



## Linde plc 2Q 2022 Earnings Teleconference Transcript

Operator: Good day and thank you for standing by welcome to the Linde PLC second quarter 2022 earnings teleconference. At this time, all participants are in a listen only mode. Please be advised that today's conference is being recorded. After the speaker's presentation, there will be a question-and-answer session. I would now like to hand the conference over to Mr. Juan Pelaez, head of investor relations, for any additional or closing remarks. Please go ahead.

Juan Pelaez: Thank you, Elaine. Good day, everyone. And thank you for attending our 2022 second quarter earnings call and webcast. I am Juan Pelaez, head of investor relations, and I'm joined this morning by Sanjiv Lamba, chief executive officer, and Matt White, chief financial officer. Today's presentation materials are available on our website at [Linde.com](http://Linde.com) in the investor section. Please read the forward-looking statement disclosure on page two of the slides and note that it applies to all statements made during this teleconference. The reconciliations of the adjusted numbers are in the appendix to this presentation. Sanjiv will provide the opening remarks and then Matt will give an update on Linde's second quarter financial performance and outlook, after which we will wrap up with Q&A. Let me turn the call over to Sanjiv.

Sanjiv Lamba: Thanks, Juan, and good morning, everyone. I'd like to start by addressing the \$1 billion charge this quarter, primarily related to deconsolidating our Russian subsidiaries. Impairing assets is not something we take lightly. However, the current situation in Russia is unprecedented with the extraordinary sanctions and capital restrictions. And while deconsolidation means we will not report Russian results going forward. We are actively working to safely and economically scale back operations. We fully intend to recover value for these assets, including potential divestitures, but it will take some time. Despite this non-cash accounting charge, the global business continues to be resilient and performed quite well in the second quarter with strong pricing, solid cash flows and margins expanding sequentially and year on year, excluding cost pass-through. Slide three demonstrates the defensive nature of our model. Now it may look familiar since many of these elements were presented in the second quarter of 2020.

The world may change, but our business model does not. We've been around for well over a hundred years. And through that demonstrated our resiliency during some of the most difficult periods in modern history. Approximately two thirds of the business is protected through contractual, fixed payments, such as facility fees and rent, and sales to resilient end markets like food and beverage, healthcare and electronics. This portfolio provides tremendous downside protection during difficult times like the early 2000 recession, the great financial crisis, the 2020 pandemic, and of course, now in 2022. In addition, strong cash generation, coupled with relentless price and cost management support the business when volumes contract. And of course, we can benefit from a recovery as demonstrated after each recession. These facts



apply to all geographic segments, including EMEA where there appears to be some potential investor misconceptions around our business. So, you can see on the bottom right, are exposure to EMEA and some additional color, specifically Germany.

We run our business in Europe like anywhere else in the world, safely, reliably and in a manner to contractually limit our financial exposure to customer volatility. I'm not going to speculate what will happen in Europe regarding the energy situation, but I have confidence in our business model and contracts that we can weather challenges, and we will capitalize on opportunities that may lie ahead. Now, before I hand it off to Matt, I'd like to provide some color on end markets by segment. Slide four shows our organic growth is still quite positive across all end markets with the exception of healthcare, which is due to lapping COVID related oxygen volumes in developing nations. Overall growth is driven by pricing action. Project backlog, even as base volumes are relatively stable, although underlying trends by geographic segments vary a little.

Let me start off with the EMEA region since it seems to be getting most press recently. Volumes were down 1% from last year and flat sequentially while price increased 12% and 3% respectively. The team has done a great job pricing inflation while keeping a tight lid on cost, and I fully expect this to continue. Onsite volumes have been quite stable from a combination of highly competitive top tier customer base and strong contracts. Merchant and package are slightly down as a reduction in COVID oxygen and lower manufacturing volumes more than offset growth in food and beverage, metals and mining and electronics. So far in July, we haven't seen any material change from June trends, despite certain countries navigating their energy challenges. You will recall in the second quarter of 2020 Eurozone industrial production levels dropped roughly 20% due to COVID lockdowns at that time our EMEA segment organically declined only 7%. And since that time, the EMEA segment operating profit has grown approximately 80%. In other words, the EMEA business has successfully navigated unprecedented economic shocks in the past. And I see no reason why that won't continue going forward.

The APAC segment had another solid quarter, despite COVID lockdowns in China. Volumes increased 3% from prior year and 5% sequentially while prices improved 5% and 1%. Onsite customers across all end markets continue to run steady, including China. We saw similar trends in past recessions, which speaks to the quality of our customer base. Now China merchant was weaker from the production curtailment of small to medium sized customers, which was partially offset by merchant growth in other countries, as well as higher packaged gas volumes, especially our specialty gases used in electronics, such as helium, neon and xenon. In July, China, merchant volumes have recovered to levels more consistent with normal run rates as we haven't been seeing material COVID impact at this time. I do expect some volume ups and downs in the second half, but that should smooth out by the end year.



Aside from China, organic growth across Korea, south Pacific, south and Southeast Asia remain healthy from a combination of project startups, pricing actions. And of course, our capability to supply gases across all three supply modes. Our largest segment, the Americas has some of the best growth trends and opportunities for the near term. Organic growth of 9% from the last year includes 3% volume and 6% price. All major end markets have expanded led by food and beverage, electronics, manufacturing, chemicals, and energy, excluding Latin American healthcare trends related to COVID. In the US, our integrated model across all three supply modes enables reliable and seamless gas supply for all customers regardless of size or end market.

