Linde plc 1Q24 Earnings Teleconference and Webcast - Transcript
May 2, 2024

Operator

Ladies and gentlemen, good day and thank you for standing by. Welcome to the Linde First Quarter 2024 Earnings Call and Webcast. At this time, all participants are in a listen-only mode and please be advised that today's conference is being recorded. After the speakers' remarks, there will be a question-and-answer session.

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

Juan Pelaez

Abby, thank you and good morning, everyone. Thanks for attending our 2024 first quarter earnings call and webcast. I am Juan Pelaez, Head of Investor Relations. And I'm joined this morning by Sanjiv Lamba, Chief Executive Officer, and Matt White, Chief Financial Officer. Today's presentation materials are available on our website at linde.com in the Investors section. Please read the forward-looking statement disclosures 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. Sanjiv will provide some opening remarks and then Matt will give an update on Linde's first quarter financial performance and outlook, after which we will wrap up the Q&A.

Let me now turn the call over to Sanjiv.

Sanjiv Lamba

Thanks, Juan, and a very good morning, everyone. The Linde team delivered another solid quarter despite stagnant economic conditions across most regions. EPS of $3.75 grew 10%. ROC increased to 25.6% and operating margins reached 28.9%. These all represent record levels, even though volumes declined 1%. Over the last few quarters, we have seen a row of negative base volumes, which are tracking the stagnant to declining manufacturing environment, especially in EMEA. While volumes continue to track local industrial production, we know there is more we must do to grow. So while pricing remains an important lever for us, we're also focused on other growth opportunities like small on-site, applications technology and investments, including acquisitions to grow our network density, even as we trim certain areas of the portfolio like equipment and hard goods, which typically suffer in economic downturns.

Add to that the contracted backlog and we have a solid growth pipeline for the next few years ahead. Let me provide you with some additional color on the trends and opportunities by key end markets, which you can find on Slide 3. I'll start with the consumer-related markets, which have proven their resiliency time after time. Healthcare has been quite stable year-on-year, while we continue to see sleep, respiratory and oxygen demand growing. Sales have been partially offset by some rationalization of homecare equipment offerings in the Americas and EMEA, which don't meet the investment criteria. Food and beverage grew nicely at 6%. This is mostly driven by food freezing, beverage carbonation and aquaculture. We continue to see opportunities associated with higher quality and more sustainable foods. Even though we don't talk much about our food and beverage business, I'm excited to see good growth opportunities ahead.

Electronics is up 1%, with two key trends, which mostly offset each other. On the one hand, we continue to see good growth from project startups, which have delivered fairly steady results, mostly in APAC. On the other hand, this growth was offset in part by lower packaged and merchant volumes to fabs as production levels were softer. The current trend suggest that this

has largely bottomed out, with expectations of recovery growing. From where I stand, I have some optimism that we'll see volumes pick up again in the second half of the year. Some of this will be driven by the growing demand for AI chips and new data centers. This is not baked into our guidance at this time. Turning to industrial end markets, metals and mining are flat, as pricing increases are offset by volume declines. EMEA steel mills account for the majority of volume reduction due to weaker industrial activity, protected by strong contracts. At the same time, we're seeing project backlog opportunities pick up for new low-carbon electric arc furnaces or EAFs, as well as existing steel customers exploring ways to reduce their carbon footprint.

Linde has recently signed a long-term agreement with H2 Green Steel to supply industrial gases for the world's first large-scale green steel production plant in northern Sweden. In addition, Tier 1 producers like Baowu in China have expanded their relationship with Linde by de-captivating their ASUs into our existing supply network, further increasing supply reliability and efficiency. We continue to work closely with our steel customers on a range of projects, from supporting expansions to decarbonization. Chemicals and energy were up 4%, driven mostly by higher on-site volumes in the Americas and APAC. U.S. Gulf Coast refining and petrochemical customers ran better this quarter when compared to the planned outages last year, helped today by healthy spreads and access to low-cost natural gas. Furthermore, we continue to see growing interest around decarbonization projects.

The manufacturing end market was up 1%. Most of that is pricing. Manufacturing volumes are down year-on-year. The volume decline is split between EMEA and the U.S. EMEA has experienced broad-based declines in industrial production due to geopolitical and energy challenges. In the U.S., manufacturing sales are about flat when excluding the timing of gases supplied to the aerospace sector. Elsewhere, underlying manufacturing volumes have been stable to slightly up across a variety of key sectors, including battery manufacturing, pulp and paper, and merchant-scale clean energy opportunities. A good example is our recent announcement to invest in an electrolyzer to grow our merchant hydrogen network density in Brazil and help customers decarbonize. Looking ahead, our base volumes are expected to track local industrial production. Included in there are some encouraging secular growth trends, such as batteries, aerospace and clean energy.

