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

Operator

Good day and thank you for standing by. Welcome to the Linde Second Quarter 2024 Earnings Teleconference and Webcast. At this time, all participants are in a listen-only mode. Please be advised that today's conference is being recorded. And after the speakers' presentation, there will be a question-and-answer session.

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

Juan Pelaez

Adam, thank you. Good morning, everyone, and thanks for attending our 2024 second 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 available on our website at linde.com in the Investors section. Please read the forward-looking statement disclosure on Page 2 of the slides and note that it applies to all statements made during this teleconference. The reconciliations of the adjusted members are in the appendix to this presentation. Sanjiv will provide some opening remarks, and then Matt will give an update on Linde's second quarter financial performance and outlook, after which we will wrap up with Q&A.

Let me now turn the call over to Sanjiv.

Sanjiv Lamba

Thanks, Juan, and a very good morning, everyone.

Linde employees once again delivered high-quality growth, despite the stagnant trends of global industrial activity. Second quarter EPS of $3.85, operating margins of 29.3%, and return on capital of 25.7%, all reached new highs, driven by the unwavering efforts of our 66,000 employees who actively manage what we can control. Turning to volume trends, you'll notice we were flat year-on-year. Last quarter, we described potential challenges in the industrial macro, and for the most part, it has played out as expected. This is why we initiated the self-help actions, which enable us to create shareholder value in any environment. That being said, the current quarter experienced a 3% sequential volume growth. And while some of this relates to seasonality, certain regions had organic volume improvements.

While this is a positive sign, we're still not assuming any meaningful economic recovery in the guidance. Some may view this as overly cautious, but given the uncertain environment, I believe it's prudent to take this approach. As you know, when industrial activity recovers, our network density will enable us to supply that additional volume to our existing and new customers. Until then, we will continue with disciplined pricing and proactive actions to ensure earnings growth in this environment. Slide 3 provides more color on end market growth trends, starting with

consumer-related end markets. Food and beverage continued the strong resilient growth trend at 8% over prior year, in part attributed to Linde's total systems approach.

This includes growing demand for higher-quality and more innovative frozen foods, food packaging safety, and dry ice for meal delivery services as consumers opt for convenience meals. In addition, beverage carbonation and associated services continue to grow as consumers dine out. Our electronic sales represent 9% of our consolidated sales, but there's a substantial portion of our 50% non-consolidated JVs that supply this end market and are not included in this number, primarily in Taiwan. The 7% growth sequentially and year-over-year was driven by a combination of project backlog startups and base growth in the U.S. and Asia.

In the U.S., we started up a Phase 1 supply system in Phoenix, Arizona for TSMC. Due to this, more than half of this project CapEx has now been removed from the backlog, driving the slight net decline versus prior quarter. I've always said that a healthy project backlog is one that turns over frequently with projects starting on time, contributing to earnings as per contract. In addition, base volumes improved moderately in the U.S., China, and Korea. As you know from the last quarter, we signaled this was possible. So, I'm encouraged to see volumes -- volume levels starting to recover now. Healthcare is down 1% from prior year and flat sequentially.

Consistent with last quarter, this is primarily due to our efforts to continue rationalizing homecare products and service offerings that don't meet the business criteria, especially in the United States. We still anticipate the underlying demographic trends to drive mid-single-digit percent growth, but some of the ongoing portfolio pruning will partially offset that. Turning now to the industrial end markets. Chemicals and energy grew 5% from North American activity, primarily in the U.S. Gulf Coast, hydrogen, as well as Mexican energy services. We supply some of the most cost competitive customers in the world, and their higher production rates reflect their share of the global market.

Looking forward, this end market will likely be the largest beneficiary of the project backlog, especially around clean energy projects. While OCI represents just one example, there are several more that comprise the $8 billion to $10 billion of near-term pipeline opportunities, which we're pursuing and making good progress. Metals and mining is slightly down year-over-year, mainly from North American steel volumes, which have decreased, primarily serving the automotive and construction markets. This is a normal cycle we've seen over the years, not unexpected. Although there could be some future growth opportunities as more infrastructure and energy projects break ground.

Finally, the manufacturing end market is trending up 4%, primarily on pricing actions as volumes are fairly steady across most geographies. Aside from some specific manufacturing sectors, like aerospace or battery production, this end market mostly coincides with global industrial production, which remains flat. Overall, Linde employees continue to do what they do best, manage an industrial gas business with leading results that create value for our shareholders, regardless of the economic climate. Despite the challenging conditions, Linde delivered high-quality growth, executed on $8 billion project backlog, and further positioned the company for future growth. I remain confident in Linde's ability to successfully navigate the near-term uncertainty while ensuring longer-term leading performance that our owners expect.

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

Matt White

Thanks, Sanjiv.

Slide 4 provides consolidated results for the second quarter. Sales of $8.3 billion were up 1% from last year and 2% sequentially. Foreign currency and cost pass-through both continue to present headwinds at minus 3% year-over-year and minus 2% from the first quarter. As a reminder, contractual cost pass-through is simply the energy cost variance we bill to on-site customers and thus has no impact to operating profit dollars. Furthermore, FX translation likely will remain a headwind as the U.S. dollar continues to strengthen against the majority of foreign currencies.

