Linde plc 1Q25 Earnings Teleconference and Webcast - Transcript
May 1, 2025

Operator
Ladies and gentlemen, good day, and thank you for standing by. Welcome to the Linde First Quarter 2025 Earnings Call and Webcast. At this time, all participants are in a listen-only mode. Please be advised that today's conference is being recorded. After the speakers' presentation, there will be a question-and-answer session.

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

Juan Pelaez
Abby, thank you. Good morning, everyone, and thanks for attending our 2025 First Quarter Earnings Call and Webcast. I'm Juan Pelaez, Head of Investor Relations, and I'm joined this morning by Sanjiv Lamba, Chief Executive Officer, and Matt White, Chief Financial Officer. Today's presentation materials are 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 and adjusted numbers are in the appendix to this presentation. Sanjiv will provide some opening remarks and then Matt will give an update on Linde's first quarter financial performance and outlook, after which we will wrap up with Q&A.

Let me now turn the call over to Sanjiv.

Sanjiv Lamba
Thanks, Juan, and very good morning, everyone. Last quarter, we took a fairly cautious view on the economy, and unfortunately, things mostly played out as anticipated. Yet despite those headwinds, Linde employees once again delivered resilient results by growing EPS, ex-FX, by 8%, expanding operating margins 120 basis points to 30.1%, and maintaining industry-leading ROC at 25.7%. It is during volatile and uncertain times like today when the Linde operating model truly stands out.

To demonstrate that, slide 3 provides an overview of the defensive nature of our business. Some of you may recall this slide, that is because we presented a version of it in April 2020, another period when financial markets were gripped with fear and uncertainty. Linde managed through a challenging 2020 and demonstrated its resiliency by growing EPS 12% that year, and I fully expect this defensiveness to be on display for 2025 and beyond.

Now we define defensive sales as businesses which contain at least one of the three categories. The first category represents resilient end markets that tend to be independent of economic trends, such as healthcare, electronics, or food and beverage. Over the last few decades, we have found these end markets to remain quite stable even during the most challenging periods, while also offering nice opportunities for growth throughout various economic cycles.

The second category represents onsite customers from any end market, who paid fixed facility fees that are independent of volumes. These fees are contractually required to recover our capital investment and are part of virtually every onsite agreement. This structure gives us significant earnings stability, which has been proven during the most difficult times. And the final category relates to rental payments on our owned assets such as tanks, cylinders, and equipment. Although the asset network requires upfront capital outlay, the contractual rental fees help recover the initial investment regardless of gas consumption.

Individually, these categories have proven to provide resilient revenues and cash flow, underpinned by our dense supply networks around the world, especially during times of economic stress. So the dark blue shading on the slide represents these three defensive categories, which together account for almost two-thirds of global gas sales. Additionally, this split is almost identical in every segment, further reinforcing the consistency of our business model in every geography. And this is ultimately validated by the chart on the right, showing a 12% EPS compound annual growth rate over the last three decades.

Overall, the model has proven itself and stood the test of time, and I don't see that changing anytime soon. But looking at the current environment, we're seeing more negative than positive developments. So it may be helpful if I can provide some color on the first quarter trends by segment. Starting in APAC, China trends have remained consistent when adjusting for seasonally weaker Q1. We are still seeing strength in battery and electronics, although rare gases and helium prices remained lower than prior year.

Regarding the industrial end markets, we continue seeing softness across most, although our customers are primarily Tier-1 producers, and thus have been much more stable. Korea is mostly tied to the electronics sector and our largest customer there recently announced further expansion, resulting in a new project win for Linde. Australia has seen weaker manufacturing trends, directly impacting packaged gas volumes, while India, on the other hand, remains one of the better growth regions globally.

Moving to EMEA, we have not seen any meaningful improvement in industrial activity, despite some of the recent positive news regarding increased government spending. However, I'm encouraged by the more pragmatic discussions around decarbonization, which could help accelerate potential growth opportunities. Furthermore, we are very well-positioned for any economic recovery or increased infrastructure spending.

The Americas segment has been more of a mixed bag. On one hand, Canada and US packaged gases are seeing some weakness from manufacturing uncertainty. On the other hand, US bulk, North Latin America volumes continue to grow low-to-mid single-digit percent. Americas has the highest segment price increase at 3%, reflecting the inflationary pressure we see in this segment. I fully expect us to stay ahead of any inflationary pressure through a combination of contractual pricing clauses as well as our productivity programs.

The quarter ended with a strong backlog of $10 billion, of which more than $7 billion is sale of gas projects, all underpinned by long-term contracts with secured returns, driving future growth. You may recall from our prior earnings call that project contribution is part of our EPS growth algorithm, and despite the uncertainty, I expect we will continue to announce new wins in the quarters ahead.

In summary, the rapid changes in global trade policy are having a dampening effect on overall industrial activity. So I'd anticipate more volatility in end market trends until there is greater clarity and stability. And while no one could predict what will happen next week, let alone next quarter, I'm confident Linde will navigate the uncertainty by not only leveraging our operating rhythm to quickly adapt, but also continuing to deliver high-quality growth.

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

Matt White
Thanks, Sanjiv. First quarter results can be found on Slide 4. Sales of $8.1 billion were flat to prior year and down 2% sequentially. Versus prior year, the foreign currency headwind was volatile, starting at 4%, but ending with 2% for an overall first quarter average of 3%. Cost pass-through increased 1% from higher natural gas pricing, but had minimal effect on profit. Net acquisitions contributed 1%, primarily from packaged gas tuck-ins in North America, as we continue

to see attractive roll-up opportunities justified by cost synergies. Excluding these items, underlying sales increased 1% from last year as higher pricing was partially offset by lower volumes.