In fact, our US packaged gas business has been one of our fastest growing businesses with underlying sales up 16% from prior led by aerospace, construction, electronics and metfab. The underlying trend appears stable in July, although we expect some normal seasonal slowing for the summer holidays. Also, we continue to see more project backlog opportunities in the US than anywhere else. Recent wins for electronics have been the largest driver, but progress on potential new US Gulf coast projects, especially for blue hydrogen are encouraging. And as I look at our overall current sale of gas backlog report, there are several projects we expect to sign before the year end, which could take this number close to the \$4 billion mark, even after starting up close to a billion in projects during the course of the year.

Now, I'd also like to highlight that we recently issued our annual sustainability report, which provides a comprehensive view of our SDG based initiatives and tracks our progress. I'm pleased to see that in this quarter, we reported a reduction of 31% on our GHG emissions versus the 2018 baseline. Well ahead of our projections to reach our target of 35% reduction by 2028. But we realized that an intensity goal was not enough. And therefore, last year we communicated our ambitious 35 by 35 goals. As you know, we are committed in reducing absolute greenhouse gas emissions 35% by the year 2035, on the way to becoming climate neutral by 2050. As you'd expect our 35 by 35 target is science based and aligned with Paris Accord goal.

Overall, our technical capability, unrivaled network density, disciplined operating culture, and a committed team allows us to quickly capitalize on any growth opportunities that meet our investment criteria. Now, some investors mistakenly look at one or two countries in our portfolio and come to conclusions about growth prospects or profitability. What they miss is our ability to capture that growth anywhere in the world while simultaneously rightsizing the businesses in an efficient manner. This ability has enabled us to consistently deliver double digit EPS growth. And this year is no different. The Linde model is well suited for a fast-changing world and our performance will continue to demonstrate its resilience. I'll now turn the call over to Matt to walk through the financial numbers.



**Matt White:** Thanks, Sanjiv. Before I jump into the numbers, I'd like to explain the Russian deconsolidation in a little more detail. Over \$900 million of the charge relates to net Russian asset impairments. Note, these assets have increased almost 25% in the last few months due to the strengthening of the Russian ruble. There were several factors that led to this outcome, including the unprecedented sanctions and severe capital restrictions. Deconsolidation essentially means we cease reporting any business activity on our financial statements. However, we still own these assets, and we'll continue to scale back operations while working to divest some industrial assets. We will only recognize cash that can be repatriated from Russia into a consolidated Linde entity. And as Sanjiv stated, we are laser focused to continuously extract economic value, consistent with every other business we own.

Please turn a slide five for an overview of the second quarter results. Sales of \$8.5 billion increase 12% from prior year and 3% sequentially. Versus prior year, contractual cost pass-through increased 7% primarily from the onsite business, but this was partially offset by a currency translation decline of 5%. Foreign currency is anticipated to remain a significant headwind, which I'll speak to later on the guidance slide. Organic sales increased 9% from last year and 4% sequentially. Gas volumes increased 2% primarily from project startups. Base volumes were relatively flat as increases in manufacturing, food and beverage and electronics were mostly offset by lower healthcare volumes from COVID.

Pricing of 7% was broad based. And once again demonstrated our ability to price in extraordinary inflation environments. Recall this figure primarily represents merchant and packaged, so underlying price increases are higher. Operating profit of \$2 billion resulted in a 23.5% margin. Excluding the effects of contractual cost pass-through, operating margins expanded 100 basis points from prior year and 80 basis points over the first quarter. This represents the second quarter in a row that operating margins have sequentially improved, which confirms the one to two quarter recovery lag we discussed late last year.

You can see the table showing operating margin trend by segment, excluding the effects of cost pass-through. It's important to highlight that America's segment margin declined more than 100 basis points from one-time charges incurred during the second quarter, which are classified as other expenses. This will not repeat. So, I fully expect America's margins to return to the normal run rate in the third quarter. Separately, APAC and EMEA continue to show solid margin expansion versus all periods as price and cost management continue to improve business quality.

You'll see in the appendix how Global Other Segment have positive operating income. As mentioned last quarter, Q1 had one-time charges, which we've lapped. And now you're seeing the benefit of lower corporate costs coupled with higher volumes to the aerospace market in the coating's business. Note, we are in the process of divesting the noncore GIST business, which will result in lower sales and operating profit for this segment going forward. EPS of \$3.10 increased 15% from last year or 20% excluding FX.



Despite the various geopolitical headwinds, the business continues to generate EPS well in excess of our midterm commitment. Return on capital reached 20%, almost doubling from the 2018 merger baseline level. This was accomplished from double digit earnings growth, strong cash generation and discipline capital deployment, all during a highly volatile economic environment.

Slide six provides more details on our capital management. Available operating cash flow, which we define as operating cash flow less base CapEx that is used for maintenance or non contractually committed growth, has held steady during 2022 at \$1.5 billion per quarter. During the second quarter alone, we deployed \$3 billion of capital with approximately one quarter invested into the business and the remainder distributed back to shareholders as dividends and repurchases. This approach is only possible with steady and reliable cash flow, a highly valuable trait to have these days. I'll wrap up with an updated outlook on slide seven. Third quarter guidance range of \$2.85 to \$2.95 represents year over year growth of 4% to 8% or 10% to 14% when excluding an estimated 6% FX headwind. The FX assumption was based on spot rates from a few weeks ago, so it reflects some of the recent devaluations.

