



Linde plc 2Q23 Earnings Teleconference and Webcast - Transcript
July 27, 2023

{Operator:} Ladies and gentlemen, good day. And thank you for standing by. Welcome to the Linde Second Quarter 2023 Earnings Teleconference and Webcast. At this time, all participants are in a listen-only mode. Please be advised that today's conference is being recorded. After the speaker's presentation, there will be a question-and-answer session. And I would now like to hand the conference over to Mr. Juan Pelaez, Head of Investor Relations. Please go ahead, sir.

{C: Juan Pelaez: Head of Investor Relations: Linde plc.} Thank you, Abby. Good morning, everyone. Thank you for attending our 2023 Second Quarter Earnings and Webcast. I'm 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 Investor 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 will provide some opening remarks, and then Matt will give an update on Linde's second quarter financial performance and outlook, after which we will wrap up the Q&A.

Let me now turn the call over to Sanjiv.

{C: Sanjiv Lamba: Chief Executive Officer and Member of the Board of Directors: Linde plc.} Thank you, Juan. And a very good morning, everyone.

The Linde team once again delivered strong results despite the challenging environment. For the second quarter, we grew EPS ex-FX by 16 %, expanded margins 440-basis points, and increased return on capital to 24.9%. These results don't just happen on their own. They require a strong execution culture and operating rhythm, which ensures that all 66,000 employees are aligned towards creating shareholder value. I'm proud of how we've demonstrated this resilience quarter after quarter, regardless of the economy.

To this end, we are seeing some economies stagnate or start to soften, as evidenced by recent data. Now, I'm not going to try and predict what the future is going to do, because no one really knows. But I can tell you with some confidence that Linde will continue to manage what we can control and deliver on our commitments, which is reflected in our guidance for the year. For example, we are managing inflation by contractually passing through energy cost variances while securing price increases which are aligned with local market trends. This is a key part of our contractual structure and operating discipline that we've consistently demonstrated for decades.

On top of this, we continuously optimize costs through robust productivity initiatives. Ultimately, it's the spread between price and cost which adds compound value. Add to that a backlog that fuels growth. We're



currently executing our \$7.8 billion project backlog on time and on budget. For me, a healthy backlog contains quality customers with secured returns and is constantly turning over.

In the last 12 months alone, we started up 22 projects valued at \$2.1 billion while winning 38 new projects valued close to \$3 billion.

Looking ahead, investors can rest assured we'll win projects that add value commensurate with risk. With this in mind, we continue to make good progress on the \$50 billion of clean energy opportunities, of which I expect \$9 billion to \$10 billion to be decided in the next few years.

We're also adhering to the longstanding and proven capital allocation policy, which has consistently demonstrated industry-leading financial performance and shareholder returns. We continue to see ample quality growth opportunities within our traditional industrial gases business. This year, we made the largest acquisition in Linde's history with Nexair, significantly enhancing our packaged gas presence in the fast-growing Southeastern United States.

I'm happy to say it's performing well ahead of expectations and further validates a tuck-in acquisition strategy.

In addition, we'll consistently return capital through stock repurchases and increasing dividends, both to reward owners and also ensure investment discipline.

Let me now wrap up with a quick overview of end markets, which you can find on Slide 3. Starting with consumer-related markets. We have positive year-on-year organic growth primarily driven by price increases. Note, sequential trends are subject to seasonality. So, you'll see less respiratory healthcare, but more beverage carbonation during warmer months.

Healthcare itself is growing mid-single-digit, as expected, and food and beverage continues to expand as we see more applications for food freezing and aquaculture. While electronics is up versus prior year, we see some sequential softness from lower packaged and merchant sales into fabs, although the onsite volumes appear to be stable.

For the industrial markets, both manufacturing and metals and mining are growing 9%, led by price improvements, as well as strength in battery production, commercial space, and carbon steel. You can see that chemicals and energy is growing the least, at only 1%, and this is primarily driven by customer turnarounds in the United States, as well as low demand in Europe.

I expect the U.S. to improve for the second half, since a number of customers are already back up, but it's difficult to project how European demand will develop. You will recall that these contracts are underpinned by fixed payments, so our profit impact is mitigated.

Overall, the business continues to perform well, as we adapt to local market conditions. In fact, since our merger, we've grown EPS an average of 19% per year from 2019 to today. This was achieved against a backdrop of a global pandemic, supply chain constraints, energy crisis, military conflict, and the largest inflation increase in decades. It's because of this track record and the daily execution of our dedicated employees that I continue to have confidence Linde will grow EPS double-digit percent on average, regardless of the economic environment.



I'll now turn the call over to Matt, to walk you through the financial numbers.

{C: Matt White: Executive Vice President & Chief Financial Officer: Linde plc:} Thanks, Sanjiv.

Slide 4 provides an overview of second quarter results. Sales of \$8.2 billion are down 3% to last year, but flat sequentially. The comparison has some noise related to movements in FX translation, engineering project timing, divestitures, and cost pass-through.

As you know, we contractually pass through energy variances, which can cause fluctuations to revenue, but have no impact to profit dollars. Excluding these items, underlying price and volume are up 6% versus prior year and 3% versus first quarter. Higher prices are the main driver of underlying sales growth, with an increase of 7% versus 2022 and 1% sequentially.

Consistent with prior years, pricing trends are representative of the weighted inflation rates across our countries of operation. And while we're seeing some disinflation in more developed regions, we're not seeing deflation. If the disinflation persists, I'd expect moderating price increases going forward, especially as we lap prior year comps.

From a volume perspective, sequential trends played out as expected with a 2% seasonal improvement, but year-over-year is down 1% despite positive contribution from the project backlog. There are two contributing factors to the base volume decline.

About a quarter relates to lower on-site volumes in the U.S. Gulf Coast, where customers took more outages than last year. Most customers are back up and running, so we anticipate sequential volume growth into Q3. The remaining decline primarily relates to EMEA, which had a 4% volume decrease led by on-site customers.