Pricing tracked with globally weighted inflation everywhere except for APAC, which was impacted by lower prices in helium and rare gases. Volumes declined 1%, as 2% lower base volumes were partially offset by contribution from the project backlog. As Sanjiv mentioned, industrial activity remains sluggish in most geographies and therefore has dragged down base volumes. Sequentially, underlying sales are down 1% as higher pricing is more than offset by lower volumes. The lower volume is primarily driven by seasonal factors, especially in APAC, although we did experience weaker trends in certain packaged gas markets.

Operating profit of $2.4 billion increased 4% and resulted in a margin of 30.1% or 120 basis points higher than prior year. All segments expanded operating margin as management actions in pricing and cost productivity more than compensated weaker base volumes. Despite the economic challenges, we expect management actions to continue to support profit growth and margin expansion. EPS of $3.95 was 5% over prior year or 8% when excluding the effects of currency translation. We finished the quarter at the top end of the guidance range due to slightly better FX, as benefits from cost and pricing actions were mostly offset by weaker volumes.

CapEx of $1.3 billion was equally split between base CapEx and project backlog. As a reminder, Linde has the most stringent project backlog definition in the industry, which requires incremental growth underpinned by fixed fees and contract clauses to protect the overall return. Base CapEx includes all other growth investments not meeting our backlog definition, as well as maintenance and replacement spend. The 58% increase in project CapEx supports the record $7 billion sale of gas backlog. We're actively constructing the two largest projects in our history. So I anticipate elevated levels for a few more quarters. Conversely, base CapEx has declined from lower volumes and productivity actions.

Slide 5 provides further details on quarterly capital management. The operating cash flow trend can be seen to the left with the most recent quarter of $2.2 billion, increasing 11% above last year. Note, the first half is weaker due to seasonality of cash payment timing for interest, taxes, and incentives. For 2025, I anticipate a similar trend as last year. Disciplined capital allocation is a hallmark of Linde culture and the pie chart to the right demonstrates the balance across investing into the business and returning capital to shareholders.

During the quarter, we raised the annual dividend by 8%, representing 32 straight years of dividend growth with an average rate of 13%. We also repurchased $1.1 billion of stock while reinvesting almost $1.3 billion back into the business. The steady capital allocation model is underpinned by quality credit metrics and access to low-cost funding, as evidenced by our most recent 3% average bond coupon. In uncertain and volatile times like today, having a fortress balance sheet is critical for not only maintaining stability but also capitalizing on growth and share repurchase opportunities as they arise.

I'll wrap up with a guidance update on Slide 6. For second quarter, the EPS guidance range is $3.95 to $4.05. This represents 3% to 5% growth or 5% to 7% when excluding a 2% currency headwind. This range assumes recessionary conditions at the midpoint, translating to roughly 2% EPS headwind from lower volumes. Therefore, while the assumed FX headwind improved by 2%, we offset that benefit with an equivalent volume contraction at the midpoint. Consistent with our normal approach, this is merely an economic placeholder based on current trends. If things are better, we'll perform better, and if worse, we'll take actions to mitigate.

However, it's important to note this range still follows our long-term EPS growth algorithm, with double-digit percent growth from capital allocation and management actions, partially offset by the current unfavorable economic impact, including currency translation. The full year guide follows the same approach as Q2, resulting in an updated range of $16.20 to $16.50. FX improved by 2%, but was offset by an equally negative volume assumption at the midpoint. All in, we're holding the original guidance midpoint, but are narrowing the range by a nickel on each end due to less remaining

quarters. Overall, we believe it's prudent to remain guarded in this environment, but do not mistake our prudence for complacency. We continue to manage the things within our control by taking proactive actions and adhering to our long-term proven capital allocation strategy.

Additionally, we're leveraging our secure balance sheet, engineering capabilities, and unrivaled supply network to capture opportunities that will position us for the future. And eventually, the economy will recover, at which point Linde will be well positioned to benefit, with 2021 being the most recent example. Until that time, investors can rest assured, knowing that our employees will continue to exemplify the no excuses execution culture, which has been the bedrock of our long-term compound value creation.

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

Operator
Thank you. And we'll now begin the question-and-answer session. (Operator Instructions). And your first question comes from the line of Michael Leithead with Barclays. Your line is open.

Michael Leithead
Great. Thank you. Good morning, team. Question as it relates to your backlog. Dow recently announced the delay of its Alberta project. Linde is a partner on that. Can you speak to what impact you expect that to have on your associated project timing and start-up or what contingencies Linde has to protect itself there?

Sanjiv Lamba
Thanks, Mike. And as you'd expect, most on-site contracts that we've had and continue to have built-in contractual protection for events such as delays driven by customers. So this is not new. It typically happens. There is a typical grace period beyond which we have our invoicing that starts, and the customer starts paying.

So this is going to be no different in terms of the contractual protection that we have on the contract. Obviously, having said that, we'll be working with Dow to look at alternatives and opportunities to see how we can help them meet their goals while maintaining Linde's interest in the project.

Michael Leithead
Great. Thank you.

Operator
And your next question comes from the line of Vincent Andrews with Morgan Stanley. Your line is open.

Steven Haynes
Hey, good morning. This is Steven Haynes on for Vincent. Thank you for taking my question. The EMEA margin performance was super robust in the quarter, and I think this is kind of coming collectively even with your volumes down high-single-digits over the last few years. Can you help -- kind of help us think a little bit about like what the margin profile could look like once volumes start to return eventually at some point? Thank you.

Sanjiv Lamba
So the EMEA margins have been a result of some very hard work done over that -- by that team over a period of time. And I think making sure the things that we control, pricing, productivity, get the attention that they deserve and are translated into results that reflect that margin number today. Obviously, that's in the face of the volume kind of downside that you talked about. Our expectation is as volumes improve, those margins will continue to grow, which has been proven over time.

Steven Haynes
Thank you.

Operator
And your next question comes from the line of Duffy Fischer with Goldman Sachs. Your line is open.

