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Linde Plc (LIN)

Q2 2020 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, thank you for standing by and welcome to the Second Quarter 2020 Linde Earnings Conference Call. At this time all participants are in a listen-only mode. After the speakers presentation, there'll be a question-and-answer session. [Operator Instructions]

I would now like to hand the conference over your speaker today, Juan Pelaez. Thank you and please go ahead, sir.

Juan Pelaez

Director-Investor Relations, Linde Plc

Chris, thank you. Good morning, everyone and thank you for attending our 2020 second quarter earnings call and webcast. I'm Juan Pelaez, head of Investor Relations and I'm joined this morning by Steve Angel, Chief Executive Officer and Matt White, Chief Financial Officer. Today's presentation materials are available on our website at linde.com in the Investors Section. Please read the forward-looking statement disclosure on page 2 of the slides and note that it applies to all statements made during this teleconference. The reconciliations of the adjusted numbers are in the appendix of this presentation. Steve and Matt will now give us an update on Linde's business outlook and second quarter performance and then we'll be available to answer your questions.

Let me turn the call over to Steve now.

Stephen F. Angel

Chief Executive Officer & Director, Linde Plc

Thanks, Juan. Good morning, everyone. Matt will cover the numbers which were obviously quite good but just a few comments. We grew earnings per share versus Q1 and year-over-year despite currency headwinds and weaker volumes, cash flow was very strong, return on capital continues to improve, operating margins improved in every segment. In other words Q2 was like any other quarter except we had to deliver this one through a pandemic.

Safety performance continued to improve while we battle COVID around the world. Plant reliability is at an all-time high. We brought several large projects online. Our hospital and homecare businesses continue to play an important role around the world in the fight against this respiratory illness. We provided a lot of support in our communities through donations and in-kind gifts. This type of performance doesn't happen because corporate ordains it. It happens because 80,000 committed and highly capable Linde employees do their jobs exceptionally well around the world.

If you turn to page 3. We have talked about what makes Linde resilient in the past. You can see that in a few bullets on the left-hand side of the page. The best performing markets in Q2, not surprisingly were more defensive, like healthcare, food and electronics. And when combined with our commercial terms and conditions, they guarantees us a steady stream of cash flow, irrespective of volumes, you have what we demonstrated during Q2, a very resilient business. We are not directly part of any global supply chain. We source, produce, and sell locally. Our businesses are local, and they optimize their cost structure based on local market conditions.

Regarding our backlog, it remains firm. We have seen some delays, which we are being compensated for. But the backlog has held together well, and it is all for high quality customers you know well. We took additional cost

actions in early March to ensure we could deliver the type of performance we could all be proud of. We eliminated discretionary costs. We made sure our productivity initiatives were delivering. We took advantage of every efficiency opportunity we could find. A good indication of how well the team executed in Q2 can be found in our SG&A results, which were down 14% year-over-year and reached our lowest level at 11.9% of sales since our merger.

You don't deliver the kind of cash flow we did this quarter without doing a good job on working capital management. And when you factor in CapEx efficiencies, we generated approximately \$1 billion in free cash flow. Pricing continues to hold up well with positive price attainment in every business.

So, where do we stand today since our merger closed on March 1 of last year? Operating margins have improved over 300 basis points and return on capital 200 basis points. Earnings per share grew 23% last year ex-currency translation, and has grown 11% ex-FX through the first half of this year. And based on our strong and stable cash flow, we raised the dividend another 10% this year, which marks the 27th straight year we've increased the dividend, and we have no intention of breaking that streak now.

If you can turn to page 4. So, what are we trying to accomplish over the coming months and years? What is our core strategy? I broke it down to three simple sections.

First of all, we want to continue to optimize the base business. We want to drive network density in our core geographies. We want to leverage digitalization initiatives to drive continuous improvement in every aspect of our business. We want to ensure we have best-in-class price of management in every corner of the company. We want to streamline our business portfolio down to businesses we are confident we can operate the way we want to operate them.

We are leveraged to any economic recovery. As I said, prices have remained stable. So, all we need is more volume. The increased volume allows us to operate our plants and distribution networks more efficiently. And that SG&A reduction I spoke about earlier, those costs will not come back any time soon. Needless to say, we will get leverage down the income statement with any improvement in economic activity.

We are capitalizing on growth opportunities now and coming out of COVID. I expect to see several opportunities in electronics come to fruition in the coming months. And healthcare which is 21% of total sales today, will continue to grow at a nice, say, 3% to 5% clip organically. And though the backlog is coming down somewhat as we start up new projects, the project work between sale of gas and third party remains healthy at \$8.6 billion.

The last element of growth I wanted to talk about is one that seems to be dominating the airwaves these days. And that is clean energy. There is a lot of hype, marketing, and companies that want to burnish their ESG credentials. Some companies are just looking for a way out of their current predicament. And then you have companies like Linde that are actually players in the hydrogen business today.

Let me turn to page 5. So why do we believe clean hydrogen is real? Key countries and regions around the world are leading the charge with regulations, targets, subsidies, and funding. You can see a list of those regulations on page 10. Why are they doing this? It is about decarbonizing their economies to address the challenges of climate change of course but it is also about resuscitating their economies post-COVID. They want GDP growth and they want jobs for their people.

And they don't want to outsource their green economy to anyone else. They want to build it all locally if at all possible. The EU does acknowledge. They will need to supplement their renewable power requirements from

areas outside the EU like North Africa where they also have the ability to repurpose natural gas pipelines for renewable hydrogen.

On page 10, you can see a map of the optimal renewable sources from around the world. Clearly countries like the US and China have the ability to develop their own sources of renewable hydrogen for their own needs. In addition to renewable, there are quite a few countries advantaged in low carbon sources such as natural gas that will continue to play an important role in the transition from gray to green hydrogen, as well as in the production of blue hydrogen where the CO₂ is captured in the hydrogen production process.

Back to page 5, there are challenges. First of all, you have to determine how these funding mechanisms will actually work, but more importantly, over the next decade the cost of clean hydrogen at the point of use needs to drop at least 50% to 60% from where it is today to roughly \$4 per kilogram. To reach that target, renewable power costs need to come down along with the cost of electrolysis itself. This can be achieved by scaling up capacity, improving efficiencies, and developing greater standardization around the supporting infrastructure. This will not happen overnight but is certainly feasible within the next 10 years and something we can directly impact. Some form of carbon pricing will also need to be in place for clean hydrogen to compete against cheap fossil fuels in some sectors, and the market needs to develop, especially fuel-cell electric vehicles for heavy-haul trucking, which could become the largest target market for mobility by an order of magnitude.