This sequential EPS decline of 15 cents from Q2 to the top end of the Q3 range is driven by 10 cents of FX and 5 cents from the deconsolidation of Russia. Therefore, this range assumes no base growth at the top end with recessionary conditions below that. Consistent with prior guidance, this is not our prediction of the economy, but rather an assumption used in the figures. You can insert your own view of the economy. If it does better, we'll be above this range. And if it does worse, we'll take mitigating actions. Full year EPS guidance range of \$11.73 to \$11.93 is 10% to 12% above prior year or 15% to 17% when excluding the negative 5% currency impact. This range was increased from last quarter since improved business performance more than offset the larger FX translation headwind. Irrespective of the geopolitical landscape, we will relentlessly take actions to improve the business and outperform expectations. As Sanjiv stated, we've been doing this for over a century. Consistent with prior crises I fully expect to not only overcome these challenges but emerge even stronger than before and while the financial markets may temporarily underprice our stock from misperceptions of the business model will continue to pursue quality growth while deploying excess cash towards stock repurchases, all in an effort to reward long term shareholders. I'll now turn the call over to Q&A.

Operator: Thank you. Ladies and gentlemen, if you'd like to ask a question, please press the star or asterisk key followed by the digit one on your telephone. Please ensure that the mute function on your telephone is switched off to allow your signal to reach our equipment. Once again, please press star one to ask a question. Our first question today comes from Duffy Fischer of Goldman Sachs. Please go ahead.

Duffy Fischer: Yes. Good morning. Congrats on a nice quarter. First question is just around the price versus cost. When you look out over the next one to two quarters, how much visibility do you have on your non-pass-



through cost and the price that you've already taken, is that enough that we should continue to see a positive spread on price versus costs sequentially over those next two quarters?

Sanjiv Lamba: Thanks, Duffy. So, let me just go back and maybe reiterate how we think about staying ahead of that cost inflation and how we are managing our pricing over the last many quarters. Essentially you think about pricing in our industry and for us in three key buckets, we've got the energy bucket, we've got the fuels bucket. As you know, we travel a lot of kilometers delivering product, and then we've got essentially the wages bucket, which we manage quite actively. Through the last four quarters, and of course, if you go back into history over the last 20 years, we've demonstrated positive pricing over that period. The last four quarters have shown we've been able to keep ahead of cost inflation.

We've talked about a lag of one to two quarters. That's kind of visibility we had. We continue to have the same visibility. And in fact, as you see margins over the last two quarters expand, you know that that lag of one to two quarters being fully covered and reflecting in the margin expansion that we've been able to show across all the segments. We do actively manage that spread, Duffy, to your point, on how we look at pricing versus inflation. And that's something that we have good visibility on within the organization. And we pursue quite actively with our monthly reviews, et cetera, that you're aware of.

Duffy Fischer: Fair enough. Thank you. And then just to dig in on Europe a little bit, if energy prices stay high what percent of your customers do you think have a long-term issue? And so it may be that you're made whole on your take or pay contract, but it may be that that customer just isn't viable. Do you have kind of a walking around number in your head? Is it 5%, 10%, 15%? What percent of customers would struggle to remain in business if let's say \$25 an MMBtu natural gas or higher?

Sanjiv Lamba: So, Duffy, maybe why don't I just take a step back and just talk about what we saw in the markets in Q2, because that's a good starting point. As you know, energy prices have been higher for a while. This hasn't certainly peaked only in this year. In fact, it started last year, well before the war itself. And when I look at the end markets across EMEA, I see sales growing across all end markets, except in healthcare, which we talked about lapping the COVID volumes, particularly in Eastern Europe and Middle East. If I think about our distribution modes, that's the other way to look at the profile of the customers, across all distribution modes, we saw sales grow as well. Onsite, merchant, package obviously held by strong pricing. The pass-through that you've just referenced, but also, we saw volume that healthcare continue to stay stable or move forward.

So, when I think about the outlook, my view is at this point in time there isn't anything in the trend that we look at which is suggesting that people are fundamentally changing how they operate or are kind of not managing the challenges. Yes, a lot of them are looking at how to save costs, clearly. I'll give you a good



example of where we are working very closely with them to get that done. But also, we are understanding that people are actively looking at their own pricing measures, and we are seeing that across most of the industries we serve. I'll give you a quick example of how cost saving programs are running. So clearly, with natural gas costs being where they are, people are now starting to look at industrial gases to help them become more efficient, increased throughput as well where they do that.

A good example of that is our Oxy fuel also that we have. And recently, obviously given where energy prices are across the world, but in EMEA in particular, we've had a lot of traction with customers in the course of the first half of this year, helping them improve their processes by injecting oxygen and substituting in part air, but also reducing their natural gas consumption of the consequence. 10 wins already in the first half, we've got at least 15 to 20 other proposals that we are working on. That's a good example of where we are using industrial gases to help people manage their cost base and address some of the points that you raised.

Duffy Fischer: Great. Thank you, guys.

Operator: Thank you. Next, we move to Vincent Andrews from Morgan Stanley. Please go ahead.

Vincent Andrews: Thank you. Good morning, everyone. Wondering obviously a lot of questions over the last couple of months about what would happen if there's a gas supply issue in Europe. Maybe you just want to give us the sort of the state of the art on how your take or pay contracts work, and maybe in particular how they would work in a situation if you were, yourself, unable to get electricity and operate your facilities?