Also resilient end markets such as food and beverage and healthcare will continue to grow mid-single digit, driven by demographics and consumer demand. Furthermore, we have a healthy backlog of approximately $5 billion, which will continue contributing to earnings for the next couple of years. However, I'm not expecting near-term improvement in industrial production, especially in certain parts of EMEA. These flat economic conditions are embedded in the guidance assumptions at the midpoint, which Matt will discuss in more detail. Overall, I remain confident that we will continue to be nimble and actively manage the balance between volume, price and productivity to grow earnings even in these sluggish economic conditions. And when industrial production levels rebound, as they always do, Linde will be very well positioned to leverage this growth.

I'll now turn the call over to Matt to walk through the financial results.

Matt White

Thanks, Sanjiv. Slide 4 provides consolidated results for the first quarter. Sales of $8.1 billion declined 1% from prior year and 2% sequentially. When excluding the impact of cost pass-through and engineering project timing, underlying sales increased 1% over last year, but remained flat sequentially. Price continues to drive underlying sales growth with a positive contribution of 2% year-over-year. As discussed in prior calls, pricing is localized for most products and thus is highly correlated to local inflation levels. And while we've seen some disinflation, including deflation in China, levels have stabilized as evidenced by the small sequential price increase. Volumes are down 1% versus prior year and the fourth quarter.

While we continue to see positive growth from the project backlog, base volumes are down primarily from negative industrial production, as mentioned by Sanjiv. In addition, we've pruned some non-core offerings in industrial and homecare hard goods based on distribution economics, which is consistent with historical approach. Despite lower volumes, operating profit of $2.3

billion increased 6% from 2023, resulting in a margin of 28.9% or 200 basis points higher. You can see margins by segment when excluding the effects of cost pass-through, with EMEA continuing to lead due to a combination of price and cost management. EPS of $3.75 increased 10% as a lower share count and favorable tax rate were partially offset by higher net interest. CapEx is up 26% over prior year, driven by project backlog timing. Despite this, we are taking actions to tighten overall CapEx levels, and thus, have lowered the 2024 full-year estimate to $4 billion to $4.5 billion.

Slide 5 includes more detail on capital management, including operating cash flow trends. OCF of $2 billion was slightly above last year, but 28% below the fourth quarter. There are two important points to highlight regarding this trend. First, Q1 is always our lowest seasonal quarter due to timing of working capital and incentive payments. Second, 2024 had Good Friday as the last weekday of March, resulting in unfavorable collection timing. This appears on the cash statement as more accounts receivable outflow, but we've seen a recovery in April, which should get us back on track by the end of Q2. Despite this timing issue, free cash flow remains healthy as we continue to execute our proven capital allocation policy, including $1 billion of share repurchases in the quarter. We also issued EUR2.3 billion of long-term debt at attractive rates, enabling us to term out more expensive U.S. dollar commercial paper. These actions continue to reinforce that Linde's strong balance sheet and steady free cash flow are invaluable, especially during times like today.

I'll wrap up with guidance on Slide 6. For the second quarter, we're initiating an EPS guidance range of $3.70 to $3.80 or 5% to 7% growth when excluding a 1% assumed FX headwind. Consistent with last quarter, this assumes no economic improvement at the midpoint. For the full year, we're updating our prior guidance to a range of $15.30 to $15.60 or 9% to 11% growth excluding a 1% FX headwind. We slightly adjusted the prior range by narrowing both the top and bottom ends by $0.05, thus maintaining the midpoint, which still assumes no economic improvement. When looking at the macroeconomic and geopolitical landscape, we have not seen any catalyst to warrant a meaningful change in the guidance range at this time. We believe it's appropriate to remain cautious on the remainder of the year until we see tangible evidence of an industrial recovery. Until then, you can rest assured we'll manage the things within our control to continue driving compound shareholder value.

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

Question and Answer Session

Operator

Thank you. We will now begin the question and answer session. (Operator Instructions) And your first question comes from Duffy Fischer with Goldman Sachs. Your line is open.

Duffy Fischer

Yes, good morning, guys. First question is just around electronics. A lot of incoming calls on electronics, investors seem to be getting more and more bullish. How much leverage do you have to electronics in that we know what the revenue is, but I believe it carries a higher margin than average. So if electronics picks up, how much leverage could that give to the whole of Linde? And are you seeing signs that the electronics market is picking up for you guys going forward?

Sanjiv Lamba

Duffy, you're right in suggesting that there is a general view on electronics that we are seeing an improvement. As you know, we -- it's about 10%, just under 10% of our overall portfolio. About 30% of our backlog today is investment in electronics. All of that is playing out. Our view is towards the back end of this year, we expect that recovery that everyone is talking about led by

AI chips or data centers to actually gather momentum. We haven't baked anything into our guidance, as you're aware, but we do expect to see some momentum build up. We've seen a decent electronics performance in China and we're seeing equally in the rest of Asia a reasonable level of bottoming out, which hopefully then points to a recovery in the second half.