Duffy Fischer
Hey, good morning, guys. It was two years ago, you guys rolled out this slide where you talked about $50 billion of opportunity around clean energy. A lot of changes in the world as we're looking at that now. When you look at that market today, how would you size it differently? Would you size the timing of it differently, what are customers coming back to you saying how much trust do they have in pieces of the IRA, some of the stuff that was driving that forward, because it was going to be a decent part of the algorithm for you guys to grow? Just get your view on kind of where that is today.

Sanjiv Lamba
So Duffy, you're right, we kind of laid that out a couple of years ago when we laid out the strategy which said, look, we will decarbonize our own operations, we'll support our customers' decarbonization process, and of course, our new energy markets that will come through. We did offer that $50 billion over a period of 10 plus years. So there's a long time to go as we reflect on that number. I think we see the opportunity set that we have around clean-energy projects still looking fairly attractive.

The speed of pull into that $50 billion looks still reasonable. I think what's more important is to focus on the slightly more shorter-term. And we've said that, look, we expect $8 billion to $10 billion over the next few years. And I think the point to make over here, Duffy, is that we are about halfway through there with the two projects that we're currently executing. And our expectation remains that some of those projects are likely to see additional trains in due course.

And of course, other projects developing elsewhere in the Middle East and Europe could add to that tally. I'd say to you standing here, I still feel reasonably confident that $8 billion to $10 billion over the next few years is something that we still feel that we are set to get to. So that's kind of what the numbers look like.

Just in terms of feedback, and I think it's important to note over here and you've heard me say this before. So, the point of -- I'm kind of belaboring the point over here a little bit, but we've always differentiated between two different types of projects. The low-carbon hydrogen project, which is what is also known as blue hydrogen development as well as renewable hydrogen or green hydrogen development. And you've heard me say in the past that green hydrogen development from my point of view isn't at scale today, doesn't have the competitive cost base that is necessary or indeed requires to have significant reduction in capital intensity to get to that point of inflection.

We've said in the past, and I maintain that that's probably five to seven years out. You'll be pleased to note that in our portfolio projects that we're pursuing, that is a very small percentage related to renewable hydrogen, and we only do that opportunistically where there is potentially a very low-cost renewable energy access and so on and so forth. The primary development in our project pipeline is related to low-carbon hydrogen or blue hydrogen.

And again, a lot of people reference IRA. I always want to remind folks that the clause that we should be talking about and thinking about is 45Q, which predates the IRA, and that clause is supporting producing hydrogen using natural gas, converting that using an autothermal reformer or a steam methane reformer and taking the carbon dioxide that is produced, capturing it and sequestering it. And hence that 45Q credit of $85 per ton, which we feel reasonably confident at this point in time, I think I'm being brave in this world, but I feel confident that has the support necessary as we move forward. And that's really what's underpinning the project development cycle that we're looking at and that's where we feel the larger project development world that Linde is doing is concentrated on. And that looks pretty resilient as this time.

Matt White
And maybe, Duffy, just one thing I'll add to Sanjiv's as well, as you know, when you referenced it on the algorithm, we've always said the capital allocation algorithm, we expect 4% to 6%. That's been our stable contribution going back a couple of decades. And it absolutely includes projects like Sanjiv mentioned, and we feel good about that, but it also includes buybacks, it includes acquisitions, and it includes capital structure. These are all uses of capital. And you saw this quarter, acquisitions now rounding up to 1%.

We're seeing opportunities to do that. We continue to see buyback opportunities in the way the markets are reacting. So we have mechanisms and means to continue to contribute on that algorithm even as some of these projects might be a little bit delayed or until they contribute. So, we still feel good about our ability to deliver on that.

Duffy Fischer
Awesome. Thank you, guys.

Operator
And your next question comes from the line of David Begleiter with Deutsche Bank. Your line is open.

David Begleiter
Thank you. Good morning. On your guidance, you loaded by roughly $0.30 FX was the vast majority in the Americas due to weaker manufacturing? If it was, which manufacturing end markets are you seeing the greatest slowing or demand weakness? Thank you.

Sanjiv Lamba
So, I'll let Matt talk about the guidance, and I'll give you a flavor of what we're seeing in the US manufacturing. Matt?

Matt White
Yeah, sure. So I think, David, on the guidance, if you start with the FX change, as I mentioned, it was 4% in the beginning of the quarter, went to 2% by the end, averaged at 3%. Just as a reminder, when we put a guidance estimate, and it's merely an estimate, into our range here, we take the forward rates at the beginning of each month. So what I'm telling

you right now was the forward rate as of April 1st. We haven't updated that for today's forward rate, which we'll do. And then, of course, we book the average rate as it occurs.

Clearly, the rates have moved a little bit, I would say, to a further weakening dollar. And when you think about what's moved the most, the euro has helped the most, given that seems to be more of a flight to quality currency today. The Sterlings' helped a bit. And then on LatAm currencies, it's been a mixed bag, I'd say, between the peso and real. So that's how we thought about that.

And then clearly, what you're seeing in this environment, normally when we see risk-off, you'd see a strengthening dollar with a weakening environment. It's a bit inverted now. You're seeing basically a weakening dollar with a weakening environment. So we are getting some offset in that, and that's how we've laid it out. Time will tell. But like we said, if things are better, we'll do better. But I'll hand off Sanjiv to give more update on Americas trends.

Sanjiv Lamba
So I'm going to focus on manufacturing, which I think was your question, David. So manufacturing in Q1 for the US was softer than prior year. And that was a combination of factors, including the fact that we had a couple of weather events in both January and February, particularly in the South and Southeast of the US, which obviously impacted that. We did end the quarter strong with a strong March. Probably for the first time in many quarters, we saw some core manufacturing growth, both in gases and hard goods. In April, that trend appears to continue to be there. It's slightly moderated in the pace of movement forward, but it's still intact.