Despite the lower year-over-year volumes, operating profit of \$2.3 billion increased 15% and resulted in an operating margin of 27.9%, representing an increase of 440-basis points or 350-basis points when excluding cost pass-through. This profit growth was achieved from a combination of higher pricing, fixed payment contracts to mitigate volume decline, and a stable cost structure.

Every region achieved triple digit basis point margin increases when excluding cost pass-through effects. EPS of \$3.57 rose 15% from prior year or 16% when excluding the effects of currency. As Sanjiv mentioned, we remain confident in our ability to deliver an average EPS growth rate of double-digit percent.

Project CapEx is increasing from the larger sail-to-gas backlog, a trend I expect to continue. However, despite the higher CapEx, return on capital reached another new high at 24.9%, as our NOPAT continues to grow at a rate faster than the capital base.

Slide 5 provides more color on capital management, including cash trends. Second quarter operating cash flow of \$2.2 billion was only up 1% from last year, despite the higher earnings. This is due to unfavorable cash tax timing, which increased almost \$300 million in the quarter. These outflows will stabilize for the second half, and so I expect the OCF to EBITDA ratio for the balance of the year to be closer to the expected low 80% range.



Available operating cash flow, which we define as OCF less base CapEx, remains steady at \$1.6 billion per quarter, and thus provides ample liquidity to pursue our capital allocation policy, which you can see in the pie chart.

Through six months, we generated \$5.4 billion of capital and returned a little more than half to shareholders while investing the balance back into the business. We believe this is a healthy ratio to achieve quality growth while rewarding owners. And to be clear, we are not capital constrained in any way, and thus will pursue all growth investments which meet our criteria.

I'll wrap up with guidance on Slide 6. We're raising full year guidance to a new range of \$13.80 to \$14, or 12% to 14% growth over 2022, this represents an increase of \$0.35 on the bottom end and \$0.15 on the top end. The top end increase is primarily attributed to the better Q2 results, while the second half assumption is consistent with last quarter. Therefore, the \$14 figure assumes no economic improvement for the remainder of the year.

The bottom end increased more as we tightened the range from greater confidence on the year. By default, the bottom end assumes economic contractions and more negative volumes going forward.

Consistent with prior guidance, this does not represent our economic view, but rather is the baseline for the assumption. Irrespective of what happens, we'll manage the business accordingly.

For the third quarter, we're providing an EPS guidance range of \$3.48 to \$3.58, up 12% to 15% versus prior year. Consistent with the full year assumption, the top end assumes a flat economy, and below that implies more recessionary conditions. Note that FX is a 2% tailwind for the third quarter but has no impact to the full-year.

To sum it up, regardless of the economic rhetoric or latest opinion on what part of the cycle we're in, Linde employees will continue to do what they do best, efficiently run the world's leading industrial gas and engineering company, while creating long-term compounding shareholder value.

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

{Question & Answer}

{Operator:} Thank you. (Operator Instructions). And we will take our first question from Duffy Fischer with Goldman Sachs. Your line is open.

{A: Duffy Fischer: Goldman Sachs:} Yes, good morning guys. Question off of Matt's comment that, we may be getting towards the end of, what's been a really nice pricing cycle. If that pricing increase drops back to kind of historic, maybe 20-year trend line numbers, how do you continue to grow double-digits in that kind of an environment?

{C: Matt White: Executive Vice President & Chief Financial Officer: Linde plc:} Sure, Duffy. This is Matt.



I think first to start with, as I mentioned, as you well know, our pricing, we always view as a function of inflation, and this will be the globally weighted average inflation. So, I think starting with that, I won't tell you what our pricing will be. It's more a function of where you think inflation will be.

And when we look at the -- at least 10, if not, 15-year trend, arguably inflation right now is clearly higher than what it's been before, especially when you think post-2008, we definitely saw significant disinflation and even deflation back in those years.

So, from that perspective, while we continue to expect to price to inflation and we are seeing disinflation in developed markets, I still would expect our overall pricing to remain in line with overall inflation, which I expect will continue to be higher than what we've seen at least in the last 10 years.

Aside from that, we -- as you know, have a lot of other factors, including our backlog startup. We have -- we'll see what happens with volume. But right now, if we do see inflation abate, in theory, you could probably see some volume start to come back and we'll continue to have a lot of strong free cash flow that will deploy and everything from stock repurchases to things like acquisitions for a roll up strategy like Sanjiv had mentioned.

So overall, as the economy moves with pricing and inflation, you may have also industrial production trends that could go the other way. And that's what we've seen over the last several decades. And we'll see what happens going forward.

{A: Duffy Fischer: Goldman Sachs:} Fair enough. And then maybe on the couple of different numbers, we're about a year into the Inflation Reduction Act being passed, and Sanjiv, kind of two times you've come out with that \$33 billion number last fall, now kind of a more global \$50 billion number in kind of over a decade period. If those numbers come to fruition, how would you scope when we get to kind of maximum backlog and what that may look like?

And then what would kind of the CapEx shape look like over that decade-long period as those projects roll through the backlog?

{C: Sanjiv Lamba: Chief Executive Officer and Member of the Board of Directors: Linde plc:} Sure. So, there are two parts to the backlog. I'll quickly cover the clean energy piece, which you're referring to on the IRA and other incentives we see around the world, Duffy, and then we'll briefly just talk about the traditional end market, which tends to get forgotten a little bit, but where we are also seeing interesting project pipeline and growth as well.

But let's start with the clean energy piece. And really the way I look at that backlog today is just looking at what is feeding into that potential backlog for the future, and what are we currently developing that's likely to result in that backlog.

The answer to your question, I think, in brief, is over the next five to seven years, we'll continue to see this backlog grow. We'd like to see it grow at a relative pace, increasing year-on-year, and I think that's on the basis of the amount of activity we see. I'd say to you, we're still pursuing about 200 projects that I've referenced before.