Duffy Fischer

Great. Thank you. And then maybe just jump to low-carbon hydrogen, blue hydrogen for you guys. You put out a couple slides over the last year and a half or so sizing that market over the last decade. Just kind of an update how are those conversations going? What should investors expect as far as announcements, again, primarily with sizable projects? And then the one you've announced with OCI, how is that progressing as far as finding partners for the CO2 sequestration and just general progress on that?

Sanjiv Lamba

Sure. So let me start off by just giving you a broader picture of what I see around clean energy projects and then I'll talk specifically about projects we are developing and then OCI. So overall, I'd say to you I see momentum on clean energy projects moderating a little bit. We are seeing that there is a lot more effort now in upfront feasibility studies and feed studies to ensure that there is greater diligence as projects are being taken to FID. In fact, McKinsey has done a study that shows that of the announcements that get made in this space only 6.8%, so let's say, 7% of projects make it to FID, which I think is a reflection of the hype dying down and some high-quality projects then surfacing and moving forward. So the good news is we are seeing exactly that. High-quality projects that we are working with and we have a very solid pipeline continue to be developed and they're moving forward, albeit that they are taking a little bit longer.

And we are pleased to be working on those projects and that pipeline is what we have alluded to in the past when we said that in the next few years we expect to see us continue to go and make investment decisions around $8 billion to $10 billion. The pipeline looks healthy enough at this point in time and I'm not going to forecast the time with precision. But I'd say to you that the next few years we will still see that pipeline play out into investment decisions. As far as OCI and the CO2 sequestration partnership is concerned, we have already contracted with ExxonMobil who are our partner for sequestration. As you know, we have some of the world's best carbon capture technology, so we will deploy that. We will capture and condition the CO2 and hand it over at the OSBL or the outside battery limit to ExxonMobil who will then take that CO2 molecule, sequester it.

Duffy Fischer

Terrific. Thank you, guys.

Operator

And we will take our next question from Mike Leithead with Barclays. Your line is open.

Mike Leithead

Great. Thank you. Good morning, guys. Just one question for me on the full year guide and outlook and sort of where Matt ended the prepared remarks. Obviously, a nice start to the year, but you decided to narrow the range a bit instead of, I think,

historically you've raised by the better quarter. Can you just further frame out how you're thinking about the outlook and has anything softened from your original expectations?

Sanjiv Lamba

So I'm going to let Matt talk a little bit about the guidance itself. Mike, what I might do is just maybe walk you guys around the world because really and I think it's important to just share with you what we're seeing around the world and I think it sets the tone for how we think about the guidance. So I'll start just very quickly and give you a brief on Americas, let's start with the U.S. market obviously the most important one here. As you know, I've said in the past, it's been remarkably resilient and we've seen many of those end markets at pretty high levels. Now in Q1, we saw base volumes in the U.S. largely flat to slightly negative. Manufacturing declined about mid-single digit, I'd say, year-on-year. Chemicals and energy, on the other hand, was up mid-single digit year-on-year, largely because they had plant outages in the last year, so the comps were a little bit easier.

U.S. packaged gases, we pay a lot of attention to this. As you know, you heard us talk about package and hard goods as leading indicators. U.S. packaged gas volumes were down year-on-year, largely due to softer demand from electronics, but also timing of supply to aerospace industry. Hard goods, on the other hand, were down mid-single digit year-on-year, mainly on lower equipment sales. So important to note, however, that both gases and hard goods sequentially were flat. Latin America slightly positive in Q1 as well. Looking ahead, America's largely flat to slightly positive in the second quarter. The good news is the hydrogen demand continues to be extremely strong in the U.S. Gulf Coast, we're really happy to see that pick up in refiners and pet chem kind of customers are running largely at record levels, so feel good about where that stands. As far as EMEA is concerned, the trend over the last few quarters, largely unchanged.

I mean, Q1, we saw a little bit of a pick-up in on-site and packaged volumes, but merchant continued to lag and was negative year-on-year. We expect industrial customer volumes to flatten as we see developments there. So going forward, comps might look a little bit easier if they hold volumes to these levels, we'd actually see comps no longer being negative year-on-year for EMEA. However, no catalyst that would suggest a significant change in this trend just yet. I know there's a lot of interest in APAC, so let me just give you China first and then we'll talk about the rest of Asia. Well, as far as China is concerned, in Q1, we were watching very carefully. Chemicals output was up, just under 10%, I'd say, but full-year expectations moderated down to probably a range of 4% to 5%. Crude steel, negative. Not unexpected. We've been talking about this for a while. Well, exports for steel were up, almost 30%, but obviously most of that, if not all of that, was offset by lower pricing. So really, the overall industry didn't really impact -- get a major impact out of that.