Sanjiv Lamba: Sure, Vincent. So, I'm going to use Germany as an example because it's kind of, that's where everyone's attention seems to be at the moment. And we tried to address this issue when we showed you the defensiveness of our business, right, and we showed you Germany on slide three and the exposure we have over there. So, using Germany as an example, I'll remind you, Germany is about 5% of our company sales. We said that two thirds of the German sales at the moment are what we would call defensive. And we talk about those being underpinned by contracts or supplying to Brazil markets. When I talk about underpinned by contracts, we've got fixed facility fee or rentals in place over there. So, two-thirds of the business is protected through that. If you now look at what's left, that's about one to one and a half percent of our overall sales.

So, I just want to kind of make sure that the magnitude of the volatility that we're talking about is actually limited from our perspective, in the example of Germany to about one to one and a half percent of our overall Linde revenues. Coming to the contract structures themselves, our contracts basically have two components within them; a fixed fee that allows us to recover on the capital and the operations that we do



and then a pass-through element that essentially passes through the feed stock that we use, in this case, natural gas. We are very confident on both the quality of customers we serve, because that is quite important in times like this, but equally on the quality of the contracts and our enforceability of those contracts and those fixed fees that we have within the contracts that protect us.

Vincent Andrews: What about in the event that you would not be able to operate your facility? How would your contracts work?

Sanjiv Lamba: Actually that's - yes, I should cover that part. So, you're essentially talking about our atmospheric business. Now, if you talked about electricity earlier on, right. And I just want to make the point, obviously we are in very intense conversations with the German government around electricity and how the energy, kind of allocations, will happen. Just as a quick reminder, in all our countries, including Germany, we are one of the key players producing medical gases and safety critical process gases. For instance, even if you turn down operations, you need nitrogen as part of that, even if you shut down operations, you need nitrogen for safety purposes. Because we produce gases which are critical, either from medical or a process safety perspective, the German government to illustrate one, but others as well, allocate us on a preferential or priority basis. And therefore, the unlikely event of us not being able to operate, Vincent, is really very, very minuscule. So that is kind of from our perspective, what provides the confidence that we have, that those operations will continue to be operating.

Matt White: And Vince, this is Matt. I would just add one more thing to that. This is why density is so critical in this industry, because the density helps bring tremendous reliability in events like this. So, to your question, we had the ability to run other assets. Now of course you'd have higher distribution, and you would've higher distribution costs, which would need to be recovered via either surcharging mechanism. But that option also presents itself that when you have a large density platform, you can leverage other areas that you can still bring those critical gases. Now clearly, it'll be at a distribution penalty, which you need to recover, but you still have the reliability to ensure that supply. So that is another element why we view this density of our model so critical to enable times like these.

Vincent Andrews: Thanks very much for all the detail, guys. It was really helpful.

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

Nicola Tang: Thanks. Hi, everyone. Actually, the first question was a bit of a follow up on the European situation, not specifically about the sort of shorter-term trends, but just thinking longer term. Are you, or would you expect to see any of your customers rethink or no, sorry, potential customers rethink whether to make investment decisions in Europe, given the high/volatile energy cost environment?





Sanjiv Lamba: Nicola, I guess our customers are looking at that investment criteria and looking at their risks and we would expect that customers will constantly look at that and look at diversifying their risk profile. I wouldn't say to you right now that our customers would stop investing in Europe. Absolutely not, but I think they would want to understand their risks as they go about looking at those investments. What you will obviously also see is as the European transition around energy picks up momentum, you will see more people then use that as a basis to try and understand how they can benefit from that and minimize the risk around their investments. But if I'm kind of giving you a straight answer to what I'm seeing today, I'm not seeing a conversation on that would suggest that customers are walking away from investments in Europe.

Nicola Tang: All right, great. That's clear. And the second question, I think, Sanjiv, in your comments, you mentioned sort of the words rightsizing, which I think you've talked about in the past. I was wondering if you could talk a little bit more about, I guess, measures that you are trying to put in place at the moment to right size, and in particular, maybe you could comment on, I think there was a recent Reuters article talking about headcount reduction in the engineering business.

Sanjiv Lamba: Sure, Nicola. Let's talk about engineering spending a lot of personal time over there with the team. So, I want to just kind of maybe walk you through three steps around engineering. So, it kind of illustrates where we are. Step one that we went out last quarter and said to you guys that we would wind down our projects over there in compliance with sanctions and beyond. We have completed that process and the team has obviously gone through that. Now, last quarter, we also told you that there was a very dramatic drop in the backlog for that business. And clearly, any business that goes through that kind of a change needs to ensure that they reset their cost base. In this case, that significant reduction in backlog means that the engineering team is putting together their plans for resetting their cost base to remain competitive and to achieve the target margins that we've set for them, which are low to mid double-digit margins, expected longer term.

So, they are in the process of doing that. And we have a plan that in the course of months now on restructuring that organization will be in play. Now, I do want to add though, if I may, because we are on engineering just to say, I was really pleased that in the last quarter we saw order intake very encouraging at about a billion dollars. So, it was good to see that while we are managing our cost base actively rightsizing that organization and ensuring we remain competitive longer term. We're also in the short-term rebuilding that backlog with high quality projects. And again, seeing the team kind of work on both of those fronts is how Linde typically wants to see their businesses operate.

Nicola Tang: And is there anything to do in terms of rightsizing in other parts of your business?