We went out and told you in the U.S., we think the IRA is driving a potential project pipeline for us, where we make decisions on about \$30 billion over the next 10 years, and I certainly see that backlog reflect as those decisions get made as we move forward.

I'm also happy to say that we are actually seeing most of those projects progressing extremely well in the U.S., in Canada, and even outside in the Middle East and Europe as well. These project development cycles kind of tend to take a little bit longer. I explained that in the last earnings call. There's a lead time anywhere between 12 months to 24 months, between the previous feasibility to feed then to get down to the final investment decisions. So, timing tends to be lumpy, but you will see that happen as we move forward. I'll also reiterate, that I expect over the next few years, decisions around \$9 billion to \$10 billion, which are more tangible in terms of the projects that are currently getting developed.

All about that translates, once the decisions happen, into the backlogs.

Duffy, I'll just go and add a little bit on the flavor of the traditional markets as well. A traditional end markets are seeing a fair amount of strong proposal activity. And this includes, all the decarbonization that we just referred to.

The opportunity pipeline is spread across many end markets here. Starting with electronics, metals, energy, chemical and includes a few decaptivation opportunities for us as well. As you know, our current sales of gas backlog is about \$4.4 billion. That's after we adjusted for the \$1.4 billion for the Singapore project. So, we took that out as we are starting ramp up on that already.

About 50% of that backlog today is around our traditional end markets. And we see potential for continued growth in there. I expect the backlog probably towards the end of the year to be closer to about a \$5 billion number.

{A: Duffy Fischer: Goldman Sachs:} Great. Thank you, guys.

{Operator:} And we'll take our next question from Mike Leithead with Barclays. Your line is open.

{A: Mike Leithead: Barclays:} Great. Thank you. Good morning, guys.

First, I just wanted to ask on EMEA, this business has continued to grow earnings fairly well, while European economic and chemical indicators remain quite weak. So, can you just talk about what's enabled you to outpace the broader market and how you -- your comfort around the sustainability of this sort of earnings level or growth, just in the context of, if we assume the European economy me remains sort of as is today.

{C: Sanjiv Lamba: Chief Executive Officer and Member of the Board of Directors: Linde plc:} Sure, Mike. So let's go back a little bit in time. Couple of years ago, the EMEA business went through a reasonably large restructure, essentially intended to reset their cost base. At that stage, we obviously couldn't look at the war in Russia or the energy crisis or any of that, but we just felt that it was about time that we got a reset on that cost base. And that's really what's holding us in a good step today. Obviously, a lot of productivity actions, productivity deeply embraced across that entire business today is paying out good dividends. And obviously



they've managed very disciplined pricing over this period as well, which was absolutely essential given what happened to energy costs, etcetera. I see, EMEA performance, -- and the team has done a fantastic job. I see EMEA performance holding and continuing to move forward. I see them managing their business in order to make sure that margins continue to hold or hopefully go up slightly as you would expect from our business.

{A: Mike Leithead: Barclays:} Great, thank you. And then just briefly, a housekeeping question on electronics. I believe TSMC delayed the start of their Arizona fab by about a year or so. Would that also delay your sales for that site by an equivalent amount? Thanks.

{LIN:} My expectation is we will start the TSMC first plant second half of this year. Even before the fab actually starts, a lot of product is needed to make sure the tools are in place and tested out. So that process has started. All fabs go through a ramp process. I suspect TSMC's announcements were probably, related to other negotiations they were having rather than the actual startup of the fab and how it progresses in terms of its ramp.

{A: Mike Leithead: Barclays:} Great, thank you guys.

{Operator:} And we'll take our next question from Jeff Zekauskas with J.P. Morgan. Your line is open.

{A: Jeff Zekauskas: J.P. Morgan:} Thanks very much. The multinational oil companies have been outsourcing hydrogen production to industrial gas companies because they've believed that their returns on capital are higher in drilling for oil and gas. But now that the inflation reduction act has been passed, the returns on capital for them for producing their own hydrogen rise because they get a tax credit. And we're beginning to see over a longer period of time, the multinational oil companies wanting to produce hydrogen. So, in your opinion, when you look out over the next 10 years, do you expect to see lower hydrogen demand from your traditional hydrogen customers that will probably back integrate? Or do you think the dynamic is different?

{C: Sanjiv Lamba: Chief Executive Officer and Member of the Board of Directors: Linde plc:} So, Jeff, I'd say to you that the dynamic from our perspective looks a little bit different and I'm going to kind of drill down a little bit into the hypothesis you've laid out. So let's look at it from our perspective, a Linde perspective, and I'd say to you, we see the following as it plays out related to hydrogen. Now, you went back in time and said, look, in the past, they'd outsourced, and that's absolutely right. And the reason they'd outsourced, apart from the economics, was the fact that Linde handles those hydrogen plants extremely well. It's the core of our, -- it's a bread and butter part of our business. We know it well, we manage those processes well, whereas in a large refinery or a chemical complex, those assets sit by themselves and really do not get optimized. So there is a value that gets unlocked by bringing a very competent operator like Linde into the mix. But that's how, decaptivation happened in the past and I suspect will happen in the future as well.

And let's talk about the actual hypothesis that you've put forward. And I'd say to you, three things happen from a Linde perspective. One, the fuel market, which thus far was managed, and if hydrogen's a part of the portfolio, Linde now has access to a much larger piece of cake. The pie has grown, if you will, and our ability to tap into that because hydrogen now plays a role in that creates a huge advantage. The expectation is



hydrogen market will grow to maybe about 150 billion over the next 10 to 15 years. Again, the fuel market itself, if you look at the entire number, is anywhere between 6 trillion to 7 trillion. So even a small slice of that pie makes it very interesting from a Linde perspective. So we have a new market opening that's now available to us in some ways.