As I think about the industries that impacted that, when we look at it, we saw automotive, agricultural products, mining, et cetera, which were soft, not a surprise, offset in part by general fabrication, energy, chemicals, and of course, construction. Now, in April also I'd say to you that the sentiment for the larger customers has turned more negative. Obviously, given the uncertainty and lack of stability in the market, and potential for high inflation, so you can see that reflected in the PMI numbers that you've seen.

So while sentiment has turned, we haven't seen that reflect in volumes just yet. And indeed, some customers are still buying on the hard goods side are actually making investments in larger CapEx items such as automation, which is kind of essential for productivity, particularly if you have labor shortages. So, I think overall, I'd just say that manufacturing has been more resilient than people had expected. Obviously, the expectation remains that if you get some policy certainty and if we get some stability, which have been creating some headwinds, you will see potentially in the second half of the year a likely pickup in manufacturing once those conditions are met.

David Begleiter
Thank you.

Operator
And your next question comes from the line of Peter Clark with Bernstein. Your line is open.

Peter Clark
Yes, good morning, everyone. It's on the electronics, but I think with the fourth quarter, Sanjiv, you were saying you expected to sign new signatures very shortly. You signed something in Korea with your relationship with Samsung with an expansion. I'm just wondering, clearly other things are bubbling because that side of the backlog actually in terms of value terms with start-up diminished a little going into Q1.

And then just a quick follow-up. EMEA, I mean, I always thought that should be the highest margin business, you're delivering over 35% now, is there anything exceptional helping that? Is it the volumes perhaps in the smaller onsite business being a bit softer, giving it a little bit of a profit boost or is it just nothing extraordinary, just delivering on the model?

Sanjiv Lamba
So why don't we begin with EMEA, Peter, and just say that it is fundamentally the model. I don't think there is anything particularly offsetting. There's nothing special in there. It's the fundamental business that has turned from being a 19% margin business back in 2019 to being a 35% and plus percent business today, and I think it's taken a lot of hard work to get there. I think credit to the team having worked through the energy crisis, the war in Ukraine, and all of that to get us here. And I remain confident that that team really has the algorithm worked out and are executing it every day to make sure that they maintain that margin and move forward with it.

Let me go back to backlog then, and I'll talk about backlog generally, and then we'll talk a little bit about the Korean win. So in Q4, I did say that you should expect us to announce some electronics projects. This is first of a few that I expect that we will be announcing. The backlog overall, $10 plus billion, $7 billion of that is sitting in the sale of gas side, which is where most of the interest is. And my expectation is that this year, probably towards the second half of the year, we will start up about $1 billion out of that backlog. The best thing to -- that happens in our backlog, as I've always said, is you start the projects up and it comes out of your backlog, and your backlog shrinks.

Now, the good news is, I fully expect that we will end the year with a backlog with a seven-handle on it. In fact, I expect it will be slightly higher than what we have today. So I feel pretty good about the projects that we're currently developing. Despite everything you read in the news, we have a good pipeline of projects. I think Matt made the point really eloquently earlier on. Our algorithm says that our capital allocation will deliver 4% to 6% of the EPS growth and feeding into that is high-quality projects, and much of those projects will come from our traditional end markets.

There will be some from clean energy, but much of the project development will actually come and the project wins will come from our traditional end market. So that's kind of what gives us confidence that the backlog is going to look pretty good and the project win rate is looking particularly strong at this point in time, given the circumstances in which we are operating.

Peter Clark
Thank you.

Operator
And your next question comes from the line of Laurent Favre with BNP Paribas. Your line is open.

Laurent Favre
Hi, good morning. Actually, you just kind of said what I had in mind, which was away from Dow, have you seen any risk around delays or slowdowns on what is currently in the backlog? So start-ups that were due in Q2 that may be delayed to H2 for instance, or indeed lower to platform customers. But Sanjiv, as you just said that you were quite confident to sign those projects, can you talk about the areas where you see the biggest commitment either geographically or in terms of end markets?

Sanjiv Lamba
Yeah. And why not do two things, I'll just talk about how I'm seeing the markets for the rest of the year more broadly, and then we talk about some of the investment trends that we're seeing as well. And you know, Matt mentioned earlier on that from a guidance point of view, and you've seen this as well in the slides, we are considering recessionary conditions now at the midpoint.

And as I look around, when you think about end markets, the resilient end markets are still going to grow. That's led by electronics, food and beverage, et cetera, low-to-mid single-digit. It's the more cyclical markets of the industrial sector, which is likely to see lower volumes towards the rest of the year, mainly in metals and chemicals. So that's kind of a way of thinking about it from an end market perspective.

As you look at geographically, we expect volumes in Americas to remain flattish for the year. That's kind of built into how we are thinking about the guidance. The resilient end markets obviously will continue to find their growth, but they will be more than offset by softer industrial sector, not dissimilar to what we saw last year. So I think we'll kind of see that trend maintained. Americas flattish is how you should think about it.

Europe, you know, there is -- unfortunately, as we said before, no catalyst for change to the current trajectory. So we see continued softening in demand, mainly in Western Europe. Again, resilient end markets will continue to grow, but I expect that more than offsets-- that is more than offset by the industrial sector, metals, manufacturing, chemicals, energy, all of them will see lower volumes versus prior year. So that's where I think most of the weakness will lie.

In Asia, China is a mixed bag. I said that in my prepared remarks. I think as we look ahead, I'm not expecting any growth from China for the year. There are some green shoots, batteries, electronics. They are areas where you are seeing some growth, but metals and chemicals will continue to be weaker for the rest of the year. I also expect in Q2, in particular, the export-driven markets, manufacturing in particular, we'll see continued softening given the tariff headwinds and the uncertainty that kind of lies around that.