Sanjiv Lamba: We are constantly rightsizing. As we've said this before, Nicola, you might recall my comments in previous quarters where I've said that one of the things we do actively is constantly benchmark within segments and across segments. And one of the reasons we benchmark is because we want to understand where the best practices are and where are the best ratios in terms of the individual productivity that we get for sales for employee, operating profit for employee, et cetera. And we try and apply those. So, we are actively doing processes across all our businesses, and there are programs in place at the moment in APAC, you're aware of the program in EMEA. We announced that last year when we took a charge that we were going to reduce a significant number of heads in our German business, that's already in progress today. And similarly, across Americas, we are undertaking similar benchmarking exercises as well. So, for us, that's a constant process. We don't call that a special program. We do that on an ongoing basis.

Operator: Thank you. Mike Leithead from Barclays has our next question. Please go ahead.

Mike Leithead: Great. Thanks. Good morning, guys. First question, maybe for Matt, just wanted to follow up on the Americas one-time charges in Q2. I was hoping maybe you could give just a little bit more color on what that was. And secondly, I just wanted to confirm those are included in the \$910 million of EBITDA in the quarter. So, if I hold all else equal, if you get some of that back next quarter, EBITDA would theoretically be higher. Is that fair?

Matt White: Yeah. Mike. So first of all, your second question. Yes, you're correct. These are included in all the numbers, everything we're showing on the segment that's included and maybe a simple way to clarify it a little more, that might help. I would reference slide 20 in the appendix on the investor slides that you have. If you at slide 20, what you'll see, and this is on the consolidated level, is something that's called adjusted other income expense. So, this is part of our obvious adjusted results that we give you. It's part of our adjusted EPS that we give you, and it represents costs that are other income and other expense. And these are things that generally are not indicative of kind of the current normal operations, but they are part of operating profit. So, they can include things like gain and loss on sale of assets. It could include things like above the line kind of tax or legal type items that would have various accruals.

And when you look at the history of this number, it is up and down, and this is a normal type of pattern for a large multinational company like us. In fact, you look at last year, it ranged anywhere from income of \$33 million to outflow expense of \$7 million in any given quarter. I'd say on an average year we tend to be net positive, could be 10, \$20 million, but it is lumpy. So, when you look at Q2 of this year, it was a \$31 million expense and the America's charges we're talking about, which there was a few, in aggregate, are actually even greater than that number, but this is one off. I have absolutely no concerns over the American margin profile, and we fully expect this to bounce back here in Q3 back to the normal run rates.



Sanjiv Lamba: Great. And again, both adding that the underlying margin for Americas is growing, just in case, I kind of read a couple of reports that seem to confuse that.

Mike Leithead: Yep. Okay. No, that's great. And then secondly, maybe just for Sanjiv, I just kind of wanted to touch on your electronics outlook. If I look, I think it makes up about 30% of your current backlog, but it's only about 8%ish of your current business. So, you obviously are increasing you spend towards that. So, could you maybe just talk about the attractiveness of that end market for Linde over say the next few years there?

Sanjiv Lamba: Absolutely. So, as you've probably seen over the last few years, Mike, we have grown that business, that position in and we now call it the resilient market has grown. And clearly, we are making massive investments having one a significant amount of the new fab investment that is happening for us. The attractiveness lies in three different ways. One, we deal with some of the best quality customers in the industry on that. So, some of our largest customers are Samsung, PSMC, Intel and others, Global Foundries, Micron, et cetera. That's a good mix to have, we have diversified our risk, but with top tier customers over there with great technologies. So that helps. We have a very unique offering in the sense that we are able to leverage our engineering group to be able to create the technology best suited for the new fabs that are coming up.

So, we believe we have a technology advantage alongside our operating expertise of working closely with fabs for decades now. We're able to leverage that and we are winning more than our fair share in, in terms of the new projects that are coming up. So, we feel good about the technology offering translating into a competitive advantage, visibly available for us. And then the last piece is there is a piece around specialty gases on electronics. Again, we have strong positions over there. In previous calls, we talked about neon, et cetera. Our strong positions and the fact that we are integrated in our supply chains for some of those internally and not having to source a lot of those externally, we are well positioned to be able to use those gases as a growth driver for us in the electronic space as well. So overall, feel pretty good about it, feel that we really are winning more than our fair share here and feel good about where the industry is and the customers we're dealing with.

Mike Leithead: Great. Thank you.

Operator: Thank you. We move to John McNulty of BMO Capital Markets. Please go ahead.

John McNulty: Yeah, thanks for taking my question. Sanjiv, maybe you can give us a little bit more color as to what you're seeing in China, just post the lockdowns, if there are any specific end markets that are maybe



surprising you to the upside, any there that are maybe a little slower to start. Maybe a little bit more color, there would be helpful.

Sanjiv Lamba: Absolutely. John. So, let me just kind of talk about what I'm seeing from a volume perspective, break it down by our distribution most because that's probably the best way to address that a little more granular. So, let's look at onsite volumes, what we've seen in the second quarter, and then I'll talk a little bit kind of in terms of outlook. Onsite volumes have been stable right through the lockdown. It's an important piece to note, high quality customers across end markets, good onsite, volumes have been held steady. Merchant volumes, obviously, as you would expect through that period, given that there were restrictions through the lockdown process, including transportation, distribution, et cetera. We saw merchant volumes move down initially. By end June, we were back at pre lockdown levels as far as merchant volumes are concerned. So, we saw that reasonably quick recovery towards the back end of the quarter as well.

Now, as I look ahead, I expect to see those onsite volumes remain stable. I think if I am thinking about any volatility, my view would be that the steel industry is the one area that I'm watching closely. And if I see movement, that's where I expect that we'll see some volatility. As far as merchant volumes are concerned, we might see a little bit of ups and downs, a little bit of variability on those volumes on the merchant side. And largely because as you read about it in the press, they have four asymptomatic cases, and a million people get tested or lockdowns might come back in and out. But for most part, my expectation is over the course of the second half, you'll see all of that kind of sorted out and you'll see normal merchant volume growth levels achieved back in China.