The other piece I'll say to you is that to leverage hydrogen production for merchant requirements, let's describe that from an IOC, NOC perspective, if that's what you're referring to, I'd say what is necessary is the installed base of assets, it's the network of pipelines, and it's the contracted customers hooked onto those pipelines which obviously create that advantage. The reason I mentioned all of that is because Linde has the ability to scale that up and provide hydrogen to refiners in addition to ensuring that surplus hydrogen that's taken and put into that pipeline network providing a significant advantage and obviously getting us economic returns that would not be available on a standalone asset basis. The third point really is around risk depth. And I'd say, again, the benefit that Linde has in the U.S. Gulf Coast, which you saw, Jeff, a couple of weeks ago, the network that we have over there provides a high degree of redundancy using the cavern, using the multiple assets hooked onto the network, reducing the operational risk with single large either sites or plants. And again, that advantage that Linde carries will be enormously valuable for all customers in the U.S. Gulf Coast. And I think they will, they value that today. And as we continue to expand that network, they will value that even more as we move forward. All of those provide the competitive advantage we're looking at.

However, I'll accept the point that I think as far as IRA is there, for a period of about 10 to 12 years, there will be some financial benefits that will accrue from either owning those assets. But in many of those cases, people might own the assets and ask Linde to either incorporate that into our network and or -- operate and manage it as well. Again, providing greater opportunity for us. You put that together, I think that's essentially what the hydrogen, kind of the future is going to look like from a U.S. Gulf Coast perspective, replicated in many other parts of the world.

{A: Jeff Zekauskas: JPMorgan:} Okay. Thank you for that. Your other line, you had this helpful comment in your slides where you said corporate costs are being offset by the helium business. The other line used to lose 300 million back in back in 2018, 2017 -- 2018, 2019. So that we've come to break even, does that really mean that 300 million delta is mostly positive helium prices over time that continue going forward?

{LIN:} I'll let Matt walk you through the map, just to say that I'm not happy with where the other line is and it should be bigger than it is today.

{C: Matt White: Executive Vice President & Chief Financial Officer: Linde plc:} Hey, Jeff. So just maybe to start with what is in other, right? That's probably the good place to start. So currently what's in Other is our materials technology business, formerly called PST, you may recall the coatings business. It has what we call wholesale or inter-co helium business. So this is where we source globally, since it is one of the very, very few global products that we make and sell. We source it and then we sell it into our company to all of the regions. And therefore it's more or it's more of an intercompany type pricing structure that we have with that.

And then obviously the end regions buy it in their company, we eliminate it, and they get the end pricing in their regions for helium.



And then it has all of our global corporate costs to manage Linde PLC as a whole. As you well know, we divested GIST, that used to be in there, that is gone. So that's what's in there today.

And one thing we've always said for many years is -- to your exact point, and I would kind of take 2018 with a grain of salt, that was a transition year, that was, as you know, a pro forma number. There were some elements that didn't fit particularly into the segments that needed to go in that section as we did pro forma at the time of merger.

So, I would use 2019 as the better starting point because that is, post the merger when we had, I'd say, more consistency across what was in there. And when you think about it, we've always said our goal is to make sure that these businesses and other, which are not core industrial gas businesses, can more than offset the corporate costs of this global organization.

And we're seeing that, and we expect to continue to see that. And it's a combination of the non-core businesses improving their performance, which they're absolutely doing. And it's also a combination of managing our corporate costs appropriately in light of what's going on in the world and what's going on in the segments we support.

So, that's how to think about that. But we're going to continue to look to create value in the other segment, like we do anywhere else in any other segment going forward.

{Analyst:} Great. Thank you.

{Operator:} And we'll take our next question from Nicola Tang with BNP. Your line is open.

{A: Nicola Tang: BNP Paribas:} Hi, everyone. Just one for me. On margins, I understand you kind of see further margin upside into next year at a group level, but I was wondering if you could talk a bit more about how that would play out from a regional perspective. So, I'm thinking, if there's pricing normalization in Europe, is there a situation where European margins trend down from here, but then actually another region takes over to drive group margins?

{C: Sanjiv Lamba: Chief Executive Officer and Member of the Board of Directors: Linde plc:} Nicola, we've had questions of margins consistently, as you'll recall. And I've always said, look, your expectation and our expectation is we will expand margins year-on-year by about 30-basis points to 50-basis points. And that's kind of the trend that we want to see happen.

Obviously, this quarter delivered significantly higher than that across all segments. And that is good. And as you know, it's driven by pricing and productivity, and the base business continuing to deliver great outcomes. A couple of highlights on that, I'd say, at the regional level, Americas is hitting a 30 plus percent margin, that's a good point.

We've got to make sure that EMEA and APAC are looking ahead to beating Americas. So they kind of have to set the target for the rest. EMEA margins, you're right, also a highlight for us in the quarter at 29.2%, they've



now grown over since 2018 baseline, they've grown about 1,000-basis points and they've grown consistently. So the point that I made earlier on around the fact that we reset our cost basin in EMEA, the fact that we were pushing productivity and pricing, gives me a lot of confidence that we will try and hold that margin level and continue to try and look for that marginal improvement that I suggested on a year-on-year basis.

As far as APAC is concerned, we've also seen good margin development since that baseline of 2018 to where we are today. At 28%, they're up about 1,070-basis points. And again, that's been fairly consistent over that period. So, I fully expect that we will continue to work on our margin, to work with that intent of delivering 30-basis points to 50-basis points every year.

{A: Nicola Tang: BNP Paribas:} All right. Thank you. Certainly impressive.

{Operator:} And we'll take our next question from David Begleiter with Deutsche Bank. Your line is open.

{A: David Begleiter: Deutsche Bank:} Thank you. Good morning. Sanjiv, productivity has been a key driver of earnings growth this year. Can you remind us what that number, quantify that number this year, and should it be similar next year as well?