Our clean hydrogen strategy is not unlike our strategy for industrial gases. These markets are local and will evolve uniquely. For example, South Korea and Japan are focused on building their hydrogen economy first irrespective of the carbon content or color of the hydrogen molecule. Green hydrogen will come later when it reaches scale and cost. China is focused on both gray and green hydrogen molecules. The EU wants green now but privately admits gray or a transition through blue hydrogen will be necessary for a period of time.

The US hasn't declared yet except for California but the rest of the country will likely pursue all colors of the rainbow. Although several are already following California's lead. We want to leverage and build on our existing integrated supply capabilities in each of these regions.

In the appendix on page 11 illustrates our capabilities across the entire hydrogen value chain. I think you can see we are well-positioned to participate as these markets develop. Emerging technologies like PEM electrolysis technology needs to mature to bring clean hydrogen down the cost curve. We are partnered with leading technology companies like ITM power to do just that and are already starting to see the benefits of such relationships.

So, I will end with the caption at the top of slide 5. I say this can be a huge market by 2030. What needs to happen? It is a bit of chicken or the egg in the mobility market. You need fuel cell electric vehicle adoption to drive hydrogen growth but you also need low-cost hydrogen and scaled infrastructure to enable fuel cell electric vehicle adoption. If 1% of all energy consumed by heavy haul trucking today was converted to fuel cell electric vehicles, that would be approximately a \$20 billion per annum hydrogen market. The other demands for hydrogen are as an energy carrier, which many consider to be a key enabler for wide scale use of renewable power, and hydrogen as a feedstock for industrial use, as well as building an industrial heat.

All in all, there have been 35 applications modeled for clean hydrogen, about half of which should be competitive by 2030. As I mentioned earlier, there seems to be new entrants in clean energy by the day. Many of whom are nontraditional players in the hydrogen space. But with our expertise, capabilities, local presence and global reach, I'm confident we will capture our fair share of this market as it develops. That is why I say this will be a multibillion-dollar business for Linde.

And now I will turn it over to Matt to discuss our Q2 performance and outlook.

Matthew J. White

Executive Vice President & Chief Financial Officer, Linde Plc

Thanks, Steve. And good morning, everyone. The consolidated second quarter results can be found on slide 6. Sales of \$6.4 billion decreased 5% sequentially and 11% from 2019. Versus prior year, underlying sales declined 5% as 2% higher pricing was more than offset by a 7% reduction in volumes. The price improvement was across all segments and in line with globally weighted inflation. Volume trends include 2% growth in engineering, which were more than offset by a 9% decrease in the gases business.

Linde Engineering continues to execute on the high quality contractually secured \$5 billion sale of equipment backlog. The gases volume decline is due to the negative economic climate more than offsetting positive contribution from the project backlog. Overall, we estimate the second quarter sales headwind from COVID to be 8% to 10%, although it's almost impossible to know for certain.

Sequentially, underlying sales declined 2% as a positive 3% contribution from engineering was more than offset by a 5% volume decline in gases. The estimated sequential impact from COVID is approximately 6% to 8%. You can see that foreign currency continues to be a headwind to sales and earnings, although the US dollar has started to sell off at the end of the second quarter. If this trend were to persist, it could provide some upside to our foreign currency outlook. Operating profit of \$1.3 billion was flat with prior year and down 3% versus the first quarter. Excluding foreign currency translation, operating profit increased 4% versus 2019 and declined only 1% sequentially.

The entire Linde team is fully engaged to prudently manage the things within our control and deliver high-quality results in any environment. We continue to find more opportunities for productivity and efficiency every day. So we expect to further improve upon these levels. In fact, operating margins expanded 230 basis points over 2019 and 60 basis points over the first quarter. These are real and lasting improvements well in excess of the temporary benefit from lower cost pass through. Furthermore, these actions enabled us to offset the lower volumes related to COVID, which are estimated to impact profit by a few hundred basis points more than the sales effect.

Second quarter EPS was \$1.90. Excluding foreign currency impact, this level is 8% higher than 2019 and 3% higher sequentially. In other words, we increased earnings per share despite an almost double digit sales decline due to the pandemic. More importantly, second quarter operating cash flow of \$1.8 billion was 76% higher than last year and 31% higher than the first quarter. I'll speak more to this on the next slide, but this result is a clear validation of our business resilience and merger success. CapEx is trending downward from a combination of foreign currency, merger synergies, and timing on the sale of gas project backlog, which currently stands at \$3.6 billion.

It's important to note that backlog definitions are not consistent within the industry, as the Linde backlog represents contractually committed high-quality customers with incremental growth. Therefore we have full confidence the current backlog will continue to contribute to future sales and profit.

After tax return on capital of 12.3% represents the highest level we've achieved since the merger date. This is a direct result of our strong commitment to capital discipline and quality growth. In fact, our integrated and dense model across all three supply modes of on-site, merchant, and packaged gases enables us to enhance returns on each investment, allowing further improvements in ROC without hindering growth prospects.

Slide 7 provides more details on our performance related to cash generation and capital management. The graphic on the left shows our quarterly operational cash flow trend since the merger date in Q1 2019. Recall that these figures represent GAAP operating cash flow. 2020 first half OCF of \$3.1 billion is \$1 billion or almost 50% higher than the prior year level.

Approximately one-third of this improvement is due to lower merger related cash costs. The remaining two-thirds are from higher cash earnings and improved working capital. In the second quarter alone year-over-year working capital improved \$430 million with approximately \$110 million from the engineering business and the rest from improved management in gases.

These trends, coupled with base CapEx reductions, are evidence of merger synergies and efficiencies. You can also see that available operating cash flow is more than sufficient to cover the \$500 million quarterly dividend and \$300 million to \$400 million of quarterly project CapEx spend.

The pie chart to the right shows how we deployed capital year-to-date through June. We paid \$1 billion in dividends and are committed to growing it every year. Another \$1.6 billion was invested back into the business. Quality growth is a key priority use of capital. But each opportunity must meet our investment criteria.

Finally, we repurchased \$1.8 billion of Linde's stock in the first quarter, at an average price of \$186 per share. You may recall that we paused the share repurchase program at the end of the first quarter to evaluate potential de-caps and other higher priority uses of capital. While certain opportunities did not fit our investment criteria we are still pursuing others, but expect them to take longer to develop than originally anticipated.