John McNulty: Got it. That's helpful. And then just maybe a question on APAC pricing, because you've had a decent trajectory over the last couple of quarters and your kind of hitting what looks like a stride that's higher than what we've seen before. Would you characterize that as broad-based in terms of the pricing initiatives or are there a couple one offs on the specialty gases or what have you that might be really juicing those numbers? I guess, how should we be thinking about that?

Sanjiv Lamba: John, for most part, I'll tell you that that is broad based. Obviously, we have a couple of specialties in there and specialties in Asia Pacific around the electronics piece help that pricing number. But for most part, that is broad based across all geographies and across all end markets.

John McNulty: Got it. Thanks very much for the color.

Operator: Thank you. We move to Jeff Zekauskas of JP Morgan. Please go ahead. Your line is open.



Speaker: Thanks very much. Linde's roughly one times levered. So, if you were, I don't know, three times levered, you could put another \$20 billion of capital to work. Do you have a leverage level goal? I know that you've got some decarbonization projects that are pending government subsidies. I don't know how large these are. Where do you think your leverage level is going to go and why? You're going to make acquisitions over the next couple of years?

Matt White: Hi, Jeff. It's Matt. I can handle that one. So, you just to probably really quickly restate, as you may recall, our cap allocation policy, which I think is probably relevant for those on the call, but it starts with an overriding mandate. And the mandate for us is to grow the dividend every year and maintain a single A rating on basically our credit rating. And then our priority after that is to invest in the business. And that includes acquisitions. That includes projects, that includes investing in base growth, and then whatever is left of that from our cash, we put towards stock repurchases. We follow that through all good times, recession times, irrespective of the macro environment, the resiliency in the defensiveness of our model enables us to continue to follow that. So, to your question, the specific answer, it will be what an A rating is.

And you're absolutely right. Right now, we're probably maybe 1.1 levered. I think the team did a good job to balance Euro based debt with our Euro based EBITDA. We continue to grow double digit on our EBITDA and our operating income, which is enabling a strong growth, and which is continuing to keep that metric suppressed. So, we are deploying capital. We are buying back shares. As you probably saw year to date, we're in excess of \$3 billion, but by no means are we ever going to be capital constrained on growth. We're going to go into every growth opportunity. I don't care if it's an acquisition, a decap, a project or base project. If it meets our investment criteria, we're doing it. And so, there's no saving or waiting. It's just a continual deployment of capital under this model, but the business continues to perform very well. And so, it's just an ongoing effort to deploy all this capital we generate.

Speaker: Okay. One of the differences between Linde and the other industrial gas companies is that your SGNA expenses don't grow year over year and your competitors, some are growing at a low double-digit rate, some are growing at a high single digit rate. And I get those currencies are probably depressing SGNA levels, but what's the difference? What is Linde doing that's differentiating itself versus the other industrial gas companies competitively?

Sanjiv Lamba: Jeff, I was going to preempt that question and answer already ahead of you asking that, but I'm going to try and attempt to answer that. We had the same conversation last quarter as well. And I'd say to you that our expenses are down, as you can see, there is FX impact in there, but primarily there is the action around managing our SGNA actively every month, which is what keeps it there. And the benefit really comes from two key drivers as far as our SGNA numbers are concerned. We have a very active productivity program, and more recently using our digital tools, we've got a very active automation program.



You see the benefits of those two flowing into simpler processes, ensuring that we take heads out where we can and should, and including running productive programs at every level. And I've said this before many times, thousands of projects that look at every line item and each line item get addressed.

And I'll give you a couple of kind of concrete example just to illustrate that. So, we are running a productivity program at the moment, looking at our cost, our total cash fixed cost base. We call it TCFC across our businesses in Europe. We recognize the external challenges that business faces. Every line item has an owner. Every owner has a target, and that's how you get that number down. That's reviewed every month. I review it every other month with them. And essentially, that level of focus and attention is what gets those costs. And that's where you find wastage. You find duplication, you find opportunities to improve processes. It's something that happens continuously. We don't do that for a recession. We don't do that when we have good times, we do that every day, every month.

Speaker: Okay, great. Thank you.

Operator: Thank you. We move to John Roberts of Credit Suisse. Please go ahead.

John Roberts: Thank you. Nice quarter. The after-tax return on capital of 20% is at record levels and it's still going higher. How does that compare with returns on new sale of gas projects and how high do you think it can go before customers start shifting to sale of plant instead?

Matt White: Hey, John, it's Matt. I think maybe to explain probably why we're getting the 20% might be better, and then hopefully that'll help address your question. Our expectation of risk reward and returns hasn't changed much. And when I think about what returns we're getting on our onsite projects, that also hasn't changed very much. The reason this metric continues to improve the obvious reason is the numerator, which is NOPAT growing much faster than the denominator, which is our capital base. And the reason that's happening is the integrated model that we have is enabling our non-capital-intensive businesses. And this includes our engineering business. This includes our package business, our merchant business, and even some of the what we call the global other businesses are growing at a very strong rate generating cash without the need for capital.

So, it's the integration of the model that is enabling this return on capital performance rather than a singular view of what a return expectation is on a single project. This is why the density model we view is so important for cash generation and return on capital and profitable, continual stable growth, which is how we deem a way to create value in this space. So that's really what's driving it. It's the integrated model, it's the density model. And it's a lot of the non-capital-intensive businesses continuing to contribute rather than us changing our return expectations.