The bright spark in Asia Pacific is India, and we obviously see continuing trend of investments and volume growth over there, and we are obviously, as you know, well-positioned to participate in that. South Korea, I mentioned the project that we've just won, which hopefully gives you a sense of how South Korea growth will look, some growth this year, but obviously, a lot of project activity continuing over there, which looks good. So if I summarize, from an outlook perspective, which is then reflected back into our guidance, Americas flattish, APAC largely balanced despite the headwinds in China and Europe or EMEA really where you'll see weakening volumes kind of reflecting in that outlook that we presented. Now, against this backdrop, as we think about CapEx, it is the secular growth opportunities that are particularly driving the CapEx growth for us.

So electronics will play a big part in that. But alongside that, there are wins happening geographically in Asia, in particular, which are more metals, chemicals. These are smaller wins, but notwithstanding, they kind of add to the overall portfolio wins we're looking at. So, we will see some clean-energy projects, but we are going to see a lot of electronics projects. We're going to see some metals, we're going to see some refining, even some chemicals projects come through in other parts of the world. And I think that's what will kind of create the balance to get us to that backlog that I referenced earlier on.

Laurent Favre
Thank you.

Operator
And your next question comes from the line of Jeff Zekauskas with J.P. Morgan. Your line is open.

Jeff Zekauskas
Thanks very much. I have a couple of questions around your income statement. In 2024, your other income was $200 million, was sort of a positive change of about $234 million. And normally that number is pretty low. What's your expectation for 2025? And secondly, in the -- your SG&A expense, I think it was down 9% from 860 to 786, how did you do that? And is there something unusual in that number?

And if your SG&A was flat, roughly your operating profits would have been flat in the quarter. So can you talk about the different pressures that your income statement seems to be under? And how you're coping with that? Is your SG&A going to be down 9% for the year or was the first quarter unusual?

Sanjiv Lamba
Jeff, I'm going to let Matt, who is looking forward to responding to you on these questions, respond back. But I'm just going to touch on SG&A and tell you this very briefly. It takes a lot of hard work and management actions. And as you know, last year in the third quarter, we took the restructuring charge. That's all being executed as we speak, and that obviously is reflected in the SG&A line in addition to the fact that we have lower incentive compensation that's sitting in there as well, which obviously gets normalized over time. But I'm sure Matt will have a far more elegant response to that. Matt?

Matt White
Hey, Jeff. So let's start with other income. You know, first, what's in it, right? It probably is a good way to start. And other income for us, what we put there is either large items extraordinary, either gain or loss that we feel are operating-related obviously, but either are large enough we carve out, or it could be based on a prior timing. So last year, about a quarter of that number you may recall was a large insurance claim that we had.

We actually spiked that out in Q1. In fact, when you look at the Q1 year-over-year, you see a fairly large drop in other income going from almost around $60 million to $20 million. So, that actually was a large insurance. Now, clearly, we had losses prior to that and going forward on that because it included a BI element. So to some extent, you have a little bit of a timing mismatch because of the claim you got in insurance against the backdrop of some ongoing BI impact from that incident that occurred.

And that was actually in the other segment, you may recall, on our materials business. Outside of that, there are going to be some gains and losses on certain sales, but we also did have some other offsetting items, actually above other income that we had talked about in the past as well. Now, we don't give a projection on that number, but I fully don't expect 2025 to be near that level. In fact, you already saw in the first quarter, as I mentioned, we're already down $40 million.

So, I think 2025 will be more representative of '23 or prior years as -- whereas we didn't have such a large insurance benefit or some of the other items that occurred in '24. As far as SG&A, we'll start with -- about a quarter of that's currency, okay? So obviously, we talk about the FX hurt on OP, but in SG&A, we equally have costs that are foreign-denominated, so you get that benefit. But even outside of the FX, we did take a restructuring charge in Q4, as you know, we need to see the benefits of that.

And those benefits primarily manifest themselves in lower headcount and lower SG&A spend. So, there is the benefits, the productivity associated with that. Right now, my expectation is the actions we've taken for the most part have offset any normal growth in merit or SG&A. But on top of that, we did have a fairly sizable year-on-year reduction of incentive comp. We are a pay-for-performance culture and we're not performing. We understand that. We're not meeting our targets and therefore, the incentive comp is lower.

So, I expect it could remain lower for the remainder of the year. It will probably be a little lumpier because it's a function of the projections in the forecast of the payout ratios. But I fully expect lower compensation payout this year than prior year, and that will be reflected in the accruals because our shareholders also are suffering through this. So we need to as well.

Jeff Zekauskas
Okay, great. Thank you very much.

Operator
And your next question comes from the line of Steve Byrne with Bank of America. Your line is open.

Steve Byrne
Yes, thank you. Matt, you mentioned a few minutes ago that you attributed productivity and pricing as the drivers of that 120 basis-point operating margin improvement year-over-year that more than offset lower volumes and a little bit of the cost increase, pardon me. And my question for you is, can you size those two buckets, the productivity and pricing? How would you size those two to drive that margin expansion? And maybe more specifically on productivity, what all are you doing these days on driving that? Historically, a headcount reduction was a big lever for you guys, but moving forward, do you still see that as a meaningful opportunity, and any changes in your approach in achieving that productivity gain?

Matt White
Yeah, sure, Steve. So, start with how to size it. So I think an easy way to think about this is going back to the earnings algorithm. And as you recall, we give three pillars. Capital allocation, which we say is about 4% to 6% management actions, which is at least another 4% to 6%, if not more and then the macro, which is base volumes and FX. Management actions represents price less cost and the productivity. We always think about that as a spread. So you -- each one in an individual is not as important as the spread.

So, while price is important and while cost is important, the spread between the two is the most important. So, as long as you achieve positive spreads in all of your geographies, that will be 100% contribution towards margins. It is purely margin accretive in that regard. And the management actions over our prior two to three decades of EPS growth has consistently contributed probably close to two-thirds of our EPS growth in the algorithm.