Furthermore, we continue to have access to very cost-effective capital as we recently issued 7 and 12-year Eurobonds with coupons of 0.25% and 0.55%, respectively. Both of these bonds represent the lowest coupons ever for any industrial gas company at these tenders. Given these developments, and our continued significant excess cash generation, we are resuming the share repurchase program.

I'd like to wrap up with 2020 guidance on slide 8. To better frame the outlook, it may be helpful to describe the second quarter monthly trends. April represented the lowest month, although it was noticeably better than what we originally expected. Subsequently, May was better than April, and June was better than May. For the entire second quarter, year-over-year volumes were estimated down 8% to 10% from COVID, although the month of June recovered to about half of that range.

Looking forward to the third quarter, we still expect an FX headwind of 3%, although current spot rates have improved from this initial estimate. The EPS range of \$1.90 to \$1.95 assumes no economic improvement from Q2 at the bottom end and a gradual increase at the top end. We are taking a more cautious approach since the pandemic is still evolving. However, if June conditions were to continue, I would expect to be at the upper end or above this guidance range. Rest assured that if the economy performs better, we will capture that upside. The full-year guidance range of \$7.60 to \$7.80 follows the same logic as the third quarter estimate. It assumes no improvement from Q2 at the bottom end and a gradual improvement at the top end.

Irrespective of economic conditions, we have a high degree of confidence in the business resilience and growth prospects across our integrated system. Beyond the merger benefits, we continue to find productivity and efficiency opportunities to enhance business quality. In addition, we are pursuing attractive growth prospects through our resilient end markets, unrivaled hydrogen asset network, and world class engineering and technical capabilities. And when the markets do recover, we fully expect to participate and win our fair share.

The global Linde team has successfully navigated prior economic crises and each time has emerged even stronger. I fully expect the same for 2020.

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

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] And our first question comes from the line of Nicola Tang with Exane. Your line is now open.

Nicola Tang

Analyst, Exane BNP Paribas

Q

Hi, everyone. Thanks for taking my questions. The first one was on decap. You had talked about a healthy pipeline of potential opportunities. And I know that Air Liquide and Air Products had something similar. So I was just wondering if you could update us a little bit more detail about what your pipeline might look like and also help us to size the, you know, potential opportunity in terms of capital that could be deployed, again, understanding that it could be on a sort of longer term view.

And then my second question would be on – you mentioned, Matt, the potential scope for additional efficiency measures that you guys are delivering very well on that. Can you put that in the context of your original cost synergy target, the \$900 million? I was wondering whether shorter term with COVID, you know, you've seen any temporary savings, you know, for example travel cost savings which you would expect to reverse.

Stephen F. Angel

Chief Executive Officer & Director, Linde Plc

A

Okay. Well, I'll take the decap and so if you give the second question to Matt, I'll let him handle that one or we can give it to Juan or anybody but I'll let Matt take that one. So, yeah on the decap there is we have a list of projects – the pipeline itself you could describe as fairly healthy but then again the pace is very slow and that's not unusual. You have customers that are always evaluating their cash flow positions and their needs as you're going through these discussions with them. I expect we'll get some to ground but it's not going to be a large number I don't think and I don't think it's going to be a large number anytime soon.

We'll do the projects that make sense for us. You've heard me say this before that the last thing I want to do is be a lender of last resort. So we'll maintain our capital discipline and our return criteria as we work through this. But it's just going to take some time and that's just the way it is.

Matthew J. White

Executive Vice President & Chief Financial Officer, Linde Plc

A

Hi, Nicola. And as far as your second question, yeah, I'll start with to your point. The \$900 million as you recall on the cost side was the target we had laid out there to be achieved over approximately a three-year period post the merger date. As we stated in the past, the more we integrate, the less frankly we're able to differentiate between what was considered a true merger synergy and what is just simply being more efficient and productive on how we're running this combined business.

So frankly on an internal basis, we've really stopped spending significant effort trying to differentiate between the two and we're much more focused on just trying to find ways to be more efficient and productive operating as one combined company. So, to that degree, where we really look is more how our operating margins progressing, how is our growth and profit progressing, and how is our growth in cash progressing.

There are, obviously, a lot of other metrics around that like Steve had mentioned, SG&A as a percentage of sales, what the head count trends are, how our efficiency per head count trends. So, we look at those as well. But in the end of the day, I want to see margin expansions, I want to see growth in cash, and I want to see growth in profits irrespective of what we're seeing on the volume side. I think this quarter we've demonstrated that fairly well. I think last quarter, we've demonstrated that fairly well. And we continue to find even more opportunities every day as I mentioned. So, we're looking in the end of the day to continue to find ways to improve the quality of this business while leveraging every bit of sales dollar we can to add value. So, that's how we'll think about it going forward, and that's how we're going to continue to measure it.

Nicola Tang

Analyst, Exane BNP Paribas

Q

Thanks. And it is a bit cheeky, but maybe I could sneak in just a quick follow up one on the cash flow side. As you mentioned, very strong operating cash conversion and use and you talked about resuming the buyback. Would you at this point be able to commit or give us a steer on how much you expect to buy back through the remainder of the year assuming that on the decap opportunity side these are now much more longer term?

Matthew J. White

Executive Vice President & Chief Financial Officer, Linde Plc

A

Yeah. And sorry, Nicola. Just to answer your last question which I forgot. I failed to mention on the temporary savings for COVID. As you would expect with everyone, we clearly saw a large reduction in travel. I think that's consistent universally. But what I would say is that the vast majority of savings, as Steve mentioned, that we saw this quarter, we expect to retain and maintain a lot of them. So, I'm not anticipating any significant shift in that. So, that's something we expect going forward irrespective of the smaller temporary ones.

On the cash flow related to the buybacks, yeah, we'll be back in the market, as we have been, we'll be a participant. As you saw this quarter, we did reduce our net debt again. So, we'll continue to use it as per our capital allocation policy that any excess cash that we have after our priorities of growing the dividend and growing the business, we will use in the opportunities to repurchase our stock. And obviously if there are market corrections, we'll take opportunity in there as well, like we did in Q1.

So, that's kind of how we're going to continue to manage it and measure it. And as you know, this is all underpinned by our target credit rating of a single A. So, we'll work within those confines and be back in the market.

Nicola Tang

Analyst, Exane BNP Paribas

Q

Thank you.

Operator: Thank you. And our next question comes from the line of Duffy Fischer with Barclays. Your line is now open.

Duffy Fischer

Analyst, Barclays Capital, Inc.