John Roberts: Okay. And then secondly, do the higher gas prices actually benefit the hydrogen business. I think you're constantly improving the yields and efficiencies of your plants, and I think you get to keep those energy savings. So even though the efficiency gains are small, they're worth a lot more now with these kind of super high gas prices. So, is that becoming material?

Sanjiv Lamba: John, I'd suggest there are two ways to think about this. There is a customer view, and then there is the internal view. You're absolutely right on the internal view where obviously the higher the gas price, the more benefit we get from our productivity program or efficiency programs, and that flows in. And clearly, when you look at margin expansion, our margin expansion is a consequence of actions we take on pricing, actions we take on productivity, all of that falls into that and kind of gets factored in. The other piece that I just offer is there is another perspective to this, which is what is happening with your customers who are seeing higher gas prices?

I gave the example of Oxy fuel wins that we had in the first half, 10 wins. The momentum's picking up on that. Here, what tends to happen is as natural gas pricing moves up, our customers are looking at ways to both reduce cost, but also substitute. And that's where our applications come into play and we have an opportunity then on the upside to try and understand where those volumes could be placed, where we could get those mid to long term contracts put in to ensure that we are able to then sustain some of that growth that we want to see happen as a consequence of our applications as well.

John Roberts: Great. Thank you.

Operator: Thank you. We move to Peter Clark of Société Générale. Please go ahead.

Peter Clark: Yes. Good morning, everyone. Just on the US package gas business, which obviously has been a great business for you, and you've been winning share, just want to check on the industrial gas side of that in the package gases that you've actually still got growth there. So, I'm excluding healthcare and I'm excluding electronics because the number one actually saw some softening, I think in the second quarter, so that's the first question.

Sanjiv Lamba: So, the US package gases business, Peter, to your point, is a very strong business. You heard me talk about this before and we are still seeing mid to high double-digit growth on the gases side. Right. As when we talk about our package business, we tend to separate that into gases and hard goods. And I have to say both segments growing reasonably well, strong pricing and good volume growth continuing in that space.



Peter Clark: So, then the second question, well done on GIST. Obviously, Linde AG had a crack at these six years ago and then had to give up. So, I'm reading from this you definitely think it's going to happen, but we don't expect a big windfall from it, obviously given the profitability in the UK outlook and logistics.

Sanjiv Lamba: That's correct. I mean, as we've been trying to, as you point out, Linde AG had the challenges trying to get rid of it for a while, noncore business, low single digit margins on this. So, we'll see some sales come off, but from a profitability perspective, it was a drag and it'll help kind of get us out of that.

Peter Clark: Got it. Thank you.

Operator: Thank you. We now move to Christopher Parkinson of Mizuho for your next question. Please go ahead.

Christopher Parkinson: Great. Thank you very much for taking my question. Could we just get a very quick update on how you're viewing the helium market over the intermediate to long term? Just given the past events in Russia, of the sale of BLM I'd be very curious to just hear your perspectives over the next few years. Thank you so much.

Sanjiv Lamba: Thanks, Chris. I mean, helium, a very global business, as you know, it's different in many ways to our more traditional industrial gases. The ability to have multiple sources and diversify that helps now, as I look ahead more broadly at the kind of overall industry level, I'd say to you in the short term, very tight. In the kind of intermediate midterm, I'd say to you largely tight till new sources come on and get fully ramped up. Longer term, you might see that come back into some level of balance. And when you think about sources coming on, there is usually a lead time anywhere between two to three, three and a half years for sources to come online and then be available to you. That was an expectation in the market that sources in Russia would come online. Obviously with everything that's happening over there, that's going to have its own set of challenges, which is why I say in the short to midterm, you should expect that market to remain tight.

As far as BLM's concerned, it's a little bit of a tragedy it's been run so poorly. Everyone's been impacted by that, as you know. We expect that as the government comes to a decision on how BLM goes forward, there'll be some relief over there, but really from a from being a very large source, BLM has declined over the many years and therefore will probably not be the substantive source going forward for us. We do see Middle East having potential to kind of grow new sources, and we are seeing some traction over there already on that.





Christopher Parkinson: It's very helpful. And just as a quick follow up, turning back to the electronics market and the semiconductors within that, it gets to \$8 billion market growing in the high single digits, perhaps even low doubles. Just given your exposure across onsite spec, bulk, and everything that can flow into the multiple facets there. How much of that is really turning out to be a competitive advantage just given the outlook, especially in geographies outside of Asia? Thank you.

Sanjiv Lamba: So, I'd say that our recent win of TSMC for their first a couple of fabs in the US was the ability to leverage both our technology offer and our existing relationship with TSMC out of Taiwan. So that was a competitive advantage that we were able to leverage given our operating experience with them and given their kind of confidence in what we offer. But we do have a technology upside. I mentioned this earlier on, I feel from a technology and an operating expertise point of view, we bring something that is super important for fabs, which is high reliability on highly spec products.

You have to meet the spec every time and you have to be extremely reliable and that's where our competitive advantage given our own engineering division and their ability to do R&D on these new plants drives a lot of our innovation and drives some of that competitive advantage that we look at. So, I feel there is that advantage with customers that we have and the relationships we carry, there's an advantage around the operating expertise that we have. And then of course, technology becomes a tipping point for us to win.

Christopher Parkinson: Thank you very much.

Operator: Thank you. We now move to David Begleiter of Deutsche Bank. Please go ahead.