The good news, however, there is a shakeout in the industry and Tier 1 players who we tend to serve continue to benefit from that shakeout. Manufacturing, largely flat. Traditional manufacturing sectors were negative. There were some select sectors within manufacturing that were up. Automotive shipments were up 5%. EV output was up 30%. You've heard the story. You've read about it. Battery solar were up about 20%. So again, these sectors likely to sustain for the rest of the year. Traditional manufacturing sectors expected to remain soft. Electronics, I said earlier, saw some decent growth in Q1. IC outputs were up about 40%, which is pretty good. Semi-sales were up about 28%, but we expect overall this market will be missing -- well, let's say, mid-to-high single digit growth and our expectation is a push for self-sufficiency and the third round of big fund is probably going to support electronics in China for the moment. Moment.

As a reminder, China is about 7% of our sales. We've said before, about 75% of our business is what we call defensive, i.e., it's locked in with Tier 1 on-site customer contracts with fixed fees, and of course, resilient end markets supporting that as well. So that's the story of China. Rest of Asia, volumes are up slightly. Backlogs contributing to growth over there, particularly around chemicals. As expected, India saw a little bit of slowdown in the quarter due to the ongoing elections, but I expect that we will see that get back in line with our expectations for the rest of the year. You want to talk a little bit about guidance and taking that what we're seeing in the marketplace into the guidance, Matt?

Matt White

Yes. Sure. So I think, Mike, I'll start with how we approach the guide is really no different than how we've been approaching it for the last four to five years. And to clarify, when we say no improvement in the economy, it really means from now, from what we're seeing now. And so when you go back in the last couple of months, I'd say, as we mentioned in the prepared remarks, it's been stagnant to even declining in some regions. So we've updated for that and held that for the remainder of the year. So even though, like Sanjiv just mentioned, the year-over-year comps in the second half get easier, so from the 2023 baseline. So even though that may demonstrate positive numbers, just given a softer baseline, that's not how we're thinking about it. We're thinking about it from the current status and how it moves forward more sequentially. So that's how we applied it. And just based on what we were seeing now, we just embedded that in, ran it out and then just saw no catalyst, as we mentioned, to change it at this time.

Now, obviously, if things improve, then we'll see that benefit. But since we were seeing some erosion from our prior view a couple of months ago, we've taken actions to mitigate that. And that's why we've been able to hold the midpoint and that's something we'll continue to do is take actions if things do deteriorate. So time will ultimately tell. Obviously, we will give another update in July when we see how things play out. But we feel in this environment, it's better to be cautious right now than to be overly aggressive. And we'll just have to see, time will tell. We've got a lot of elections going on. We've got a lot of geopolitical aspects happening, so time will tell.

Mike Leithead

Great. Thank you so much.

Operator

And we will take our next question from Peter Clark with Bernstein. Your line is open.

Peter Clark

Yes. Good morning, everyone. I don't think you'll be surprised to my question. The EMEA margin comfortably ahead of the Americas now, actually. You did get it ahead in Q3 last year, but there were some funnies in the Americas, I think, then with the power surge, et cetera. So just your view on it going forward because I think structurally the EMEA could be the higher margin region anyway? And then following on that, on the pricing in the EMEA, sequentially it was up 2%. Year-on-year it was up 3%. Very strong performance. I'm not sure if you had much in terms of energy surcharges coming off in the bulk gases like some of your peers, but just your view on the pricing situation, particularly in Europe? Thank you.

Sanjiv Lamba

I know you've said in the past that EMEA margins should be the highest, so we've finally gotten there, as you can see. Now, as Matt stated in his prepared remarks, EMEA margins are a combination of a number of factors that we've taken into account, price, cost management, managing the spread, right? And I have to say credit to the team. They do a good job of managing that pricing to inflation, identifying opportunities to manage both fixed and variable costs on an ongoing basis. We do a lot of work, including using AI around our power management in particular, which is a big number, as you know. But there is no one driver, there's no silver bullet that gets us where we've gotten to. And it's a combination of many different factors that come together and all the effort that gets put in. So I see these margins sustainable. I see that now we offer EMEA as the target for the other segments to strive to.

And you'll recall this, Peter, that when we obviously first merged, we always -- there were lots of questions around EMEA margins and whether they would ever reach Americas. They've obviously overtaken Americas now, and now Americas is chasing EMEA. So I'm pleased to see how the team has really come together to deliver on that result. And I can assure you, there's been a lot of work that's gone in to get us to this point, and obviously, that momentum I expect to see continue. As far as pricing is concerned, they've done a fantastic job around pricing, being consistent in laying that out for you guys. And I see the whole concept of pricing at Linde being different to what you may hear from others. In our view, it's all about product pricing. We don't believe necessarily in just having surcharges. Over time, surcharges get translated into product pricing. And that's where sustainable pricing actions really have an impact. And for us, that's what I expect to see and that's what I would expect going forward as well.

Peter Clark

Excellent. Thank you.

Operator

We will take our next question from Jeffrey Zekauskas with JPMorgan. Your line is open.