And so when you think about more than half of your growth coming from that area, that by default will result in a margin accretion aspect. Now, I will say in tougher times and arguably, we're in a little bit of a tougher time right now, you're going to see larger margin expansion because the management actions as a percentage of the whole algorithm is greater. And then when you see recovery times that I mentioned 2021 where we grew EPS 30%, when you see recovery times, then the margin may not expand as much as you normally would see it because macro becomes a much bigger driver.

You will get -- we'll get a margin expansion just not at the same level you might with a management action. So, I think from that and that's how we think about it. And as far as productivity initiatives, clearly, you're going to have technology advancements will always give us opportunities, AI being the current version, but there's always going to be developments that give us opportunity to do more. And I would never underestimate that as the world changes, new opportunities create themselves. When you see even areas where you might have some slowdowns, we will look at new ways of how we do our distributions, how we source our product. It's always a discussion of fixed versus variable cost and what's the appropriate way to address a market for the time we see it operating at a certain capacity.

And by doing that, we can find synergies by increasing or decreasing the operating leverage of the business by either extending more variable costs or by reducing variable go in fixed costs for greater recovery. So, it is always a continuous effort. It's always evolving. There's never an end game. That's why we never name our programs. It's integrated with the culture. And so from that end, it's not one silver bullet. If there was, then I probably wouldn't believe it. It's a lot of things.

Sanjiv Lamba
And to that point, Steve, let me just give you a bit of color. There is no one silver bullet and we are grateful for that because we want every part of our business engaged in productivity effort every day. Last year, we did 15,515 projects. This year in the first quarter, we've done more than 4,000 projects, more than 4,000 projects. It takes every part of the organization to look at the opportunity every day and make sure that that gets happened, not only does it get executed, it's actually then recorded and the learnings are then cascaded to the rest of the world.

I'll give you a couple of quick examples just to illustrate how practically we're looking at productivity. So obviously, ASU operations are very power-intensive as you know. We are one of the largest purchasers of power globally. Optimizing that even by a small percentage has a big impact, so we have a power optimizer model that is currently using AI to optimize the way we operate our plants depending on the level of the customers' demand on the tank levels that we have, the tank level our liquid customers have, and the power pricing that's going to happen from a predictive point of view.

There is a good example of something which we've perfected over many years, now being kind of having its biggest impact because we're able to do it real time using an AI model. Two other quick examples. The other one would be distribution. One of the things that we are doing is deploying telemetry so that we understand exactly the tank levels that exist within our customers' tankage and our ability to then distribute and schedule that distribution load in a way that further optimizes and creates efficiency on the use of the asset as well as ensures that we are getting to the point where the customers are at a load level that we think is appropriate for us to refill.

So again, a lot of sophisticated machine learning model sitting behind that, which track the telemetry, track the usage the customer typically has, and based on that do predictive scheduling. Those are two examples. I mean, we have 105 use cases on AI models that we are deploying as we speak. So there is a lot of opportunity around this. I'm excited about a third -- well, about 30%, 31%, 32% of our -- all our productivity efforts come out of digital and AI solutions.

Steve Byrne
Very good. Thank you.

Operator
And your next question comes from the line of Mike Sison with Wells Fargo. Your line is open.

Michael Sison
Hey, good morning. Just a quick follow-up on your 2025 outlook. When you think about sort of economic contraction, your volumes were down 1% in Q1, does it -- should it stay around that level or does it get a little bit worse as the year unfolds? And then longer-term, Sanjiv, it's been pretty unusual downturn for industrial demand. What do you think -- what are you looking for to maybe see a green shoot or so longer-term?

Sanjiv Lamba
So Matt, why don't you talk about the 2025 outlook in terms of the guidance that we provided?

Matt White
Yeah. I think, Mike, I'd say to start with not much different than how we normally approach it. So, when you think about every 1% of base volume assumption, roughly a 2% EPS impact, give or take, maybe 1.5%, depends on the margin profile of the business. And so within that context, we still feel very confident around the backlog contribution, so that 1% we have will continue throughout the year positive. And then it's really just a function of the base assumption. And so we put a placeholder in there today, 2% negative EPS contraction, which represent about 1% to 1.5% top-line negative base volume, and we'll see.

I mean, what I want to reiterate, consistent with prior times, this is not our economic call per se. It's just the placeholder taking kind of the current situation and extrapolating it out. We're going to take actions to mitigate. We're going to take actions to work around it, and time will tell what actually happens. So that's really how we did it. I'd say nothing really different than that. Sanjiv?

Sanjiv Lamba
Thanks, Matt. So on the industrial long-term development, Mike, it's difficult to predict next week, so you're asking me to look a lot longer than that. I'll tell you a different way to think about the industrial growth as we go forward. Obviously, we've talked about industrial recession for some time now and your comments kind of illustrate that. As you think about the long-term trends, I'd say to you, you need to be looking at maybe three or four different elements that are going to drive that.

The first, secular growth. We've said before, things like -- end markets like electronics, given AI, data center growth, there is a direct correlation to what you'll see around semiconductor growth underpinning the electronics end market that we have, and I think you should expect to see that growth continue. In fact, I said earlier on today in my comments on the backlog that I expect that we will continue to see that reflecting the recent win with Samsung, but hopefully others as well as we move forward.

So there'll be secular growth drivers like that that will continue to be an exciting part of the kind of growth algorithm underpinning any industrial recovery that we see longer term. The other piece that I think is worth mentioning is, there are high growth markets around the world where we have obviously a very strong footprint, being in 81 countries is an advantage in the sense that we are well-positioned in a market that we expect to see either as a result of some of the arbitrage coming out of the tariff developments or as a result of just locally driven consumption driving growth in markets.

