Tang from Exane BNP Paribas. Your line is open.

Nicola Tang  Analyst, Exane SA (United Kingdom)

Hi, everyone. Thanks for taking the questions. First, I wanted to ask a little bit about the second half outlook. And I completely hear you on sort of the volume assumption or this lack of volume assumption I suppose.

But if I look at how you've guided, sort of implies an H2 EPS growth of only about 5%, versus, I don't know, 30% plus in the first half, which I was just thinking seems a bit aggressive, just thinking about the productivity gains that you just talked about and support from the buyback. I guess even the FX tailwinds, before we even think about volume. So I was just wondering if there was anything I was missing there in terms of the H2 versus H1 dynamics on a year-on-year basis.

And then the second question is on the other H2, on hydrogen. Thanks a lot for that detail on clean energy. Clearly, again I hear you in terms of the timing being uncertain and then some of the opportunities being long dated.

But when you look at those pipeline of projects that you're sort of evaluating, in which part of the sort of value chain in hydrogen are you seeing the most project proposals at the moment? Is it broad based across the sort of production end to the distribution and fueling end? Or is it in a specific kind of activity? Thank you.

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

Okay, Nicola. It's Matt. I can take the first one, and Sanjiv will take the second.

So as I mentioned in the pre remarks, we really – we just didn't touch it. Obviously there is a lot of companies not even giving guidance today. And we have a very high degree of confidence in what we're laying out and what we can deliver on that.

But as far as the second half right now, we felt we would just leave it alone, adjust the year for what we demonstrated and our view on Q2. But rest assured, three months from now, we will update that back half.

And as I mentioned, if conditions hold, well, then, yes, we are going to do better than this. Obviously if they improve, we would also do better. But for now, we just felt, we'll take it kind of quarter by quarter, a little bit of a wait-and-see approach. And therefore, I wouldn't really look into too much other than that on the second half at this point.

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

Thanks, Matt. And, Nicola, now moving on to the exciting H2, follow the question that you asked. So let me just take a step back and give you a sense of the projects we're looking at. And then dive a little bit deeper and tell you where we see some of that kind of buildup that you were asking about.

So we're evaluating at the moment between 210 to 220 opportunities individually. Some as I mentioned, some very large megaprojects and down to the smaller ones as well. And we see obviously many of them progressing,
some maybe not. And there will be others that we will probably not want to do, because they don't meet our investment criteria. So we'll be kind of selective about that as well.

Now we see that spread focused in two specific areas primarily. I think mobility driving a lot is kind of well ahead if you like in its development. And then carbon capture and sequestration picking up, particularly in geographies which have oil and gas assets and therefore want to understand how best to manage the energy transition to this piece.

To your exact point on which part of the value chain we see it, in mobility, tends to be a little bit of a balance between what we see around production versus distribution and dispensation. We have technologies across the entire value chain. So in many ways, we are really fortunate to have the ability to kind of be able to provide that holistic solution to our potential customers.

On CCS obviously, it tends to be a lot more on the production side, which is where the blue hydrogen piece, in particular, as a consequence of CCS, comes into play.

I hope that gives you enough color to what you were asking for, Nicola.

Nicola Tang  
*Analyst, Exane SA (United Kingdom)*

Yes, absolutely. That's great. Thank you.

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

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

Thank you. Good morning, Sanjiv and Matt. On the same point, just on you look at your project CapEx going forward, how much is focused on clean energy and/or hydrogen this year? And how do you think that will trend or increase over the next perhaps three to five years?

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

Hey, David. This is Matt. So I think, right now, there's very little to any. And as we mentioned on the prepared remarks, most of the clean energy are in the base CapEx. So those three projects we highlighted are all base CapEx.

And to Sanjiv's point, you're seeing a lot in either areas of mobility. This is more distribution assets or assets around the density that we're building in certain areas.

So that is something that, when they do come into the backlog, obviously we'll note that. But at this point, the vast majority of what we're doing right now is part of that growth in the base CapEx.