Jeffrey Zekauskas

Thanks very much. Your volumes year-on-year were down 1% and I think one of the things that Linde says is that new projects add about 2% growth. So should we think of the volume growth or the base volume growth as really negative 3% or is the amount that you expect from new projects smaller? And then secondly, your average gross -- your average EBITDA margin is around 37%. When you look at your helium business, is your helium business meaningfully above that margin or below or at that level? Thanks.

Sanjiv Lamba

Yes. Thanks, Jeff. Let me start off by just addressing the base volume piece. So I'd say the new projects added about a percentage point on growth and base volumes are down about minus 2%, I'd say to you, which as I said before, reflect for us our globally weighted industrial production. I've also said before that we are not happy with where that number is and that growth is also a key priority and focus for us, and we're pushing on many of those growth levers across the world. So I feel that we've got a number of actions in play at the moment, which is there to support base volume as we move forward. As far as helium is concerned, as you know, and we've said this a number of times, it is a very small, low-single digit part of our sales piece. So it doesn't really, in any way, impact us, and I know there's been a lot of noise around helium recently. It's an attractive business for us and given its size, the overall impact of the EBITDA margin is really not consequential.

Jeffrey Zekauskas

Thanks.

Operator

And we will take our next question from David Begleiter with Deutsche Bank. Your line is open.

David Begleiter

Thank you. Good morning. A question on CapEx. Given the lack of volume growth the last few quarters, why are you not increasing CapEx as opposed to now lowering it here?

Sanjiv Lamba

David, you know how we think about our business, right? For us, as we are seeing the industrial environment around us, we are actually ensuring that we are taking productivity actions across the board, right, and CapEx is no different. So the CapEx reduction is really driven by CapEx optimization, both in our backlog and the base CapEx as well. And the teams around the world have scrubbed their CapEx numbers and they are kind of consistent with the weak industrial activity that we're seeing. Now, I said before that we are very open to pushing on a number of growth actions that we are taking. And as a result of that, if we find a pickup on small on-site, pickup on CapEx sometimes necessary for applications development, then clearly, I think that will get factored into our base CapEx.

As things stand now, just because CapEx sits on the balance sheet doesn't mean we ignore it. We are giving it our full attention and we are looking at productivity in that CapEx number itself. But we are not constrained. And if we have high-quality projects come through, small or big, we will actually make sure that we are investing in them and then the CapEx spend will actually reflect that.

David Begleiter

Thank you.

Operator

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

Steve Haynes

Hi, this is Steve Haynes on for Vincent. Thanks for taking my question. Just wanted to maybe come back to the Americas performance in the quarter, and two of the bigger pieces of your pie there, manufacturing and healthcare, were down. Sounds like maybe you walked away from some volume and also had some -- maybe some one-time issues into aerospace. So I'd be interested if you'd kind of quantify the collective impact of those two items and what you're assuming for the balance of the year or just generally how we should be thinking about that? Thank you.

Sanjiv Lamba

Yes. So I mean, as I said earlier on as I was talking about the Americas, we basically -- we did see -- let's start with the hard goods part of the business, which is related to the manufacturing piece. So hard goods were down mid-single digit. And yes, we've been taking a very close look at that equipment portfolio and we've been rationalizing where we think it's appropriate. So we are seeing a reflection of that in the numbers there. In addition to that, just talking about healthcare, again, I think healthcare, I said on sleep, on oxygen, on respiratory, we saw continued demand being there, but it was offset. It was offset by, again, rationalization of some of the DME portfolio that we have, which wasn't really meeting the business criteria that we expect from our portfolio more broadly. So those were concerted and actions that were very intentional about where we

want the quality of that business to be, and we have adjusted for both of those, as you would expect. That's reflected in the numbers that you're seeing.

Manufacturing did more broadly decline mid-single digit, as I said earlier on. Within the packaged gas business, there was a timing difference. You referenced aerospace, I want to just explain that. Aerospace, as you know, is lumpy by its very nature. The number of launches that happened, the number of satellites and the amount of propulsion gases needed for the satellites, and we saw that reflected in the quarter, and that -- I fully expect that aerospace volumes will be robust and will be back in the next three quarters just given the amount of launches that have been announced by various customers we have.

Steve Haynes

Okay. Thank you.

Operator

And we will take our next question from John Roberts with Mizuho. Your line is open.

John Roberts

Thank you. We're seeing project cost inflation across a lot of our industries, not just gases, but chemicals broadly. Does that drive any shift between sale of gas and sale of plant, as you have new project discussions with customers or does that not affect that decision?

Sanjiv Lamba

John, we look at every project on merit and we will make -- as you know, we said before, we are unique in the fact that we have that optionality between pursuing sale of gas versus sale of plant. So we look at fundamental economics around the project and then -- and look at the risk profile before we determine which way we go. Really the project cost movement or capital cost inflation that's broadly there in the marketplace isn't really a factor that gets considered over there. I think what we consider is the risk return profile. If it meets our investment criteria, we are happy to have that as a sale of gas backlog. And you see that we're currently executing just under $5 billion of those. So feel that we have that optionality as a really strong competitive advantage when we go to market for such projects.