So markets like India, which we've kind of mentioned a couple of times a bright spot as far as growth is concerned. Obviously, we still expect Mexico, Indonesia, and other markets like that to continue to have a growth trajectory that will hopefully help the overall industrial recovery piece. Last but not least is new growth markets. These are nascent. You

don't hear us talk too much about it, but examples of aerospace where we are seeing significant growth and expect to see continued growth in that sector, I think, is an area that will continue to gain in size and scale, and as it does, it will actually support the elements of growth that we talk about longer-term.

Longer-term, I'll also say to you that, you know, quantum computing is another trend that we expect will have an opportunity, will kind of -- it does need to mature. It is still nascent technology, but as it matures and scales up, the fact that quantum computing requires cryogenic cooling is an exciting opportunity from a Linde perspective. We have some great proprietary technology around that and we're excited to see what happens in that space. Even today, we are providing some cryogenic cooling technologies even for the pilots that are happening around the world.

So I see that as another example of a new growth market that we'll continue to pursue. Those will really drive that industrial recovery, obviously, underpinned by a recovery in the normal cyclical cycle that you'll see for most industries that will obviously come back. That's always been the case and we fully expect that. Obviously, a bit of stability around trade rules and so on and so forth, will kind of accelerate that recovery as it happens.

Michael Sison
Thank you.

Operator
And your next question comes from the line of Patrick Cunningham with Citigroup. Your line is open.

Patrick Cunningham
Hi. Good morning. You know, Healthcare starting to trend positively, positive growth year-on-year, how much portfolio rationalization is left to go there and when do you expect to return to the long-term growth rate? And a related follow-up, well, it's not currently the top of the list for the administration, would you see deregulation in US healthcare as an opportunity or perhaps a threat to Lincare?

Sanjiv Lamba
So, as you know, we've -- let's talk about healthcare broadly and I'll break it up into two parts. Obviously, we have a very strong hospital care business that has got a steady growth rate, continues to be in low-to-mid single digits, and we see that across the world, and obviously, post-COVID, there has been a greater appreciation of the need for setting up the infrastructure. And -- so therefore, some of the -- even on the equipment side, we see some potential continuing to help with that infrastructure build out. So I expect to see that growth continue to be stable, steady, and continue going forward.

The Home Care business obviously in the US attracts a lot of attention, and we have been trimming that portfolio as you're aware, and we are leveraging technology today to try and make sure that business becomes more efficient, reduces the amount of paper that is there, digitizing a lot of processes, et cetera. That's where I think the thrust of our effort in Lincare continues to be. It's a book -- it's a business that has to be focused on improving service levels and making sure that we are working on productivity every day.

And as part of that, we will continue to look at that portfolio and whatever we need to do, we continue to do. This isn't a one-off exercise. We look at our portfolio all the time across all our businesses, and the Home Care business is no different to that.

Operator
And your next question comes from the line of John McNulty with BMO Capital Markets. Your line is open.

John McNulty
Yeah. Good morning. Thanks for taking my question. So the US has seen some onshoring already. You guys have been a decent beneficiary on like the electronics front and semiconductor side, with -- while the tariff situation doesn't seem quite settled at this point yet, if the US continues this kind of protectionist mode, do you see other opportunities in some of your other businesses where you might see outsized growth, whether it's tied to -- there's some expectations for maybe aluminum and steel picking-up in the US relative to other regions, that kind of thing. I guess, can you help us to think about maybe some of the good guys around some of the tariff discussion versus all the bad guys we've been hearing about for the past few weeks?

Sanjiv Lamba
So John, I think the tariff discussion sometimes becomes one-sided where people are only looking at the risks around that. I think to your point, and as the tariffs play out and as they stabilize, people will make decisions around reshoring, onshoring back again. And I think that's where you will see some movement. I will tell you in the short term, there isn't any development today that I can point to other than electronics where that has a substantive impact.

But do we hear conversations and are we being reached -- are people reaching out to us and having conversations around the potential of setting up new capacities in the US? Yes, we certainly are seeing some of that happen. So my expectation remains that as the conversations around tariff stabilizes, we will see more growth. I mean, the administration describes it as an industrial resurgence in the US.

Even if that happens in part, it will still be a very attractive opportunity for us, just given our density across the US and our presence, we feel really good about the fact that as and when that onshoring reshoring process takes off, we will be well-positioned to participate in that and see some growth in that. I'm not going to speculate on the sectors or end-markets where we're going to see most of that, but clearly, electronics already in play, as you know, we won and built the Phoenix -- supply to the Phoenix fab for TSMC.

We are building at Taylor, Texas for Samsung. We're also building with other -- for other players in the US, so we certainly see that growth potential on the electronics side. For the others, whether it's aluminum, steel, batteries, and so on and so forth, I think there'll be a -- there'll be a number of end-markets that the potential for onshoring will look attractive. But we'll have to wait and see how that develops.

John McNulty
Great. Thanks very much for the color.

Operator
And your next question comes from the line of John Roberts with Mizuho. Your line is open.

John Roberts
Thank you and nice results. If general inflation picks up, do you think your pricing would accelerate or because of the weak macroeconomic backdrop here, we might get a disconnect between inflation and your pricing?

Sanjiv Lamba
Inflation is -- we are in an inflation place, you've heard us say before, we like inflation, it allows us to move the pricing forward. And absolutely, as you know, we've said many times in the past, a good proxy for our pricing is globally weighted CPI. So as it picks up, there is an opportunity for us to continue to price that. There is no divergence to that model. We've done that over 25 years. We expect to continue to do that.

John Roberts
Thank you.

Operator
Your next question comes from the line of Kevin McCarthy with Vertical Research Partners. Your line is open.

Kevin McCarthy
Yes. Thank you and good morning. Sanjiv, from my perspective, Linde has had a very accurate and appropriately cautious view of China in recent years. So I'd be very interested to hear your updated thoughts on the near term, what you're seeing and hearing from your customers in April and May across end-markets. And then in terms of, let's say, medium-term planning for China, how much runway do you see on productivity in that country specifically trying to counterbalance macro risk versus cost help in your algorithm within China?