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

Very good. And just on merchant pricing, how much merchant pricing are you realizing this year? And given the inflation we're seeing overall, would that – should that be increasing over the next few quarters going forward?
Sanjiv Lamba  
*Executive Vice President & Chief Operating Officer, Linde Plc*

So, David, on merchant pricing, we’re kind of seeing low- to mid-single digits in – across the different markets that we talk about typically. Americas and EMEA tend to lead, as you’ve seen from their pricing numbers, and APAC is a little bit behind. But they’re hearing this call and they know that I’m looking to them to show some improvement sequentially in the next quarter as well.

So we’re kind of seeing across the board pricing kind of move up now.

Your point in inflation, I think I mentioned this earlier as well, David, with inflation, our pricing will go up. That’s been traditionally how we’ve seen our pricing move. And we are well-prepared and there is enough conversation within the organization already in terms of how we will be managing that. So I’d expect to see with inflation, pricing continue to move in line.

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

Thank you very much.

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

Duffy Fischer  
*Analyst, Barclays Capital, Inc.*

Yeah. Good morning. Wanted to just follow up on that one if I could. The pricing in APAC in particular has kind of been flat at 1% for the last four quarters, even though at the beginning of that period, volumes were kind of down 9% and now they’re up 10%. And I understand it’s not a commodity business. But generally when you’re getting that kind of volume increase, asking for price gets a little bit easier.

Is there something offsetting your ability to get price there, where maybe somebody who owns their own oxygen units is dumping more on the market as they’re ramping up their steel production or something like that? So how should we think about APAC pricing in particular, given the strong volumes we’re seeing there?

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

Hey, Duffy. Thanks for the question. I’m glad you asked it, because my APAC team will be listening to this as well.

So there is nothing structurally different that should fundamentally change the pricing target that we’ve handed out to our teams over there. The market is a little bit different in terms of the distributor kind of model that is in some of the larger geographies over there. And in some cases, the level of onsite we have.

But putting that aside for a moment, our view is pricing in APAC should hit the 2% target that we have as a corporation. And at the moment, I see progress happening. The 1% is disappointing. They know that.

And my expectation is sequentially we’ll see at least 1% improvement in Q2. And I’m hoping to see 2% year on year in Q2 as well. So nothing. There is nothing holding them back from that.
Duffy Fischer
Analyst, Barclays Capital, Inc.

Terrific. Thank you, guys.

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

Jeffrey J. Zekauskas
Analyst, JPMorgan Securities LLC

Thanks very much. In listening to Matt's description of prices going up a couple of percent, but there being inflationary pressure. Does that mean that the price cost benefit in the quarter was zero? That is, prices went up 2% and costs went up 2%. And secondly, do you have an update on your project with Exxon in Singapore? That is, have you begun to spend for that?

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

Hi, Jeff. I can take the first one.

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

Yeah.

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

And Sanjiv here will take the second one.

Jeffrey J. Zekauskas
Analyst, JPMorgan Securities LLC

Sure.

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

So as you well know, the spread of our price less cost inflation and productivity is a very important metric that is part of our operating rhythm. That we look at at every country at the lowest levels of detail, because that spread is very important, how we manage that spread, as the compound decades ago (sic) [compounds for decades of value].

And every country is different, right? Every country has different inflation profiles. But the spread is something we constantly look at.

So given in the first quarter here, obviously, we have the price at the top of the house at 2%. On our costs front, they were lower, as you probably saw, especially on the fixed costs, just due to some efficiencies we were able to achieve. We're also achieving efficiencies in the variable cost. So the spread was probably a little wider in this first quarter.
But nevertheless on a go-forward basis, we always have to make sure we manage that spread. And we feel quite confident in our ability to do it. And also the things, the large commodity inputs, since we pass them through, they don't create as much issues on that as you might see in other types of industry.

So for us it's really managing a lot of the fixed costs and the operating costs and the SG&A, which is part of what we do with this rhythm.

Jeffrey J. Zekauskas  
*Analyst, JPMorgan Securities LLC*

Okay.

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

And, Jeff, let me move on and talk a little bit about the Singapore project that you mentioned. So as far as our project is concerned, we have obviously been impacted by COVID on the schedule itself.