John Roberts

Thank you.

Operator

And we will take our next question from Josh Spector with UBS. Your line is open.

Josh Spector

Yes, hi. Good morning. I had a question on two of your recent announcements here. So when you talked about de-captivating some assets from a metals customer in Asia, is that hitting the books now or is that something that's a benefit more a quarter or two from now? And then also with your electrolyzer investments in Latin America, just curious if you could frame around the environment down there. I think we're talking more about investments in North America and Europe and particularly around support or subsidy schemes. So how does that differ from those regions versus Latin America and why invest there? Thanks.

Sanjiv Lamba

Josh, let's start off with the de-captivation. So you're right, we've de-captivated a plant from one of the large steel customers. As I said earlier on in my prepared remarks, customers see the benefit of bringing those assets into our network, obviously enhances reliability, enhances efficiency. And clearly, Linde is the preferred option when it comes to operating plants like this. So when we think about de-captivation, for us, de-captivation opportunities have to meet the same investment criteria that we would set for our own investments. We are happy to purchase these assets where those conditions are met, where the quality of the asset and the quality of the customer are good. Typically, in a year, we would see, I don't know, maybe a dozen or so de-captivation opportunities. We would probably go ahead on two or three of those. So the one that you're referencing with Baowu is one that we decided to go forward with and I feel really good about how that fits well with our network, both providing that optimization, but more importantly, improving our network density in that area as well.

So again, I think we are seeing movement around that and we are happy to be able to be selective around de-cap projects as they happen. As far as Brazil is concerned, this was a really good opportunity for us. And I was happy that we were able to put a clean energy asset on the ground in Brazil, improve hydrogen network density and actually help decarbonize the customers around there who were actually looking for that. There are a couple of factors that are different, right? You'll remember that Brazil has a high renewable energy mix available in its grid and it's very competitively priced. So renewable energy obviously is one of the constraints in the development of what I call renewable hydrogen or electrolysis hydrogen, and in Brazil, it's really competitive priced, so therefore it actually makes the economics work well.

The other piece that works well also is that the comps to natural gas pricing, which is quite high actually makes the green hydrogen that comes out of electrolysis reasonably competitive, and therefore, attractive for customers to want to use that to decarbonize. So those factors came together to really provide a great opportunity for us to increase our network density, put an electrolyzer on the ground and we are really happy with that. Just briefly on de-cap, I know you had asked a question and I probably didn't respond to it in terms of timing and typically de-cap timing starts now. And yes, in some cases where you've got a new plant coming on, there is a little bit of a ramp, but typically the timing is here and now.

Josh Spector

Thank you very much.

Operator

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

Eric Zheng

Hi. Good morning. This is Eric Zheng on for Patrick. Can you elaborate on the productivity initiatives in Americas and EMEA? Have those initiatives changed or been adjusted to account for any changes in your macro outlook? Thank you.

Sanjiv Lamba

So we've said this in the past, I'm going to now just reiterate the point that there is no silver bullet around productivity. We run about 13,000 to 14,000 projects a year. A significant portion of those projects happen both in Americas and in EMEA. So there is a track record of taking those productivity projects and driving them hard to make sure that those benefits come through. The EMEA margins are reflecting that, right? There has been a lot of action both around managing total cash fixed costs with a lot of rigor around that and ensuring that productivity actions are happening and projects are being developed. The Americas across the board from U.S., Canada to Latin America have got a great organizational rigor around productivity projects and we are seeing them ramp up given the economic conditions.

I think Matt made the point earlier on, when we see economic conditions as we are at the moment, we are obviously very focused on managing costs and taking mitigation actions to ensure that we are able to hold the guidance where we have at the midpoint, as you know. And we have a track record of being able to successfully do that. I feel pretty good about where those productivity actions today are, both in the Americas as well as EMEA. And obviously, we are constantly pushing to make sure we get a bit more done beyond just what the targets are.

Eric Zheng

Great. Thank you.

Operator

And we will take our next question from John McNulty with BMO Capital Markets. Your line is open.

John McNulty

Yes, thanks for taking my question. So wanted to address the price versus cost kind of environment in APAC. I think we've seen the pricing moderate a little bit or at least decelerate. But I think, Matt, in your comments, you spoke to a deflationary environment from a cost perspective. So I guess, can you help us to think about that balance and how to think about maybe pricing in the region as we push forward?

Matt White

Yes, John, sure, this is Matt. So you're absolutely right. We always think about it in terms of a spread, right, because there's different inflationary environments everywhere in the world and our model is very, very local. So managing the spread is very important. And when you think about APAC, clearly China does make up a large portion of that segment. And as I mentioned, in China, you are seeing some deflationary conditions and this is the primary reason why we talked about taking cost actions out several quarters ago, which we've been undertaking. So the dynamic we're seeing in China, while volumes are flattish, like Sanjiv said, pricing is also flattish, and so costs are actually coming down and that spread is still positive in that regard. I think when you think about places like India or Australia, they're following the model pretty closely.