Sanjiv Lamba
So Kevin, given where we are today, it's probably easier to speak about the medium term than the near term, but I'm going to address both. I'm going to address both. Now let's start with the medium term to begin with. And I've said this a couple of times. I think it's worth repeating it. The days of 8%, -- 7%, 8%, 10% growth in China are long gone. And we are looking -- our medium-term view of China growth is, it will be moderated to low-single digit from an IP perspective.

I'm not going to comment on GDP. IP is where we follow, low -- maybe low-to-medium single-digit is the best we will expect to see out of China medium term in terms of growth. Our efforts in China over the last couple of years now, as you would normally expect, we will front-run these efforts. We saw the development in China a couple of years ago and said, we are treating Chinese business -- our Chinese business as a mature business and therefore, we expect them to take all the actions we would expect from a mature geography anywhere else in the world, which means pricing, productivity, automation, offshoring, non-value-added activities and so on and so forth.

And I think we -- I still see a fair amount of productivity opportunities sitting in the Chinese business, also given that they are leading in many ways around the AI piece that we are actually seeing the AI-led use cases for China being quite attractive. I think we gave an example and Juan may have shown this video at one stage where we are rolling out our smart plant operations where we're using drones and robots to actually do a lot of the normal work that we would do on an air separation unit, doing readings, looking at pressure gauges, looking at temperature gauges and making sure that information is filtered into an AI program that then provides alerts and allows human intervention to take place.

Obviously, that then results in being more productive at that particular site. In a couple of provinces in China, we've been able to get approval to reduce the amount of manning on the site as a result of that. So there is an example for you of a program that we are now rolling out the entire business in China, which will cover a large number of plants for us, giving us benefits coming out of productivity.

So, expect strong productivity benefit from China to continue, and that's kind of where that business stands. On the near term, let me just -- I'm just back from China about four weeks ago. I'm headed there in two weeks' time and that's largely spending time with our customers, speaking to my CEO counterparts to understand how they are looking at the market. Now, I'll give you a quick view on how -- I'm just going to give you Q2 as an example to what we're seeing in terms of outlook, which will, I think, hold for most of the year.

So steel was very weak. Metals generally and steel specifically was weak in the first quarter. We expect a mild recovery over there because there were a couple of turnarounds that happened in steel, but broadly, steel for the year will continue to be lower than previous year. I think the metals market are reflective of the general industrial lower or declining industrial activity set. As far as chemicals are concerned, we are also expecting chemicals to continue to be a little bit softer, and I think that trend is likely to hold for the rest of the year as well and in fact, probably beyond that.

So there's nothing to suggest in either of those end markets, you will see anything different. The areas of growth, the green shoots are around battery and EV development. You read about it in the press, I visited the BYD facilities four weeks ago, spent time with their Chairman, spoke about their vision and they have a fairly significant plan in terms of continuing to grow that base that they've built up on EVs.

About 40% of all EVs in China, 40% of all cars in China are today EVs, and the expectation is that number will continue to grow. So there's an example of some development of green shoots around EVs and batteries. The other piece I think that I think is also growing at a reasonably fast pace is electronics. The government has a stated intent of becoming more self-reliant, and it is ensuring that there is incentive available for electronics companies to continue to expand and grow.

Obviously, they don't go to the advanced modes that you see with TSMC or Samsung or others, but nonetheless, in just in terms of the amount of chips being manufactured in China today, that the expectation remains that you'll see a lot of growth there. The areas where I see the greatest stress in the near-term are going to the merchant and package business, which are really correlated directly to manufacturing, and the fact that we have punitive tariffs in place that are going to upend that manufacturing process over there.

You should expect weak demand. I think there will be industrial deflation that will likely to continue in that space. And really, I think there will be pressure at least in the second quarter, potentially a little bit beyond that as you think about that space around general manufacturing. That kind of, I think, is where things stand with China today. Do not expect -- and we have not built in, and we do not expect any recovery in China this year.

Kevin McCarthy
Very helpful. Thank you.

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

Josh Spector
Hi, good morning. Thanks for squeezing me in. Sanjiv, I wanted to follow up on one of your early comments in the prepared remarks. You talked about Europe and a more pragmatic decarbonization approach and leading to some encouraging conversations. So, I just want to see if you could translate to what that means for Linde. Where does that add opportunity for you, is that projects, is that demand or what does that mean? Thanks.

Sanjiv Lamba
Thanks. So I think the simple answer to that is, Europe has struggled with regulatory frameworks being led by ideology rather than pragmatism. And I think for the first time -- not for the first time, we worked hard at this over the last 18 months to get a general appreciation that low-carbon hydrogen has a very important role to play as people think about decarbonization in Europe, because that's the only way you're going to get a cost-competitive solution for decarbonization of large industries which have substantive CO2 or greenhouse gas emissions.

And I think that's probably where my commentary earlier on in my prepared remarks was reflecting on growing conversations and potential for regulatory change that will accept carbon capture sequestration as an acceptable solution supporting low-carbon hydrogen growth. A specific example of that would be you're aware that we have signed a project development agreement with Equinor for the development of low-carbon hydrogen projects in Europe, and that would be a direct beneficiary if the regulatory framework was to move forward.

We still have to wait for that to happen, but we do see greater pragmatism and certainly an openness to understanding the benefits and understanding the science behind the conversations we're having. Obviously, in the US, low-carbon hydrogen or blue hydrogen has a significant potential because of the support coming from the government through the 45Q elements, but also because the natural gas pricing and availability underpins that growth.

Operator
And I would now like to turn the call back to Mr. Juan Pelaez for closing remarks.

Juan Pelaez
Thank you, everyone, for attending today's call. I wish you all a good day.

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