But we have been executing the project. We've been spending on the project. We have commitments in place. And the project is currently under way. Our first modules in fact, very large modules, have now reached the site and are in the staging area. So progress happening as we speak.

Jeffrey J. Zekauskas  
*Analyst, JPMorgan Securities LLC*

Great. And thank you so much.

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

Steve Byrne  
*Analyst, BofA Securities, Inc.*

Yes. Thank you. Sanjiv, you were talking about having a couple hundred clean energy projects that you're looking at. And you lay out a pretty clear case on the slide 7 about Linde’s expertise and capabilities in that whole supply chain.

There's one area that I don't see mentioned that would seem to be an advantage for you. But I welcome your comment on that. And that is access to renewable power. Or maybe restated, the contracts that you have with power suppliers, it would suggest that you would have a meaningful advantage there in terms of electricity pricing from renewable power, versus the many new entrants that are getting into this business. Can you comment on that?

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

Thanks, Steve. That's a great point you make. And actually we should probably have mentioned that on that slide. So well suggested.

There are – the way we think about renewable power – and you're absolutely right. We are one of the largest consumers in most countries where we operate. And therefore we have, if you like, the collective ability to go and have those conversations with our power suppliers.
And now what tends to happen on renewable power, if I can just take a step back and just tell you that the grid by itself, and many of these suppliers as a consequence of conversations that we're having with them, are actually moving. And the level of renewable power within the grid itself is continuing to grow. So that's good that we are seeing action from these larger players.

In addition to that, obviously we then go out specifically and sign up PPAs with renewable power kind of developers, who, in some cases, on a one-on-one basis and other cases on a shared basis. We would then get into long term contracts with, often providing them support for their broader project as well.

And in each one of these cases, because of our incumbency, we have well-established methodology as to how we get pricing on that renewable power, whether it's on—in the circumstances of the grid, or whether it's on specific PPAs as well.

So that is a competitive advantage. You're right. And obviously our incumbency provides that. And it's something that we focus on quite a bit as we move ahead.

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

And, Steve, Matt. I can just add a few things as well. So as you may know today, about a third of our power is renewable already. So we've already been quite active in that space. So and it's not something we built overnight. This has taken many years to get to that point.

And as we mentioned, we will give a more wholesome ESG – or fulsome, I should say, ESG update in the future. And this is an integral part of our ESG initiatives, especially around managing scope 2 emissions, is the renewable power effort.

So this is something that we absolutely are actively doing. We have been doing for quite a long period of time. And we'll give further updates, as it relates to that, on our initiatives for ESG. And to your point, given our position, we are able to help these investments. And it's something we're actively working on and looking for today.

Steve Byrne  
Analyst, BofA Securities, Inc.

And can either of you comment on where you think you are in the achievement of the cost synergies that you initially laid out with the merger with Praxair and Linde? Do you think you've reached – you're coming to the end of that process? Or do you think that you got a long way to go?

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

Steve, there's never an end to being efficient and productive. So it is – there is no end. It's something we have to continue to do. And it's integrated to our culture.

But as you know, we measure ourselves on our performance. How did we deliver? And that's always – we gave you a number, as you know. But in the same token, we said, judge us on our performance. How do we expand margins? How do we grow EPS? How do we manage return on capital? How do we generate excess cash? How do we grow?
Looking back in the two years, as we started this presentation, I think we've demonstrated on a relative basis we've done a pretty good job. We've got a good start the last couple years. And so this is going to be the foundation for what we're going to continue to do going forward.

Steve Byrne  
Analyst, BofA Securities, Inc.

Thank you.

Operator: Thank you. Our next question comes from John McNulty from BMO Capital Markets. Your line is open.

John P. McNulty  
Analyst, BMO Capital Markets Corp.

Yeah. Thanks for taking my question. I wanted to dig into the release that you had put out the other day on the small onsite contracts for 2020 to maybe get a little bit more color around it.

Can you speak to whether this was a lot of oxygen units for COVID? Or if it was more a sign that this is – this recession is maybe a little bit different? And the snapback from some of the smaller customers out there was maybe quicker?