In a place like South Korea, you tend to have a little bit more electronics exposure. So there will be a little bit of an effect there, helium, more probably than other locations for us given that and helium is more of a globalized product. But as Sanjiv mentioned, at a consolidated level, it's low-single digit for us. But South Korea will be disproportionately more impacted by that, given the larger electronics portfolio. So that's the way I think I'd think about that, and hence why APAC is a little lower, but also the costs are a little lower. And that's why the margins you notice are still expanding in APAC. And to me, that's really

the key is what are margins doing? Because you can see inflation, you could see hyperinflation, you could see disinflation and you could see deflation. The question is how, as we as management, how are we managing that? And to me, the margin is what really is representative of how that's being managed. And in APAC, right now it's being managed and the margin is still expanding.

John McNulty

Perfect. Thanks very much for the color.

Operator

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

Steve Byrne

Yes. Thank you. I was just curious about your pipeline of targeted acquisitions potentially increase your density even greater for your merchant and packaged gases businesses. Do you have more opportunities and can you comment on geographically where that might exist without regulatory pushback?

Sanjiv Lamba

Steve, we are very committed to tuck-in acquisitions anywhere in the world. And to your point, network density is what guides that decision for us to be able to bring a tuck-in acquisition, enhance our network density and actually move that business forward is how we see a good growth opportunity. As you know, in the U.S., we have a track record of doing many of these. The last one that we did, which was large enough, I would argue is nexAir. It's proven to be tremendously successful, looking really good as we integrate that business into Southeast U.S. and that's a very attractive market in which to do that.

So again, a good example where I think that acquisition has worked really well for us. We look at that across the board. So we are, obviously, continuing to pursue such opportunities in the U.S. They are tuck-in acquisitions. We recognize that a very large acquisition is not doable for regulatory reasons, et cetera, that you've mentioned. But we're also looking for a similar model elsewhere in the world and we will explore that in Asia, in Australia, China, in large parts of Eastern Europe, Middle East, and even Western Europe where we can get a tuck-in acquisition opportunity.

Steve Byrne

Thank you.

Operator

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

Abigail J. Eberts

Hi, there. This is Abigail on for Mike. So just in terms of your project intake, that's obviously down a bit year-over-year and quarter-over-quarter. I was just wondering if you're going to attribute that to your focus on only taking on higher quality projects or if there are other factors at play?

Sanjiv Lamba

So I'll just go back and tell you that when we think about our backlog today and then we look at order intake, the backlog we've got is about $8.3 billion. It's currently under execution. We have a healthy order intake pipeline. I think engineering does just under $0.5 billion of order intake a quarter. That looks pretty much on track at the moment. Yes, we do take high-quality projects, there's no question on that. But we have a unique position in the fact that Linde's engineering business is one of the leading engineering entities in gas processing, and in our space we are the leader and therefore well sought after today by customers who would like to continue to build on relationships that we've maintained with them over the past.

So feel good about where we stand with the project intake as things stand. And if you look at the sale of gas backlog, I'll just do the math for you over here because I'll kind of underpin that for you as well in terms of order intake. The sale of gas backlog at the moment is about just under $5 billion. In the course of this year, we'll start up anywhere between $1.5 billion to $2 billion of projects, so we will reduce that backlog between $1.5 billion to $2 billion. And my expectation is over the course of the next many months, we will add back into that backlog to make sure we end the year around that $5 billion mark. So again, that shows that there will be order intake coming in, which will be served by the engineering team over here in the sale of gas backlog as well. So overall, feel pretty good about where we stand with that.

Abigail J. Eberts

Okay. So you're anticipating a higher order intake later on in the year is what I'm hearing versus earlier in the year?

Sanjiv Lamba

So on the sale of gas backlog, as I said, we are -- we develop projects over a period of time and we will start up about $1.5 billion to $2 billion of projects that are already being executed and we expect to add back into the sale of gas backlog, and therefore, the order intake for engineering around the same level to try and get very close to the $5 billion mark by the end of the year. Does that clarify?

Abigail J. Eberts

Yes. That's helpful. Thank you.

Operator

And we will take our next question from Laurent Favre with BNP. Your line is open.

Laurent Favreau

Yes. Good morning, guys. I just have one question left. On the H2 Green Steel side, I noticed it was just the ASU contract. I was wondering if there was any reason why you hadn't been involved on the hydrogen supply in the first place. Is it by choice or I

guess by accident? And when we think about further green steel announcements, in particular in Europe, should we be assuming that you may have bigger exposure to those means than $150 million per unit? Thank you.