Yes, great. Good morning. Thanks a lot for the views on the new hydrogen. So, maybe just kind of a three part follow up to that. First over like the next five years, what do you see as the premium for green hydrogen versus blue hydrogen versus gray hydrogen?

Second, as you guys run the most electrolysis units globally, what has your costs done in that space, let's say, over the last three years as a baseline, and then what do you have line of sight for your costs doing over the next three?

And then the third one is, because it's such a big market. Could you see yourself doing something aspirational, maybe a couple of billion dollars of build it and they'll come investment that doesn't have the same surety that the historic model has had?

Stephen F. Angel

Chief Executive Officer & Director, Linde Plc



Okay, Duffy, that's three well-prepared questions. So, I think the way you need to think about green hydrogen and keep in mind that you have the, you've got the renewable power costs, you have the production costs, coming out of electrolysis, you have the distribution costs, you have the costs at the pump if you're thinking about mobility. So, there's a whole chain of cost here that need to come down, and I said 50% to 60%.

If you were to call green hydrogen today coming off the electrolysis \$6, and so there has to be an assumption about renewable power cost to get to the \$6. But if you say \$6, you're making – with \$2 to \$3 natural gas you're making grey hydrogen for \$1. So, there's a tremendous gap today that it would take hundreds of dollars of carbon tax or a carbon price if you wanted to wipe out that entire difference. So, it's a big premium today. That's why I said the costs need to come down, the production cost across the entire chain.

At the same time, there needs to be a carbon price to incent the scaling up of green hydrogen. It's the same thing that happened with solar power and wind power if you go back and look at the early days, everybody said the costs were through the roof. You can't afford it. But there were subsidies. There were incentives that were put in place that allowed it to scale up and come down the cost curve. So, that's the same thing that we need to have happen here.

And it's going to take some years to do that. We and others are obviously working on that as we speak. I can see plans. I've reviewed plans that show how that can be done. So, I think we just need to kind of wait and see how long this is ultimately going to take. But I think in a few years, the cost will come down quite a bit, but we need to get it down, like I said, 50% to 60% across the entire value chain.

As far as what we may or may not do, I mean, we're looking at projects today around the world. I could give you a number, it's like 100 types of projects. There's – a lot them are very small. Some of them are sale of equipment, small sale of equipment. Some of them are like projects that we announced in China and Alstom recently, some are a little bigger.

But we're very comfortable with the types of activities that we have, the locations that we have them in. It's like 16 countries that are involved in 100-plus types of projects. So that really is our strategy. That has been our strategy. We're very comfortable with that approach. I'm not saying I would never do a much larger project, but I'd have to

be very confident in terms of that's just a good investment that will, you know, pass all the muster that we always put large project investments through.

Duffy Fischer

Analyst, Barclays Capital, Inc.

Q

Okay. Thank you. And then just off one of Matt's comments where if June numbers kind of stayed through Q3, you'd be at the upper end to beating the guide for Q3. Does that imply that you guys see somewhat of a double dip happening in Q3 and things could weaken? Or can you talk about July and what you're seeing?

Stephen F. Angel

Chief Executive Officer & Director, Linde Plc

A

Yeah. So that is what Matt said. If I look at July's numbers today, I would say it's probably slightly better than June. But then again, you got to keep in mind we don't really know what's going to happen. You know, I read yesterday that COVID's back on the main – on the continent of Europe. We all know what's happening in Latin America. You can read about what's happening in the south and west back in Australia.

So I don't really know what the consequence of that is going to be. I don't know how governments are going to respond to that this time. You know, are we going to go back into something like what we saw in March and April and May. We don't know the answer to that. So it's a possibility. It hasn't happened as of today. But it's certainly a possibility, and we have to make sure that – we say we're cautious in our guidance and that's what's behind the caution.

Duffy Fischer

Analyst, Barclays Capital, Inc.

Q

Terrific. Thanks guys.

Operator: Thank you. And our next question comes from the line of David Begleiter with Deutsche Bank. Your line is now open.

David I. Begleiter

Analyst, Deutsche Bank Securities, Inc.

Q

Thank you. Good morning. Steve and Matt just on FX. If you were to mark-to-market today spot rates, what would that imply for your Q3 and full year guidance in terms of upside?

Matthew J. White

Executive Vice President & Chief Financial Officer, Linde Plc

A

Hey David. Yeah. This is Matt. So, as you saw we have a 3% assumption now. Q3 would get better by a couple of percent potentially based on spot. As you know that's an assumption based on spots but it could get better by almost 2% and the full year number would be knocked probably in half as well on that. So time will tell. We'll see. That was based on really yesterday's spots but every day is a different day as you know.

David I. Begleiter

Analyst, Deutsche Bank Securities, Inc.

Q

Very good. And Steve just again on hydrogen, are you indifferent to gray, blue, or green hydrogen and if you look over the next perhaps 10 years, how much of your project CapEx could you foresee putting towards hydrogen opportunities?

Stephen F. Angel

Chief Executive Officer & Director, Linde Plc

A

Well, you're asking me so I want to be a provider of what the market wants. As I said, there are certain countries around the world today that are building their hydrogen economies first, their hydrogen mobility economy for example using gray, they'll transition to green later on. I think look I mean at the right cost, green is going to be profitable for everybody but you've got to get there first. And that's why we think natural gas is going to still play a role I mean we have a \$2 billion business today that's essentially all based on natural gas.

So natural gas will continue to play a role. Blue will make sense in locations where you have say, low cost natural gas and you have the ability to capture the CO2 and do something with it, say, make downstream chemical products with the CO2 or you have you know the right geological formation to sequester it in the ground. If those types of situations are present, then you could see what they call blue which is basically capturing CO2 off of the gray hydrogen production process. But I think everyone would like to get to green. I just think it's going to take some years to get to that point.

Regarding CapEx, I mean, if I look at the list of 100 projects we have today, there's probably you know maybe a couple of hundred – couple of billion dollars – I'm sorry. A couple of billion dollars of CapEx that's kind of been assigned to these projects. You know, some of them we have to wait and see whether they're going to move forward or not. But clearly, if I said 100 and some projects and if I gave you a number like a couple of billion dollars of CapEx earmarked around those numbers, that wouldn't be surprising. But we have to see how fast they move and at what rate we end up spending against those projects.

David I. Begleiter

Analyst, Deutsche Bank Securities, Inc.

Q

Thank you very much.

Operator: Thank you. Our next question comes from the line of Peter Clark with SocGén. The line is now open.