And then I guess as a follow-up to that, would you say that business is a little bit of a leading indicator for how we should be thinking about the larger scale projects and the demand for those?

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

John, thanks for that question. I must admit that we are really proud of our small onsite portfolio. And something that we believe provides a really fulsome broad kind of opportunity for our businesses across the world.

So there are a couple of ways to kind of look at that portfolio and see how that correlates to what we're seeing in the market. So we're seeing that growth not coming from COVID. There is no linkage to that at all.

Most of these units are VPSA units, which are slightly lower purity, typically going into industrial processes. We do that for pulp and paper. We've seen a fair amount of growth in pulp and paper. We are seeing growth in some other segments, ancillary segments around metals as well and glass and many others, in fact. So I mean, it is a widespread portfolio that supports a large number of different industries.

I would say to you that it's a good pointer to industrial activity generally. I don't see a particular correlation for larger projects, if that was your question. But we do see this kind of correlate to industrial activity. And as people move their consumption increases, these come into play.

John P. McNulty  
Analyst, BMO Capital Markets Corp.

Got it. And maybe...
Yeah. Sorry, go ahead, Matt.

I was just going to add one quick point to that. I think, and probably a little bit to Steve's earlier question, I mean as you know, we never gave revenue synergies. That was not something we committed a number to.

But this area was an area where when we brought both companies together, it really filled out the product line portfolio with these small onsite plants. And this is an area where I think we've had a very strong execution, given the combination of the technologies and capabilities from the merger of the company. And I think the success rate kind of speaks to that.

Got it. No. And it makes sense. I mean – and I guess maybe, again, as a follow-up to that, when you – I don't normally – I guess if there is such a thing around recession, it takes about 18 to 24 months for kind of the larger scale projects, the project backlogs, to start filling back up again.

I guess given the snapback that we've seen in a lot of the industrial economy, does it look like, in the conversations that you're having, is that going to be a little more short lived in terms of how long it takes to get that kind of flywheel working on the big projects again? How should we be thinking about that?

So, John, just kind of commenting briefly on the level of activity we are seeing, because that, in many ways, is that leading indicator.

So we're seeing proposal activity increasing. We're seeing that increasing in the US. We're seeing it increasing across Asia. I think about China, South Korea, India, a couple of the ASEAN markets as well.

So we're seeing a lot more projects now. A part of these projects are electronics. You've heard me talk about electronics before, what a strong growth we've seen in the quarter. And my expectation that we will see a lot more of electronic project growth happen as we see these new fab builds happen as well.

They are progressing well. They're all on track. And you've seen a number of announcements, I'm sure, from TSMC, Samsung, Intel, and so on and so forth. So those are all looking to be on track and part of that activity.

I also have to say that the other piece I'm a little more positive on is the more traditional markets, steel, chemicals, refining. Also project activity actually picking up over there as we see.

So I'm not going to comment particularly on if we are seeing potentially this as a snapback. I see this as fundamental underlying activity picking up and translating then into projects that people are pursuing. And we are getting a chance to participate in.
John P. McNulty  
**Analyst, BMO Capital Markets Corp.**

Great. Thanks very much for the color.

---

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

---

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

Yes. Good afternoon, everyone. I've got two questions. First one for Sanjiv, I think. About the productivity being embedded obviously in Linde Plc. Is the story now on productivity more about not adding cost back, if the volumes continue to grow, rather than savage cost cutting as such? Because I did notice obviously Q4, we'll get the Q1 numbers later in terms of the head count and the severance costs, but they did slow obviously in the fourth quarter from the pace earlier in the year.

And then for Matt on the cash flow. I mean the Q1 performance now is what we would normally see in the legacy company, seamlessly in Q4, which is normally the strongest quarter. I'm just wondering how that progresses through the year, given that you always make more money in the second half. Thank you.

---

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

Peter, thanks. I'm going to give you a quick view on productivity. So you've heard me say this before, and I think Matt kind of made a very good observation earlier on, which is that we are always going to be very, very focused on managing our cost base. Our total cash fixed cost is something we kind of discuss every month at the business reviews that we carry out.