{C: Sanjiv Lamba: Chief Executive Officer and Member of the Board of Directors: Linde plc:} So, I'll tell you that productivity is something that sits right at the heart of, how we manage our base business, David, as you know well.

And essentially, I mentioned in one of the earnings calls previously that we had about 14,000 projects last year in 2022. For the first half of this year, we have in excess of 8,000 projects. So, I feel pretty good about the fact that there is a continuous pipeline of productivity projects that continue to work through and actually deliver.

There is no silver bullet. There isn't a single big thing that we do. It's the aggregation of these 8,000-plus projects that actually deliver results for us as we move forward.

The way we think about the number on productivity is to look at its impact on the cost base that it actually kind of leverages off. So, we measure that as a percentage to that cost stack, and as things stand, we kind of look at a range of between 5% to 7% of cost stack, and that's what then flows into the bottom line that we work through.

{A: David Begleiter: Deutsche Bank:} Very good. And just on the clean energy opportunity, is there a market share you're thinking about that Linde should attain over a longer period of time?

{C: Sanjiv Lamba: Chief Executive Officer and Member of the Board of Directors: Linde plc:} To be honest, we don't think about the clean energy opportunity or the portfolio in terms of market share. We think in terms of selecting high-quality projects that meet our investment criteria and that give us -- allow us to leverage the asset base and the network that we have, giving us competitive advantage.



And really, to be honest, when we went out and gave you some numbers around that 30 billion in terms of decisions we're likely to make over the decade in the U.S., or 50 billion across the world. It's driven really around the opportunity set. And that's how I'd like to think about that. The market share will be what it will be. Really thinking about focusing on choosing the right opportunities and ensuring that we develop them well, go through a proper feed and FID process and actually execute well. These are advantages that our engineering team brings for us. We do all of that. We then have a substantive business as we move forward.

{Analyst:} Thank you.

{Operator:} We will take our next question from Tony Jones with Redburn. Your line is open. And Mr. Jones, your line is open. Please check your mute button. And hearing no response. We will move to our next question from Peter Clark with Societe General. Your line is open.

{A: Peter Clark: Societe General:} Yes, thank you. Hopefully you can hear me. I've got two questions. The first one, I've listened to the discussion on the pricing, the inflation thing, but it feels like you've still got momentum at least into the third quarter. So I'm just wondering about sequential price into the third quarter, then we'll see from Q4. So I'm assuming you've got something. And then on the EMEA margin discussion, I'm right in thinking obviously on-site was hit harder, so that presumably helped the margin a little bit on mix. Just wondering how you see the second half in EMEA on bulk and cylinders and on-site, because one of your competitors is a bit more confident about the second half year-on-year comp in the on-site, given the very soft comp and obviously energy costs a lot lower in Europe now, a bit more confidence with the customer. So how do you see those things? Thank you.

{C: Sanjiv Lamba: Chief Executive Officer and Member of the Board of Directors: Linde plc:} Peter, I'll go back and refer to the comment that Matt provided on pricing earlier on to say that we believe, -- you've got an established long-term history of positive pricing coming out of Linde. We think globally weighted inflation is a great proxy for Linde's pricing. In Q2, you saw us deliver 7%. Globally weighted inflation for us was between 5% and 6%, so we're slightly ahead of that. That momentum that you talk about, I think, is, really built around the inflation and we've said that we are a good player on inflation and we'll continue to progress with that.

I'll also just mention that pricing is really all about management action. I mean, rather than, relying on a set of indices, we proactively work on pricing to make sure that product pricing continues to grow and is expanded. And that's really what, where pricing impact comes through. We don't rely on surcharges for sustainable pricing longer-term. As far as EMEA margin is concerned, without getting into the detail of how we see the margin split between the impact from different businesses, what I'd say to you is, you've seen some very, I would say in some ways, spectacular margins coming out of EMEA. It's really been driven around a mix of pricing and productivity running deep in that organization. And I fully expect that quality of business that we've now enhanced in EMEA will continue as we move forward. And I think the mix will not really be that impactful for us, really. Overall, our portfolio will deliver the margin that we're looking for.

I'll also make another point just to kind of remind folks that as I think about margin, and you've heard me say this before, we constantly benchmark as an organization. We might even be obsessed by benchmarking. And one of the things that I lay out for the business very often is just reminding them that, and I'm using 2022 numbers because that's kind of just the baseline we were using, that when I take 2022 margin numbers, in the Americas, more than 10 countries had margins in excess of 30%.



In Europe or EMEA that we just talked about, 17 countries had margin more than 30%, and in APAC, about seven countries had margins more than 30%. The reason I mentioned that to you is because, our internal benchmark drives a lot of the behavioral within these segments, driving ourselves to make sure that we're improving the overall aggregate by targeting, getting to margins that get to that 30% kind of target that we've got internally, and which Americas are set for the rest of the segments as well.

{Analyst:} Thank you. Do you think the onsite will be better in the second half, yourself, in EMEA?

{C: Sanjiv Lamba: Chief Executive Officer and Member of the Board of Directors: Linde plc:} It's very difficult to predict what onsite will do. I said this in my opening comments as well. It's very difficult to predict what onsite will do in Europe at the moment, particularly chemicals and energy.

I do see an uptick on metals. So, I do believe that metals will continue to show that momentum, but it is difficult to predict what chemicals and energy will do. And it's going to be driven by multiple factors, including energy prices, but also what happens in terms of the winter and the weather.

{Analyst:} Got it. Thank you.

{Operator:} And we will take our next question from Michael Sison with Wells Fargo. Your line is open.

{A: Michael Sison: Wells Fargo:} Hey, good morning, guys. Historically, volume, sort of drove a good portion of your adjusted EBIT growth, and your volumes are down 1%. Yet you're still able to generate pretty impressive operating profit growth and EPS growth. So, if volumes turn positive whenever they do, does your leverage get better from here, or do you have to add costs to sort of support some of that volume growth?