David Begleiter: Thank you. Good morning. Sanjiv and Matt, you're hedging. Can you talk about your hedging strategy in Europe, and is there earnings headwind as you roll into next year, given the higher metric gas prices over there?

Sanjiv Lamba: David, we don't really hedge. I'll let Matt comment around the financial hedges, but we, as far as sourcing is concerned, we essentially have contracts in place based on which we source both electricity and natural gas. Matt, you want to cover that.

Matt White: I would agree. I mean, it's absolutely right. We don't utilize financial hedges for commodities of any consequence, of any materiality. To Sanjiv's point, we just have commodity purchase contracts and then we have contractual structures with our customers for pass through. So that is how we manage it around the world. And that's how we'll continue to manage it.



David Begleiter: Understood. And just to go back to the first question on the take or pay contracts in Europe and Germany, if you guys can't operate due to natural gas retirements, do you still get paid your base facility fee?

Sanjiv Lamba: Yes. So, despite disruptions of volatility around the energy piece, our contracts very clearly ensure that our conditions ensure we get paid our base facility fee.

David Bedleder: Excellent. Thank you very much.

Operator: Thank you. Our final question today comes from Kevin McCarthy of Vertical Research Partners. Please go ahead.

Kevin McCarthy: Yes. Good morning. Sanjiv, can you provide an update on clean hydrogen project activity? You've talked in the past about 300 projects with \$20 billion of potential and \$5 billion to Linde on a probability adjusted basis. How are things progressing with your industrial customers or opportunities in particular, and when do you think that the flow into the pipeline will become more meaningful for you?

Sanjiv Lamba: Thanks, Kevin. So let me just headline that first and then talk a little bit about the progress that's happening. So, at the headline level, I'd say to you, we have between 290 to 300 projects that we are working on. Large number of those projects tend to be on the mobility side, they are smaller projects. So, I tend to focus a lot more around what I see in the industrial space. I've said before, this is right in our wheelhouse, this is customers we work with extensively and who want to work with us as they move down the chain, looking at either blue or green hydrogen or ammonia, et cetera. And then there's the energy export piece, which we see some specific areas of development. And again, there, we are seeing larger projects, fewer number of course, relative to what we see in mobility, but larger projects. And some of them come with substance.

And again, in that space, we only work on projects where we've got offtake agreements or potential off takers participating in the project who have skin in the game. For us, that's very critical in how we define our investment criteria for projects that we want to undertake in that space. In terms of progress, typically, Kevin, these projects have a long, and I'm now talking about the industrial and the energy export piece in particular, they tend to have long lead timelines driven around the fact that they have to do typically a prefeed study to try and understand the scope of what the project would look like. They then undertake a feed to try and get a better understanding of what the technical solution is. And then they take it to an FID. That process itself between a prefeed and an FID could take anywhere between two to three and a half years. It's beyond that when you have an FID or a decision in investment, that we are able to move forward and actually make the decisions and start deploying and putting that into our backlog.



So, I see good progress across a number of the projects that I've outlined to you on the industrial and the energy export side. And of course, the smaller projects on the mobility, they are constantly moving, and these are small hydrogen refilling stations or a small electrolyzer here or there. And they are moving, and I feel good about that. We're also seeing a whole new set of projects emerge around liquid hydrogen. I feel pretty good about that liquid hydrogen. Linde has some great technology. We have a technology competitive advantage in that space. And again, we are feeling that deploying that and creating a liquid hydrogen network ecosystem is going to be quite important for us as well. So, look looking to see that develop further as well, but that's catching up pace as well in the projects that we're working through. On the overall piece, you mentioned \$20 billion. I'd say that's probably higher than that at this point in time in terms of the total landscape of projects that we're looking at.

Kevin McCarthy: Okay. Thank you for that color. Now, secondly, if I may, for Matt, can you speak to some of the assumptions that are embedded in your new EPS guidance range? It sounds like you're baking in some level of negative macro activity at the south end of your range. And also, where are you marking currency amidst all the volatility that's occurred?

Matt White: Sure, Kevin. I'll start with the FX side. We'll obviously book the average rates at the end of each period, like you are supposed to for US gaap, but what we used for the guidance itself, we just took spot rates a few weeks ago. Now looking back, we probably took it more at what looks like right now at least the bottom point. So, where rates have come has been a little bit better. So, time will tell, but we just had to make an assumption. And that assumption was what we put in. Obviously, we will book what the rates are when they're completed. So right now, this was a point in time, probably two to three weeks ago, spot rates. As far as the macro, you're right, the top end right now, it essentially has no real volume growth. The assumptions there have some puts and takes.

So, we do have, you would expect to be some natural sequential decline in places like EMEA for some of the holiday effects. Also just given what's going on there, you may have some increases from certain project contribution or some other areas growing and that nets out to essentially no growth at the top. And then as you go down, that's mostly just lower volume assumptions. And as I mentioned, this is not what we're predicting. It's just what's baked in the guidance. And so, if things turn out to be better, that would be upside. Right now, through July, we really haven't seen much negative changes from June, but we'll have to see. One month so far doesn't make a quarter and we'll see how it plays out.

Kevin McCarthy: Okay. Thank you very much.



Operator: Thank you. Now I'd like to turn the call back over to Mr. Juan Pelaez for any additional or closing remarks.

Juan Pelaez: Thank you very much, everyone, for attending. If you guys have any further questions, feel free to reach out. Have a great rest of your day.

Sanjiv Lamba: Thanks, guys.