So adding cost back is something we kind of manage actively. I think it doesn't necessarily translate into productivity, because for productivity, we want to see that incremental action as well, which makes it tough.

But it is in the DNA of the organization, Peter. And you've heard me talk kind of passionately about the fact that every individual in our organization has got a mandate to go out and look for productivity every day. It's thousands of projects, which add small benefits but actually flow into the entire productivity pot that we put together.

There's one other thing which I think is now enabling that or helping us accelerate that, and that's around digitalization. And again hopefully, you heard me speak about this as well before.

We're using digitalization not as a significant tool that's going to create earth shattering new discoveries for us, but as something that we apply in our business to deal with pain points every day. Our organizational model is embedded within the organization. So digital kind of expertise is being built up within every business across the world.

And we are encouraging them. And in fact, I track it every quarter to ask them what percentage of productivity is coming from digital work or initiatives that we put in place. So that is an enabler that I see in actually ensuring our productivity stays on track. Matt?

---

Matthew J. White  
**Executive Vice President & Chief Financial Officer, Linde Plc**
Yeah. And so, Peter, on the cash. Yeah, pretty solid Q1 cash I think. Starting with – when I think about operating cash flow kind of as a percentage of our EBITDA, we were almost high-80s this quarter. Normally, to your point, Q1 is seasonally lower.

So I think it's a combination of a few things. I mean first of all, obviously, with EPS growing at 32%, half of the benefit just came from earnings. So as we continue to have strong earnings growth, that should flow right through to the cash flow.

The other half of the year-over-year improvement was mostly working capital, as we had nets everywhere else. And we're just seeing strong performance around the world in terms of collections, management of payables, inventory, just managing the asset and liability base quite well.

Engineering had a very strong working capital performance as well, as they continue to manage their projects incredibly well under different – difficult circumstances.

As you look forward into the second half, I think it should just be a continuation of an earnings driven with tight working capital management effort. So if we can continue to see kind of the strong results, that should flow through to cash. I mean cash is an integral part of our compensation. It's something that we track very diligently each month. And we're seeing the benefits I think of that effort. And we should continue to see the benefits of that effort looking forward.

---

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

Thank you.

---

**Operator:** Thank you. Our next question comes from Geoff Haire from UBS. Your line is open.

**Geoff Haire**
Analyst, UBS AG (London Branch)

Good morning. Just two quick questions. First of all, I was just wondering, Matt, if you could help us sort of think about what your pricing assumptions are within the guidance for the second half of the year?

And then also, obviously you had very strong pricing in Europe and North America, relative to at least one of your peers. I was just wondering what was driving that? And how sustainable that is?

---

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

Yeah, Geoff. So I probably have stated before, I guess, two points. Number one, we fully continue to expect to price to weighted inflation. And since the second half guidance we really didn't touch, it would be based on kind of a three-month-ago view.

But as you know last quarter, we had about a 2% pricing. This quarter, 2% pricing. Now you don't see the first decimal, but we are seeing a bit of improvement as inflation kind of picks up. But that's what the expectation would be. Just continue to price to the weighted inflation is what our views are when we look forward.

---

**Geoff Haire**
Analyst, UBS AG (London Branch)
Operator: Thank you. Our next question comes from Vincent Andrews from Morgan Stanley. Your line is open.

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

Thanks very much. Just wanted to follow up on the green hydrogen discussion. And I heard sort of very clear and very confident point of view on the opportunity set. And in particular that it would be in excess of the 10% compounding that you anticipate sort of from the core business.

And I guess I just want to better understand, as we think about sort of our CapEx that we’re putting in our models in the sort of medium to long term, how much you think that would scale up? And overall, what implications that would have to broader capital allocation? Thanks.

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

Hey, Vince. It’s Matt. So I think a couple things. First, as we mentioned, right now, the vast majority of these projects are falling under base CapEx. And we would anticipate to continue to see growth in base CapEx, primarily around either distribution infrastructure type assets to support and some production assets, whether it be electrolyzers or other kinds of hydrogen – smaller hydrogen producing assets.

So from that perspective, I would model that 40% or more growth portion of the base CapEx might accelerate related to these initiatives.