{C: Sanjiv Lamba: Chief Executive Officer and Member of the Board of Directors: Linde plc:} Mike, the way to think about this is really, if you look at how we think about our EPS growth algorithm, right, and we've said this before, there are two or three components that drive that. A base business drives a large part of that, right? We expect our base business to deliver anywhere between 4% to 6% of that EPS growth that we talk about. The target that we've set for ourselves of 10 plus percent EPS growth.

Given that backlog continues to grow, at the moment, probably, or in the past, you would expect backlog to provide between 1% to 2% of EPS growth. We now see that with backlog growth going forward, that's going to range probably between 1% to 3%, probably at the top end, given the higher CapEx backlog that you'll see. And then, we'll have a little bit of an uplift from share buybacks, which will remain largely consistent about 2%. You add it all up, that kind of gets you to the algorithm of 10 plus percent, the base business delivering about 4% to 6%. There's a mix in the base business. you'll see pricing, you'll see productivity, and you'll see some volume. When volumes are down, pricing and productivity have to do more. When volumes pick up, obviously we see a little bit of cost come in, but we manage productivity very, very hard through that period as well. So it's that mix of base business, 4% to 6% kind of contribution to the EPS growth that you should be thinking about.



{Analyst:} Understood. And then for the second half, are your volumes, I apologize for misses, are they going to stay similar to the second quarter? Are they going to improve a little bit on a year-over-year basis? I know sequential, I think you mentioned was going to be better. And then how much volume growth will you get from new projects in '24?

{C: Sanjiv Lamba: Chief Executive Officer and Member of the Board of Directors: Linde plc:} So as we said before, we are starting up projects all in for this year, about 2 billion. A large portion of that was a Singapore piece that's already happened, that is ramping up through the course of this year, and the balance will happen in the second half. So you'll see some backlog contributions through the course of the second half. Broadly on volumes, I'd say to you, I expect -- why don't I just do a quick walk around the world and give you a sense of what I'm seeing across in terms of expectations. So, if you look at Americas, we were kind of largely flat for the quarter in Q2, adjusted for customer outages in the U.S. Gulf Coast and some softer electronics, sales mainly on rare gases.

The U.S. Gulf Coast customers have largely come back and they're ramping up production. So, I expect positive volume sequentially as a result of that.

Merchant sales, I'd say to you, probably expect that to be flattish. Remember, it's important, I think sometimes we forget, but the Americas business overall has shown steady recovery since COVID. We are at levels well above pre-COVID. So, we are at somewhat of a high watermark and I'm seeing that flattened out a little bit and we feel pretty good about where that is.

As far as the U.S. package business is concerned, I'd say we are in Q2, we saw mid-single-digit growth. Manufacturing saw some upside, and then that is offset by electronic sales being a little bit softer on the rare gases side.

Hard goods in Q2 were a bit of a mixed bag. We saw consumables, wire, et cetera, grow. We saw equipment sales come down a little bit. Expectations, I'd say, for the U.S. package business would be flattish as we go into Q3. So, all in, I'd say some upside from the HYCO business, U.S. Gulf Coast, but beyond that, probably flat volumes.

As far as APAC's concerned, really, I think it's a story of China and the rest of Asia. The rest of Asia, India particularly, I see growth continuing. I see that momentum in the second half as well. ASEAN, a little bit softer, will still grow, but will be probably softer growth than we've seen.

And then there's the story of China. I mean, as you know, without getting into a lot of detail on China, I'd say to you the highlights are year-on-year volumes are flat, sequentially up 4%, largely because there was a there was a lunar new year in Q1. Based on what I'm seeing, I expect Q3 volumes to be flattish, steel chemicals, electronics demands continues to be soft. The government has earlier this week, in fact, on 24th, announced a large intent of stimulation of the economy and consumption. But really, for an economy that size, for us to see any visible impact of that, probably towards the end of the year.

And then we are left with EMEA. And EMEA volumes, I expect will be consistent. I can't see anything that suggests that we'll see a significant improvement in the second half. I believe in Q3, as an example, adjusted for seasonal variations, et cetera, you will see flattish volumes.



{Analyst:} Great. Thank you.

{Operator:} And we will take our next question from Vincent Andrews with Morgan Stanley. Your line is open.

{A: Vincent Andrews: Morgan Stanley:} Thank you. And good morning, everyone. Matt, I might be overthinking this a little bit, but could you just maybe help me better understand, historically, your guidance midpoint had assumed no economic growth, and now the high end assumes no economic growth. So what would cause you to sort of change that framework?

{C: Matt White: Executive Vice President & Chief Financial Officer: Linde plc:} Yeah, Vince, we have, if you go back far enough, we have bounced a little bit around on that. Sometimes high end, sometimes middle end. It just gets to a function of when we put the numbers together and we sort of how many quarters we have left and what we see going on. And also the sequential trends will play into that as well. So, so right now, I'd say, yeah, the high end, I wouldn't look much further beyond. That's just how the numbers are put together. That's how the guidance range resulted. And as you well know, we're going to continue to do what we do to try and improve on that. But right now, this is the guidance we have out there. And to your exact point, those are the base assumptions underlying it.

{A: Vincent Andrews: Morgan Stanley:} Okay, fair enough. If I could just ask on the pricing equation, is there a way we can think about, the price you achieved in the second quarter and maybe what you're expecting to achieve in the third quarter, how much of that, is lapping of prior price initiatives versus how much of that is sort of the implementation of new initiatives? Is there a way you can help us think through that?