Peter Clark

Analyst, Société Générale SA (UK)

Q

Yes. Good morning, everyone. I've got two as well. The first one, obviously, if I go back to the last recession, I know it's slightly different this time. But you had your earnings flat when you were at Praxair. Linde had an earnings hit because of engineering, but gases actually was flat on EBITDA. And so, I looked at the difference this time, obviously, you're delivering on the gases. We expected that. Engineering is the stand out. So, I'm just wondering if you can give me your thoughts on the quality of this engineering business you have now, partly against what you thought coming in because it has been outstanding I think in the past two years.

And then effectively, if I look at some of the more peripheral – well, I wouldn't call them peripheral markets, very important markets for you. Certainly, places like Brazil, Mexico, and even Australia. How are these businesses are performing, you have a dominant shares, great businesses to begin with, I think you found a lot more to do in Australia for example. But obviously, Brazil still has the challenges with COVID, or bigger challenges, just about these more peripheral markets that we get less news from them. Thank you.

Stephen F. Angel

Chief Executive Officer & Director, Linde Plc

A

Yeah. Okay, so the first question, on Linde Engineering, and anomaly speaking, it's a much smaller percent of Linde today than it was of the old Linde AG. It's probably, if I go back, like about 5% of the EBITDA of our company is Linde Engineering. So, it can't swing us too much one way or the other. But it is doing quite well. The team is executing very well. They have – a lot of this is picking the right projects over the years, in addition executing well. A lot of this is they have more gas projects to work on, so we're able to leverage their cost infrastructure much better by adding to Praxair sale of gas to the equation.

If I look at their backlog today, they probably have close to two years of backlog in front of them to continue to execute, and that's a pretty good place to be. I don't have their order pipeline. I'm not looking at that right now. But the order is clearly less than the sales for Q2. So, but there are orders coming in. There are projects they're working on. I wouldn't say they're mammoth projects today, because a lot of those customers are cautious as you would imagine.

But certainly, electronics type projects, they're working on those. They're working a lot of smaller projects around, say, paper projects. As you know, South America, you mentioned that is very advantaged in paper. Working on other types of projects. So, there is work coming in. There is a healthy backlog. I think they'll continue to do pretty well. But if we're sitting here two years from now and the backlog is a lot lower, then we'll have something to address. But we're very conscious too of our cost and making sure that we're managing costs very carefully as we're looking at the order pipeline and we work out these big projects.

You mentioned Brazil and Mexico and Australia. If you look at South America clearly they're dealing with COVID but it seems like they're always dealing with something in South America. But when I look at their operating margins coming out of Q2, they're at 20%. Probably not many companies operating in South America that are running at a 20% kind of operating margin rate. Mexico has always been a good country for us.

We have a very strong presence as we do in Brazil and we're able to use that to our advantage. And Australia I talked about in earlier calls Australia has been on a nice flight path in terms of improving the quality of their business. I'm very pleased with the results that we've been seeing there. And I think they continue to do a good job in Australia.

Peter Clark

Analyst, Société Générale SA (UK)



Thank you.

Operator: Thank you. And our next question comes from the line of Bob Koort with Goldman Sachs. Your line is now open.

Robert Koort

Analyst, Goldman Sachs & Co. LLC



Thank you. Steve, I wanted to ask a hydrogen question and I guess it's maybe broad but how do you insert yourself into that ecosystem and how do you get paid? Is it an equipment model? Is it a sale of gas model and a big driver for green to ever come about is a dramatic drop in energy prices. So, how do you get aligned with the energy providers, electricity providers, or do you not worry about that? It just seems like a maybe a much different business model than what you've traditionally done in large-scale gas. So...

Stephen F. Angel

Chief Executive Officer & Director, Linde Plc



Yeah.

Robert Koort

Analyst, Goldman Sachs & Co. LLC

Q

...how do you get paid? What's your secret sauce?

Stephen F. Angel

Chief Executive Officer & Director, Linde Plc

A

Well, I'd say we're going to be participating both ways. I mean, for example, we sell hydrogen refueling stations today. We've been doing that. But we're also providing as part of a package offering. If you look at the two announcements that we've made in China, for example, one is partnering with the largest green power supplier in China, and we're going to be providing hydrogen refueling stations, we're going to be providing a PEM electrolyzer, and we're going to be providing hydrogen via the molecule.

So, that's what the nature of that venture is. But here, we're kind of partnering with somebody different than we might have in the past. It's a renewable power supplier. And this is to provide green hydrogen to buses that are going to be operating around Beijing going to the Great Wall and all of that.

And then, you've got a project in the south where we have had a JV actually with CNOOC on the industrial gases side for some time. They want to branch out and do hydrogen for mobility. So, we're taking the hydrogen off the refinery. We'll clean it up. We'll pipe it to some hydrogen refueling stations. We're providing and we'll kind of build out that market, but that will be a typical sale of gas business model as well.

So, predominantly, sale of gas, that's currently going to be – is certainly is what we're interested in, but there will be some SOE type of sales. And I think you correctly pointed out, Bob, that renewable power is a big part of providing green hydrogen. So, the scaling up of wind and solar is going to be key to getting green hydrogen costs down to a point where you close the gap versus conventional. We can only – you know, we can only assist in that so much. But certainly that's a key part of that.

And as I said earlier, hydrogen is seen as an enabler to renewable power because one of the issues with renewable power, as everyone knows, it's not as reliable. You know, the wind doesn't always blow. The sun doesn't always shine. But hydrogen can be a storage mechanism for energy. And so that's why green hydrogen can actually play a role in helping enable the growth of renewable power. So, you know, it's something that remains to be seen how all that's going to play out. But that's where a lot of the focus is today.

Matthew J. White

Executive Vice President & Chief Financial Officer, Linde Plc

A

And, Bob, this is Matt. Just to maybe add to Steve's points as far as your question also on aligning with power providers. As you know, we're one of the largest power purchasers in the world today. We purchase terawatts of power. And we've actively been working for many years already to improve our renewable energy portfolio. In fact, we recently got it from 35% up to 38% in this year to date.

So this has been something that is not new for us. It's something we've been doing for a long, long time. And given that experience, given our local relationships with all of these power producers around the world, it does give us an opportunity to leverage that in helping make this more successful for green hydrogen. And we're able to connect our technologies and engineering and local presence with these purchase opportunities that we already have today and the relationships.

Robert Koort

Analyst, Goldman Sachs & Co. LLC

Q

That's helpful. And I'm going to say it's a nice relief to talk about something that's not pandemic related lately. But on that regard for my second question, just curious maybe in the aerospace business or in the hospitality CO2 business, is there any risk that you might need to take an impairment on those businesses given these fundamental changes in how those businesses are doing or the customers of those businesses?