Sanjiv Lamba

Right. So on H2 Green Steel, the agreed scope that we wanted to do was the air separation and we are very happy with having that opportunity to supply them. They are going to be probably one of the larger green steel projects starting up in Europe probably earlier than most others. There are other projects that we are also pursuing. The scope depends on the agreement we have with the customer, and obviously, you know that we are very mindful about how we see electrolysis development. Obviously, renewable energy availability guides a lot of that, as does reliability and the capital intensity around those projects. So we tend to pick and choose based on that, but there are projects that we are currently developing in Europe around steel that include supply of hydrogen, and in others, we stick to the industrial gas portion, which is air separation.

Laurent Favreau

Thank you, Sanjiv. And a follow-up for Matt, on the cut-off date for Q1 cash flow and working capital. Can you maybe size impact for us? Is it most of the $0.5 billion outflow you had in Q1?

Matt White

Yes, I'm sorry. Could you repeat that? It was the outflow in Q1 related to what?

Laurent Favreau

Yes, on the cut-off date on Good Friday. I was just wondering if we should assume that most of the working capital outflow year-on-year is related to that timing and we should see that $0.5 billion come back in the second quarter?

Matt White

Yes. So to your exact point, when you look at the face of the cash flow, the AR year-on-year is unfavorable about $250 million and the majority of that was associated with some of this timing impact. As you can imagine, Good Friday was a bank holiday in most jurisdictions, even Holy Thursday, arguably in some in Latin America, and so that created a bit of a timing dynamic on the receivables. But when we monitored the first few weeks of April, we've definitely seen a rebound on that timing. And so I would expect to get that back in Q2, as we mentioned, and should get back on track. So really, the AR was the only thing that stuck out and it really was a function of this timing component, because as you know, these are all contractual customers. These are contractual terms and they obviously need to pay to continue to get supply.

Laurent Favreau

Okay. Thank you.

Operator

And we will take our final question from Laurence Alexander with Jefferies. Your line is open.

Laurence Alexander

Good morning. Could you unpack two comments? So one, with respect to kind of the difference in pricing philosophy, particularly kind of in merchant, are you seeing that translate into share gains relative to competitors or just kind of like what's the practical impact of the difference in philosophy? And then the second is with respect to the comment about sort of the number of elections this year. Do you get a sense for your customers that there is a pent-up project list where once there is political clarity, we should see projects flow through to your backlog fairly quickly? Or is there more of a kind of -- the disruptions are longer reaching because of people aren't even in planning mode given the kind of uncertainty around what longer-term policy directions will be? Just want to see exactly where you see the nervousness translating into how projects flow through to your backlog over the next, say, six to eight quarters.

Sanjiv Lamba

Let's start with the project pipeline and its reflection on the backlog, Laurence. So I'll distinguish this between traditional projects and clean energy projects. On the traditional projects, we see a lot of project activity continue. I would say that elections aren't having a dramatic impact on timing. I think people are just being very intentional about the project that they wish to pursue. I have said that in India we saw a little bit of a slowdown in the business, just given the ongoing elections, but that's just around logistics and day-to-day business as opposed to decisions being made from a long-term perspective. So we don't really see any significant impact on the traditional side of our business related to elections or otherwise. I think the natural trend over there is continuing, the pipeline is healthy.

We're looking at conversions. I mentioned earlier on in a response that I expect that we will get the backlog back up to very close to $5 billion by the end of the year, which means that between now and then, there's between $1.5 billion to $2 billion of new projects to be won and that only happens when there is a strong pipeline that you've been developing over a period of time. So feel it's pretty much there. Clean energy, I also said I see momentum moderating. I see some of the hype going away. Again, less to do with elections. Obviously, some clarity is being sought on clean energy projects, particularly with IRA and 45V and so on and so forth. As you know, there is a very complex incentive and penalty structure in Europe, so people are making sure they try and understand and get a good handle on those before they make large investment decisions. That's the factor that's more at play than elections.

As far as your question on pricing was concerned, I'm not sure I fully got it, but here is how I think about pricing. So we've said many times over the pricing, great proxy for it is globally weighted inflation. We track to that. It's a correlation we built over a couple of decades, a high correlation, and we're seeing that play out. Matt made a number of comments around what happens in disinflation versus deflation environments. In each of those, our philosophy is around making sure that not only are we tracking that globally weighted inflation, but we have actions in place that are constantly looking at converting the price increases that we manage right into our product pricing. And that gives us an advantage in terms of sustaining that price rise and pushing it through into the future. You can see that through the consistent pricing actions and reflecting the performance that we've given you as well. And that holds good for merchant, it holds good for package, and I think that's what kind of plays out in the market where we operate.

Laurence Alexander

Thank you.

Operator

And I would now like to turn the conference back over to Mr. Juan Pelaez for any additional or closing remarks.

Juan Pelaez

Abby, thank you, and thank you, everyone else for participating in today's call. I hope you have a productive day. Stay safe. Bye.

Operator

Ladies and gentlemen, this concludes today's conference call. We thank you for your participation. You may now disconnect.