{C: Matt White: Executive Vice President & Chief Financial Officer: Linde plc:} Sure. This is Matt. There's always around the world, and you have to remember, all of our pricing is incredibly local, right? It's in the, -- almost 100 countries around the world. They're individual initiatives. They are all done based on individual contracts. And so, at any point in time, there are always price adjustments, actions, contractual inflation adjustments occurring everywhere in the world at all times. And so, given that, it's always going to have a component that carries into the next four quarters or three quarters, and that's what you're going to see. So clearly, to your point, on a lapping basis, when you lap high global inflation periods, and you do see disinflation, then yes, the comps get a little tougher. That's natural. That's normal, especially as what we're seeing in the developed, some of the developed nations. But other than that, there are continuous price items going on simply because of the contract structures. So I would say, well, we absolutely expect to carry into next year. We are still seeing actions today. And remember, there are many countries that still have double-digit inflation going on right now. And so you have to consider that as well, because again, it's a very local approach.

{Analyst:} Okay. Very helpful as usual. I really appreciate it.

{Operator:} We will take our next question from Patrick Cunningham with Citi. Your line is open.



{A: Patrick Cunningham: Citi:} Yeah, thank you. Thank you for taking my question. In June, you announced the contracts with Wanhua for decaptivating ASUs. In terms of future opportunities to decaptivate ASUs in Asia, can you size the potential there for Linde, both in terms of backlog and the addressable market?

And will future investments need to include additional investment decarbonization, or are you agnostic from that standpoint?

{C: Sanjiv Lamba: Chief Executive Officer and Member of the Board of Directors: Linde plc:} So, Patrick, let me -- I didn't quite get your second question, but let me answer the first as well on decap, and then maybe you can repeat that second question.

Let's start with Wanhua. So, what we announced was a decap of ASUs. Now, over the last 30 years, we've probably done most of the large ASU decaps with customers that we feel comfortable running a long-term gas supply contract with. So, I don't think that -- I'd say to you that there is a large market that we're expecting to see work out on the decap side.

Remember, we don't necessarily want to use decap as a way of providing -- financing to our customers. It's where there is a deeper integration into greater density for us in a particular market and a high-quality customer. When that mix comes together, that's where decap makes sense for us.

So, we have selective opportunities that we are pursuing. We have a pipeline around that. But I wouldn't say to you that you should expect significant levels of opportunity going into the backlog as a consequence.

Remind me of your second question again.

{Analyst:} Yeah. Yeah. Got it. And that's, just on the second part of my question, I know the Wanhua agreement included investments in decarbonization. And I know you mentioned that, network density is the critical part there. But would you look for, additional investment in decarbonization if there are future opportunities? Thank you.

{C: Sanjiv Lamba: Chief Executive Officer and Member of the Board of Directors: Linde plc:} Yes. And whether we are either incumbent with customers. On decarbonization, I'd say, Patrick, that we have the technology portfolio, the operating skill set, and where we are incumbent with customers on customers on the industrial side, we think that's right in our wheelhouse. We have great carbon capture technology that we can utilize. We can either find a chemical sink or a sequestration partner to work with, and that combination is really helpful. So we continue to do that. I think there are some easier decarbonization cases in China, as an example, where it's about making sure that we're moving from steam turbine-driven equipment to actually moving to just going onto the grid and using renewable power. That's the scope to emission reduction, as-well-as better economic case in most cases. So I really want turns out to be a nice win-win as we look and execute those projects.

{Analyst:} Very helpful. Thank you.



{Operator:} We will take our next question from Kevin McCarthy with Vertical Research Partners. Your line is open.

{A: Kevin McCarthy: Vertical Research Partners:} Yes, good morning. On Slide 13, you provide some helpful pie charts that speak to your backlog composition. And so, I was just wondering if you could speak to how you would expect those pies to evolve over the next year or two. For example, EMEA has been quite small historically, recent history anyway, for understandable reasons. But would you expect that to grow materially as clean energy projects gain traction? And I'm curious, within Asia-Pacific, what is the mix of clean energy versus more traditional projects that you're seeing there in your discussions, and how you would expect that to evolve as well?

{C: Sanjiv Lamba: Chief Executive Officer and Member of the Board of Directors: Linde plc:} Thanks, Kevin. So, let me address two points. One, my expectation on that backlog, the pie itself, is that it'll continue to grow, just to make sure that that's kind of understood. Let's talk about the mix a little bit then. As you know on the decarbonization piece, we went out and gave you guys some numbers saying we expect, over a decade that about 30 billion in the U.S. and about 50 billion globally. So that is the ratio that I expect. I expect the U.S. or Americas to be around 60% of that decarbonization pie and I expect the balance to be between EMEA and APAC. I do expect larger projects in EMEA. We're working on a number of them in Middle East and Europe that I feel pretty good about that are progressing well and I think that -- as part of that the balance 40% as it were I do expect EMEA will have more than its fair share of that. I'll also add and tell you that the Asia-PAC decarbonization effort is much smaller and slower. They are behind the Americas and EMEA by a number of years at this point and I do not see the scale that I see in Americas and to some extent EMEA on those projects as yet. And I suspect they are probably three to five years away in terms of getting projects of that scale.

{A: Kevin McCarthy: Vertical Research:} Okay, thank you very much.

{Operator:} We'll take our next question from Laurence Alexander with Jefferies. Your line is open.

{A: Laurence Alexander: Jefferies:} Just a housekeeping question on packaged gases. How is pricing for rental fees evolving in Europe and in the U.S. compared to inflation? Is it just sort of moving at a low single-digit rate regardless of the background inflation environment, or have you been moving it up ahead of inflation?

{C: Sanjiv Lamba: Chief Executive Officer and Member of the Board of Directors: Linde plc:} So both Europe and the U.S. packaged businesses are reasonably large, Laurence, as you know, and we've been very consistent in our rental pricing actions that have happened over the last few years. So I think we ensure that there is more than recovery of inflation, and we continue to have a very consistent policy around that.

{A: Laurence Alexander: Jefferies:} Okay, thank you.



{Operator:} And we will take our next question from Steve Byrne with Bank of America. Your line is open.