Matthew J. White

Executive Vice President & Chief Financial Officer, Linde Plc

A

Bob, this is Matt. No concerns there whatsoever. I mean, the aerospace business book value is actually quite low. We still generate good profits. And as you could imagine, that PST business is really three businesses in one. It's an aviation. It has an industrial. And then it has an energy that works on things like industrial gas turbines and other forms of more energy efficiency. So, all three businesses continue to operate. This is actually an opportunity for us to consolidate some sites, and they're taking appropriate actions in light of the new environment. And that has always been a very, very well-run business. So, there are no concerns there.

And similarly, on the hospitality CO2 business. Remember that is a high-rent business. So, we still continue to get rents on the restaurants that continue to either operate or will come back and operate again. So, while the volumes on page 17 for food and beverage were down 9% and that's the CO2 volumes to your point, primarily in the hospitality sector, the rent continues. So, this business actually is performing quite well in light of what's going on. And then, a rebound obviously would be upside. So, not – no concerns on either whatsoever.

Robert Koort

Analyst, Goldman Sachs & Co. LLC

Q

Terrific. Thanks so much.

Operator: Thank you. And our next question comes from the line of Vincent Andrew with Morgan Stanley. Your line is now open.

Vincent Stephen Andrews

Analyst, Morgan Stanley & Co. LLC

Q

Thank you. And hi, everyone. I think you mentioned that there were some project delays in the backlog, which I suppose is to be expected in the current environment and that you received some compensation for that. Can you just give us a sense of how substantial those projects were and the delays. And how is that compensation accounted for in your financial results?

Stephen F. Angel

Chief Executive Officer & Director, Linde Plc

A

Well, the – I mean it can happen in various ways. We can be compensated upfront in terms of project delays with cash compensation or it can be built into the final price. Usually you would find it built into the final price so we end up with at least the same IRR if not higher after we go through the negotiations around the delay. Our contractual language protects us very clearly in terms of we commit to a date. If that date gets delayed then there has to be compensation to compensate us for that.

So that's how it's addressed and usually you would see it in higher revenues, margins, and cash flow because of the delay to compensate for any changes that we would see.

Vincent Stephen Andrews

Analyst, Morgan Stanley & Co. LLC

Q

Okay. And just maybe just a follow up on the on the repurchases in the guidance, I assume there's very little if any repurchases in the third quarter guidance and perhaps some in the full year but probably very little, is that correct?

Matthew J. White

Executive Vice President & Chief Financial Officer, Linde Plc

A

Yeah. Vincent, this is Matt. We tend not to put too much of this in the forecast just because as you know it's also a time-weighted aspect so depending upon when they're done at what point throughout. So, we'll – as I mentioned earlier today, we'll get back in the market post this call. We'll continue to be a participant and then where we see opportunities, we'll take advantage of that. But right now I wouldn't anticipate anything material affecting the share count at this stage.

Vincent Stephen Andrews

Analyst, Morgan Stanley & Co. LLC

Q

Thanks very much.

Operator: Thank you and our next question comes from the line of Mike Sison with Wells Fargo. Your line is now open.

Michael Sison

Analyst, Wells Fargo Securities LLC

Q

Hey, guys. Nice quarter. In terms of the volume improvement in June and July. Was it pretty even through each of the segments or geographic regions?

Stephen F. Angel

Chief Executive Officer & Director, Linde Plc

A

Well, I would say, as you know, this kind of all started in China first. And then swept through the rest of Asia, that's why you had some effect from COVID, certainly in Q2, as well as in Q1. Q1, China. Q2, more of the southern part of Asia. It went to Europe first, and then came to the Americas. And of course, we're still start – we're still seeing some of that in the Americas. But if you were to look at something like China, we saw improvement through the quarter in terms of merchant volume improvement. Our onsite business there has been very stable, quite strong actually, all the way back to the beginning.

Certainly, you can look at Europe, and you can see the improvement from April to May to June, if I look at the US, similarly, you can see the improvement from April to May to June. So, really, I guess to go back and answer your question pretty much across the board you saw improvement from April to May to June.

Michael Sison

Analyst, Wells Fargo Securities LLC

Q

Got it. And then it sounds like Lincare continues to do well. Can you maybe talk about the returns? Has that improved markedly, and do you think – do you think that it could be sustainable in a longer-term?

Stephen F. Angel

Chief Executive Officer & Director, Linde Plc

A

Yes, it's sustainable. In terms of the levels of improvement, it's probably on the order of 1,000 basis points over a couple of years. So, the business has been doing very well. We had put a lot of focus on improving the performance of that business both in terms of improving the margins, lowering cost, but also in terms of CapEx management. We changed some of the compensation metrics around that.

And clearly Lincare is doing well in an environment like we have today where they're an important second line of defense for the hospitals. They – months ago, they would not have treated one COVID patient. Today, there are probably over 12,000 COVID patients that they're handling. You know, the government and Medicare has come to the realization that working with us is very important to making sure that patients are transitioned quickly, that the treatment can be provided, whether it's COVID or other respiratory illnesses. And, if they have 1.6 million patients in total, you know, well over 1 million of those would be respiratory-type patients.

So paperwork has been eliminated. We've been able to eliminate face-to-face requirements that with some of the – because it's a very document intensive, paperwork intensive kind of business whenever you're working with the government. But a lot of those more bureaucratic processes had been removed, streamlined, so we're able to operate effectively. And the business continues to perform quite well. And I expect that to continue.

Michael Sison

Analyst, Wells Fargo Securities LLC

Q

Thank you.

Operator: Thank you. And our next question comes from the line of Jeff Zekauskas with JPMorgan. Your line is now open.

Jeffrey J. Zekauskas

Analyst, JPMorgan Securities LLC

Q

Hi. Thanks very much. I think I can put my two questions in one. Is the Singapore coal gasification – Singapore gasification project for 2023 still on schedule or has it been delayed?

And secondly, you said that it's difficult to distinguish your cost reduction efforts from merger efforts. Do you have any margin targets of any kind, maybe your SG&A ratio, or your EBIT margin, or your EBITDA margin?

Stephen F. Angel

Chief Executive Officer & Director, Linde Plc

A

Well, regarding – Jeff, regarding – and I – this doesn't come as any surprise, as we look at cost, to me, a dollar cost is a dollar cost, I do look at total cash fixed costs as a percent of sales that's something I always look at. I look at every RBU around the world, regional business unit. There's 20 some. And I always look at it in terms of what do I think the appropriate cost structure should be given the type of business that they are in.