If there are any backlog projects, they would likely be announced in terms of being additions to the backlog. But I would say from a CapEx spend and benefit, we’re not changing our investment criteria. It’s the same. How we approach these is the same.

And so I would just model it just like Sanjiv said, it’s incremental to the greater than 10% EPS growth rate that we’re looking to do. And what we find and can add into this should be accretive to that over the coming years here.

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

So we don’t need to take CapEx forecasts into the high $3 billions or anything like that?

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

No, that would only happen as a function of any large projects. And I think from that perspective, we’ll see. If they meet our investment criteria, yes.

But that’s something that we’d mentioned. That we’ve got over 200 projects we’re evaluating. And we meet our investment criteria, we will spend. And we should want to spend that CapEx.

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

But we've shown I think with our metrics that we keep our discipline and keep our approach, we should get the right growth and the right results.

Vincent Stephen Andrews  
Analyst, Morgan Stanley & Co. LLC

Okay. Thanks very much. Appreciate it.

Operator: Thank you. And we'll take our last question from Kevin McCarthy from Vertical Research Partners. Your line is open.

Kevin W. McCarthy  
Analyst, Vertical Research Partners LLC

Good morning. Thanks for squeezing me in. Matt, in your prepared remarks, you made a comment that April results exceeded your internal expectations. And I was wondering if you could comment on what accounted for that variance? If anything stood out in terms of region or end use market?

And then secondly, if I may, you mentioned Uri was a drag on sales. What was that drag? And how did you insulate the profit from being impactful?

I appreciate you have contracts, but would have thought maybe there would be a slight impact in your merchant and/or packaged gas business. So I'm wondering if you just simply recover by the end of March? Or if you're able to offset through electricity sales or otherwise?

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

Hi, Kevin. It's Matt. I could do the first one, and Sanjiv will take the second one.

So my comment related to April, it was fairly broad based. I would say, for the most part, what we've been seeing is recovery in developed markets on an industrial front. Some developing markets are still, in some areas, going through some challenges.

But the expectation is probably by the back end of the quarter, we hope to see some industrial activity rebounding. But I would say it's, for the most part, incremental industrial activity, especially in certain developed markets like you're seeing in North America, especially places like Asia, is really what's driving it. Pretty much a continuation of what we've been seeing.

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

And, Kevin, moving on to Uri then. And just kind of briefly giving you a sense of again, I think it was a good opportunity for me to just mention that our team in Texas did an outstanding job. They managed to ensure that we shut down and started up safely, quickly. We were able to support our customers.
And even in some cases, some of the players were not our customers, to just make sure that they remain safe and helping them with their start-ups as well.

So our customers really have actually started up and are operational now, whether it's refineries, chemicals. All of them back online. And we are seeing volumes back to pre-COVID levels in some cases as well, particularly on the chemical side.

About customers again, I think we saw quick turnaround over there post the winter freeze. And again, with some support from us, our customers are back up and running. We see levels back to January already in that space as well.

Refineries probably the most specific one, where you know that they have a longer lead time to start-ups. Even there, we were quite pleased to see that they were up and running in three or four weeks. And today, hydrogen volumes are about 12%. I think they're about higher than where we were earlier in the year. So again, it's been pretty, pretty good in terms of how that overall piece has been managed.

I guess the point that the guys in Texas said to me, which I think holds here as well, is we're used to seeing storms, hurricanes, freezes. This is not new. This is something that we work on every year. And we've got a team that fully understands that.

And getting plants back online is significantly important, making sure our customers have the product available to keep them safe and ready to go.

Now contractually, obviously, we are well protected, as you've just remarked. So that's one of the reasons we don't see a significant exposure, while we see some top line movement. But again, from March to April, we've seen that uplift come back fairly quickly as well.

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

**Juan Pelaez**
_Vice President-Investor Relations, Linde Plc_

Crystal, thank you. And everyone on the line, thank you very much for participating today. If you have any further questions, please feel free to reach out. Have a great rest of your day. Take care.

**Operator:** This concludes today's conference call. Thank you for your participation, and you may now disconnect. Everyone, have a great day.