{A: Steve Byrne: Bank of America:} Yeah, just continuing on that packaged gases question, post the nexAir acquisition, what would you estimate your share of U.S. packaged gases business, and how would you compare your pricing power in that business now versus liquid bulk? And any indications on trends for hard goods and so forth that would give you an outlook for the U.S. economy?

{C: Sanjiv Lamba: Chief Executive Officer and Member of the Board of Directors: Linde plc:} Sure, Steve. So let me address both those points separately. Let's talk about the packaged gases. The nexAir acquisition has been extremely good for us. We've got a strong footprint in southeast U.S., which is seeing a lot of growth and a lot of incoming investments as well. So I feel pretty good about where we stand. My comment on the market share would be that it isn't high enough. That's what I tell my guys, and I'm going to tell you the same thing. We don't particularly disclose market share numbers specifically. But given the strength of the footprint that we have, we have strong pricing power. We've demonstrated that over the last many years, and that business is actually demonstrating pricing power, reflecting into margin improvement consistently over the last many years. So I feel pretty good about where we stand over there.

Let's talk a little bit about hardgoods. So hardgoods, as you're right in pointing out, is a good leading indicator. The last time we spoke, I'd mentioned that I was seeing a little bit, and this was in the last earnings call, I'd mentioned that I was seeing a little bit of softening on growth. I can say to you today, we are seeing a bit of a mixed bag. Wires and consumables are seeing some slightly positive growth as far as sales are concerned, whereas on equipment sales, we are seeing some declines. And that is something that you could look at in terms of the amount of manufacturing activity and order books that you have. But remember, this is also a season where many of the manufacturers do take breaks. So sometimes prior to that, we would see a little bit of softening in the market. So I'm not going to pass judgment just yet. I'll hold and see what happens beyond September.

{A: Laurence Alexander: Jefferies:} Thank you. A question on clean energy. Can you just roughly estimate the sizes of these buckets for you with respect to the opportunity for you? Obviously, you got a blue energy, -- blue hydrogen production and sales. You got green hydrogen, but you also have oxy fuel opportunities for big energy consumers. You have a mean based decarbonization projects. How would you size those relative to each other?

{C: Sanjiv Lamba: Chief Executive Officer and Member of the Board of Directors: Linde plc:} The best way to describe that opportunity for us is to think about the three buckets that we traditionally talk about. Let me walk you through them first and I can tell you where carbon capture as an example plays a role or not. So the three buckets that we normally track are mobility, we track industrial applications, and we track energy carrier, energy vector. As far as mobility is concerned, typically it's about 10% or less of our entire opportunity pipeline. Multiple projects, smaller in size, tends to be more on the green side with hydrogen refueling stations packaged typically alongside that. 60% of the opportunity set that we see today is all around industrial applications. This is large blue projects, a few green as well, but dominated by blue that sits right in the middle of, -- right in the heart of our, in the wheelhouse, in the heart of our incumbent positions



that we have with many industrial customers where we're helping them decarbonize their operations by providing hydrogen and or in some cases by providing carbon capture and utilization or sequestration opportunities, that's 60% of that opportunity set that we currently see.

And then the last 30% is really around using hydrogen as an energy source and generating hydrogen, in some cases liquefying it, in other cases transforming that into ammonia or methanol and then moving it in some cases long distance to ensure that markets that require ammonia and methanol, or clean ammonia and methanol have access to those products, that's how I see most of those play out.

Both in the industrial applications as well as on the energy side we see a role for carbon capture and sequestration and that's where that kind of opportunity plays a subset of the broader opportunity I mentioned.

{Analyst:} Thank you.

{Operator:} And we will now take our final question from John McNulty with BMO Capital Markets. Your line is open.

{Analyst:} Yeah, thanks for taking my question. Sanjiv, a question just as a follow-up to one of your earlier answers. You had mentioned that you were seeing some clean hydrogen or clean energy opportunities in the Middle East. I guess, how would you characterize these? Are these for domestic use or are they for export? And if it's the latter, do you see subsidies in place, whether it's from Europe or Asian demand or what have you, that would facilitate the economics to make sense for projects like that? I guess, can you help us to think about that?

{C: Sanjiv Lamba: Chief Executive Officer and Member of the Board of Directors: Linde plc:} Sure. So, we are seeing a couple of opportunities which play into both those buckets, John. So, we are seeing carbon capture sequestration opportunity that we are jointly working with Aramco and Schlumberger on. A feed is undergoing at the moment. It should get to FID early in the new year, where we're looking at a very large scope of carbon capture. In fact, the first phase where we're currently working on is 11 million tons of CO2 a year out of a total project, which may be the world's largest carbon capture and sequestration project in three phases, adding up to 54 million tons per annum of CO2 being sequestered. So that's a domestic -- that's driven really around the domestic decarbonization effort that the Kingdom of Saudi Arabia is pursuing. We're also seeing projects in the Kingdom and elsewhere in Middle East around the development of blue ammonia. Now, the economics of blue ammonia coming out of the Kingdom or the Middle East more broadly is very, very competitive. So although there are no direct or broad incentives available, there are specific project-based incentives that the government will provide, and some of that some of that product is then used to serve local markets. I'd say probably a split about a third to two-thirds, two-thirds for export, one-third for local markets. But the product that comes out of blue ammonia in particular, that comes out of the Kingdom and other parts of Middle East is very competitive globally.

{Analyst:} Got it. Thanks very much for the color.



{Operator:} And I would now like to turn the call back to Juan Pelaez for any additional or closing remarks.

{C: Juan Pelaez: Head, Investor Relations: Linde plc:} Thank you again for participating in today's call. If you have any further questions, please feel free to reach out. Have a safe day. Take care.

{Operator:} And ladies and gentlemen, that will conclude today's conference call. We thank you for your participation and you may now disconnect.

{End}