And then, of course, we always demand efficiency year-over-year. That's what a lot of our productivity projects are about. But I'll let Matthew come back and answer this question as far as other metrics. But that's what I look at very closely, and that's how we drive operating margins along with the normal productivity pipeline and pricing.

With respect to any specific project, I would rather not comment on that because you have to keep in mind there are customers on the end of all of these things, and I would rather they lead with any commentary regarding delays.

Matthew J. White

Executive Vice President & Chief Financial Officer, Linde Plc

A

Okay. And I can pick up to Steve's point a little more, Jeff, on the margin. So, I would answer it thinking about it this way. So, first, let's think about it on an external benchmarking basis. Clearly and historically, there has been demonstration, and I'll talk to operating margins, which I think is an important metric to how we think about it. EBITDA margins, I'm less interested in. The primary reason is because, as you know, EBITDA includes the equity income of affiliates, and that is 100% margin every time because it's not consolidated. There are no revenues. So, that is just a function of how structures and ownership structures but it really doesn't speak to quality at all. So operating margin is where I focus, that's my effort, and that's what I think is the most important of the profitability ratios.

So within that externally, clearly demonstrated mid-20s for an industrial gas company. Even when you look at our segments externally, the Americas, obviously operating mid-20s. So at a minimum on a global basis there's nothing preventing us from trying to achieve that on our gasses businesses across all three segments.

Obviously you'll have timing of depreciation, you may have some portfolio differences of packaged gasses versus on site. But irrespective when you add it all together, those are numbers that we want to achieve and that we believe are absolutely feasible and have been demonstrated. Internally, we obviously have a lot more benchmarks than what you have visibility to and we look at every country and their operating margins, how they're structured, what they're able to deliver. So we have I would say even more stringent internal expectations on what needs to happen around margin delivery.

And to Steve's point, when you look at price, when you look at inflation, and when you look at productivity the inter-relationship between all of those three has to be accretive. If that's accretive, it creates a compound value creation and that's why we always are very intent on cash fixed cost pricing and the relationship for those. And then obviously inflation in the environments you operate.

So this is something we expect every year to try and improve on our operating margins and then to your point, other aspects like SG&A as a percentage of sales, sales or profit per head count, return on capital. These are things that should improve through this internal operating rhythm and effort. So mid-20s is demonstrated and that's clearly a goal and then we want to continue to work better than that on an operating margin basis.

Jeffrey J. Zekauskas

Analyst, JPMorgan Securities LLC

Q

Great. Thank you so much.

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

Stephen Byrne

Analyst, Bank of America Merrill Lynch

Q

Yes. Thank you. You've laid out on slide 10 a lot of lofty green hydrogen goals for many countries, and you mentioned you're in dialogue with 16 of them. I wanted to ask you whether you think these countries you know

have a plan for how to implement these lofty goals. Do you see it more as a carbon tax that might have more impact on the industries that could incorporate green hydrogen, or the power companies that could incorporate it as a feedstock versus funding infrastructure that could be more used in implementing fuel cell-based transportation, which you know could be much smaller projects versus the former would be very large projects and maybe more capital efficient? Do you have a view as to how those two buckets might play out longer term?

Stephen F. Angel

Chief Executive Officer & Director, Linde Plc

A

Well, I think it's going to play out by country. It's going to play out by region. If I look at what's taking place in Asia, I would say that the Asian countries tend to move faster, whether you're talking about China or South Korea. Australia I would put in that category. They tend to move quickly. I think we're going to need to see a lot of the details of some of these goals that have been, gone public and see how they're going to work.

I think that there will need to be a carbon tax. I think there needs to be a significant carbon price, and I – earlier I gave a comparison between, say, a gray hydrogen molecule and green hydrogen, as nominally where it is today, so there's a significant difference. I don't think you can charge hundreds of dollars of carbon tax and have a workable solution. I think the number needs to come down over time. And that would be coincident with, again, the cost of hydrogen coming down from green hydrogen coming down as well.

So, those two things are going to need to play out together, and we'll see how all of this evolves. But we're going to have lots of opportunity to talk about this, as we understand more and more about what each country is intending. All I'm trying to lay out here today is that, we're well positioned in a lot of countries around the world that are going to be active in this space.

Stephen Byrne

Analyst, Bank of America Merrill Lynch

Q

And I was curious about the level of involvement that your engineering arm is in this initiative. For example, you mentioned ITM Power as your partner for an electrolyzer. Which they have a 2-megawatt unit which is certainly suitable for that Germany fuel cell train project that you announced the other day. But if the big Shell refinery in Rhineland were to convert all of its hydrogen over to green hydrogen, that project would need to be 1 gigawatt of electrolysis. And is your partner has a 2-megawatt. Is your engineering business involved in designing much larger electrolyzers or involved in trying to adopt this technology to get larger scale?

Stephen F. Angel

Chief Executive Officer & Director, Linde Plc

A

Well, 2-megawatt module today, we haven't said what the size of the megawatt module is going to be going forward. So part of this is larger modules. Part of this is scaling up the plants using our Linde engineering capabilities so that they can bring all of their expertise to bear around the whole balance of plant because it's not just an electrolysis module, there's a lot of other supporting balance of plant that's part of that as well and that's all part of how you bring these costs down.

So, there are some larger projects being discussed. The projects that we're working on today certainly 20 megawatt. I think they're good sized projects. I like those projects. Some larger projects being discussed and I think what you will find is that with some of the capability that's out there today say around alkaline technology, that's like 100-year old technology. They haven't really used it for water in several decades but that certainly is the intent.

My expectation is that the Chinese are going to be very strong players in alkaline – building alkaline electrolysis equipment and I think they're certainly going to be players particularly as we're looking at some of these much larger scale projects.

But right now most of that's just being discussed. The normal fare projects is in sort of the 2 megawatt, 5 megawatt, 10 megawatt, 20 megawatt size range and we're perfectly happy to focus on those.

Stephen Byrne

Analyst, Bank of America Merrill Lynch

Q

Thank you.

Operator: Thank you. And our next question comes from the line of Geoff Haire with UBS. Your line is now open.

Geoff Haire

Analyst, UBS AG (London Branch)

Q

Good afternoon. Or sorry good morning. And thanks for the option to ask question. Just kind of size the scale of the hydrogen opportunity. Currently, I think hydrogen is roughly 10% of the sales of the gases of the group. How long do you think it will take before green hydrogen is the same size?

Stephen F. Angel

Chief Executive Officer & Director, Linde Plc

A

Before green hydrogen is what?

Matthew J. White

Executive Vice President & Chief Financial Officer, Linde Plc

A

Same size.

Stephen F. Angel

Chief Executive Officer & Director, Linde Plc

A

Same size as this?

Geoff Haire

Analyst, UBS AG (London Branch)

Q

Yeah. Given the current landscape that you can see.

Stephen F. Angel

Chief Executive Officer & Director, Linde Plc

A

Well, I think we're – that's something that there's a lot of activity today. If I use some of the forecasts that are out there, not necessarily our internal forecasts, but some of the forecasts that are out there, it says that by 2030 this could be upwards of to \$100 billion sized market. I'm kind of cautious in that. I want to see more first, I want to see the market develop. I want to see more of the projects move forward. But certainly, if it becomes that size, we would have no trouble equaling the size of our current hydrogen business today by that timeframe.

Geoff Haire

Analyst, UBS AG (London Branch)

Okay. Thank you.



Operator: Thank you. And our next question comes from the line of John McNulty with BMO Capital. Your line is now open.

John P. McNulty

Analyst, BMO Capital Markets Corp.

Yeah. Thanks for taking my question. Steve in some of your opening comments around the core strategy you highlighted portfolio optimization. You have a handful of businesses that aren't necessarily kind of industrial gas aligned necessarily. Any chance that we see an ability for you guys to pair those off in the next say 12 months or so?



Stephen F. Angel

Chief Executive Officer & Director, Linde Plc

Well, we're going to – we're certainly working through the portfolio. There's always a long list of activities. We divested a couple of things this past quarter. One was a LNG trading business, another one was a small infusion business. So we're always doing things, we're always making packaged gas acquisitions. And certain kinds of healthcare acquisitions we're always looking – we'll continue to look at. With respect to some of the larger pieces you might be referring to, with COVID some of the discussions we were having just got put on the back burner because potential buyers just aren't in a position to move forward at this time.



But those are things that we'll continue to look at. We have joint ventures we're in around the world that we've never been a big fan of joint ventures that we would look to find a better solution than what we have today so we can operate these things the way we want to. We're also in some small countries around the world that from my vantage point would have more risk than benefit in being in so we're looking to prune those as well. But there's always activity and a lot of times it's just a function of who's on the other end whether they're ready to move forward or not.

John P. McNulty

Analyst, BMO Capital Markets Corp.

Got it. That's helpful. And then I guess one more question just, there's a lot of talk on the hydrogen side at the same time, look, there's a lot of a lot of stimulus packages we've been hearing about. They're very heavily green related. Hydrogen also is obviously in that vein. Would you say you're more excited at this point about the potential for carbon sequestration tied to whether it's the green initiatives or the push on the hydrogen mobility market or are you more excited right now about the hydrogen mobility opportunity? How should we be thinking about that, say, over the next five years?



Stephen F. Angel

Chief Executive Officer & Director, Linde Plc

I would say right now the hydrogen mobility is something that is more active. And, clearly, if you look at – you know if you go back to the number, I mentioned that if we could convert 1% of all fuel today used in heavy haul trucking to fuel cell electric vehicles, that's a \$20 billion market itself. So, the size of that market is enormous. There is a lot of interest in that. That's what most of the regulations you see today are targeting. You know, China 1 million fuel cell vehicles, 1,000 hydrogen refueling stations. South Korea 3 million fuel cell vehicles. California 1



million. So, the target really is around – the target of these countries, the focus is really around fuel cell vehicles and hydrogen refueling stations.

So, I would say that presents a bigger opportunity. The carbon capture and sequestration tends to be a little bit more one-offs. Again, it's going to be in countries where you have low-cost natural gas to begin with like the United States. And as I said earlier, they're not really – as a country, we're not really moving forward quickly at this point. So, that can change. We can see more of that in the future. But right now, you know that's the way this opportunity slate is shaping up.

John P. McNulty

Analyst, BMO Capital Markets Corp.

Q

Great. Thanks very much for the color.

Operator: Thank you. And our last question comes from the line of Laurence Alexander with Jefferies. Your line is now open.

Laurence Alexander

Analyst, Jefferies LLC

Q

Good morning. I guess just one last one on. Given the scope of the projects available for the onsite business, how do you think about return on capital hurdles or how do you think that the packaged gas and merchant businesses compete for capital going forward? And do you have any temptation to shift the merchant gas towards a more explicit pricing over volume strategy?

Stephen F. Angel

Chief Executive Officer & Director, Linde Plc

A

Well we're always looking to balance price and volume. When you're looking at the merchant liquid market. I mean generally speaking, it's pretty profitable across the board. But that has to be done granularly and what I mean by that, you have to look at it customer-by-customer. Look, if you have a low margin account pushing pricing hard, there's a lot of upside. If you have a high margin account, you want to be thoughtful in terms of how you manage the whole pricing expectation around that.

So, that's how I think about the merchant pricing in general. That's really how I think about packaged pricing but any projects they want to bring forward, clearly, it's got to stand on its own. It's got to make good strategic sense from a product and a location standpoint. It's got to meet our return criteria and the same thing is true back to the on-site. It has to meet our – we have not changed our return criteria. We're still looking for good spreads above our cost of capital and we look at each project opportunity through that lens.

Matthew J. White

Executive Vice President & Chief Financial Officer, Linde Plc

A

Yeah. Just to add to that, Laurence. This is Matt. As you know we make 15, 20 year investments and if you do it right it could be 50 or 60 year investments so we have to think about our return criteria over the long haul. And as you know often these on-site investments are not two-tailed risks. They tend to be one-tailed risk to the downside because you have liquidated damages, you have performance requirements so you have to be very thoughtful throughout all the cycles of when you make these investments. So that's something that we're not going to change and every cycle is different. As mentioned today electronics and mining are doing very well and with stimulus coming in in a year or two, that could change the balance to some other industries. So we have to think long range and we always want to maintain that long range view when we make these investments.

Laurence Alexander
Analyst, Jefferies LLC



Thank you.

Operator: Thank you. And this does conclude today's question-and-answer session. I would now like to turn the call back to Juan Pelaez for closing remarks.

Juan Pelaez
Director-Investor Relations, Linde Plc

Chris, thanks again. And thank you everyone for participating in today's call. If you have any questions, feel free to reach out to me directly. Stay safe.

Operator: Ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may now disconnect.

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