Excluding these items, organic sales are up 3% over last year and 4% sequentially. Pricing trends continue to follow globally weighted inflation, with the strongest contribution from Americas and EMEA. APAC levels are more stable as lower helium prices mostly offset increases from the remaining countries, with no contribution from China due to deflationary conditions. Volume was flat from 2023 as growth from the project backlog was offset by weaker base volumes.

As Sanjiv mentioned, we did experience a sequential volume improvement of 3% from a combination of project startups, organic growth, and seasonality. Time will tell if the organic growth trend persists. But for now, we are excluding any further improvement in the earnings guidance. Operating profit of $2.4 billion grew 6%, resulting in an operating margin of 29.3%. All gas segments expanded margins year-over-year and sequentially, with EMEA leading at 33.7%. As we've stated many times, each segment has opportunities to improve margins and there are no structural reasons why laggards cannot converge to the current leader over time.

EPS of $3.85 increased 8% or 10% when excluding the 2% FX headwind. Further details of cash flow and capital allocation can be found on Slide 5. You can see the operating cash flow trend to the left, including this quarter's $1.9 billion, which is 10% below last year. The primary driver relates to unfavorable timing of our engineering project prepayments. When you look at the face of the cash flow statement, you can see that contract assets and liabilities, which represents these project prepayments, are unfavorable more than $300 million.

This quarter-to-quarter volatility is a normal part of the engineering project cycle. Aside from the engineering projects, we are seeing more seasonal effects on interest and tax payments. We have significantly more euro bond cash payments, which are once per year, as well as cash tax payments in the first half of the year. This will result in more back-end loaded operating cash flow, similar to last year. Overall, I remain quite confident on cash generation of the gas business, but I do expect continued volatility regarding timing of customer prepayments for engineering projects.

As far as capital allocation, year-to-date, we returned $3.8 billion to shareholders and invested $2.3 billion into the business. Regardless of the economic climate, we'll continue to adhere to our time-tested capital policy of an underlying mandate to maintain a single A credit rating while raising the dividend every year, a priority to invest back into the business, subject to our long-term investment criteria, and a commitment to sweep remaining funds towards stock repurchases.

I'll wrap up with guidance on Slide 6. For the third corner, we're providing an EPS guidance range of $3.82 to $3.92 or 6% to 9% growth when excluding a 1% FX headwind. Consistent with prior quarters, this assumes no economic improvement at the midpoint. The updated full year range is now $15.40 to $15.60 or 9% to 11% growth when excluding a 1% FX headwind. For the full year, we simply raised the prior guidance range by $0.10 on the bottom end while leaving the top end as is.

Consistent with statements last quarter, we have not seen enough encouraging signs to be bullish on the second half economic activity. So, we are essentially leaving the guide intact while raising the bottom-end for our recent Q2 performance. Rest assured, if the economy does better, we'll capture that incremental benefit. And if it does worse, we will take actions to mitigate the impact to earnings.

Here at Linde, we have a culture to plan for the worst but hope for the best. Employees around the world have been taking proactive measures to ensure we can deliver on our commitments, regardless of the economy. This disciplined operating rhythm, coupled with our relentless focus to create shareholder value, gives us confidence to once again weather the uncertainty and maintain industry-leading results.

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

Question-And-Answer Session

Operator

Thank you. (Operator Instructions) Our first question comes from the line of Mike Leithead at Barclays. Your line is open.

Michael Leithead

Great. Thanks. Good morning, guys. Big picture question. When we look at your results and your peers, it doesn't seem like there's much industrial gas demand out there right now. And Linde has done a great job in the past, say, few years of continuing to grow earnings double-digits, despite that, in large part, some of the self-help actions that you've taken. I guess if we're stuck in this no growth environment for a bit here near-term and we're already at a pretty efficient baseline, can you just talk through your confidence and how you expect to continue driving 10% plus earnings growth just in this macro backdrop?

Sanjiv Lamba

Thanks, Mike. You're right. I think the macro isn't really very supportive at this point in time. What I'd like to suggest is, you go back maybe four, five quarters now, we've seen the macro environment reflect that. In fact, over that period, we've seen what I'd call industrial recession. While people debate around what the GDP does or doesn't, we are very focused on what the industrial production index is doing. And we've seen industrial recession over that period, and we've managed right through that to not only deliver that EPS growth that you just referenced, but also consistently ensure that our organization is ready to take the actions ahead of the curve in most cases as we see these indices. One of the good things we have is our ability to see across different end markets and geographies and to take action quickly.

So, I think that in part is the reason we are where we are today, delivering on that EPS growth consistently over an extended period of time. My view is that is exactly the MO that you would expect from us going forward as well. It's something that we have understood well. We have a good -- it's a muscle that we know how to flex well, and I think you'll see that play out. I'll take you right to the EPS algorithm that we've spoken about a lot in the past, Mike, and I think that's what gives us confidence that we will be able to continue to provide that 10% plus EPS growth through most economic environments, if not all. So, I'll recap that for you. There are four contributors to how we get to that 10% plus EPS growth.

The first, backlog. That backlog and the startups that are happening, and you know we've been consistent in starting up the backlog, those startups contribute anywhere between 1% to 2% of our EPS growth. Backlog is trending up, and I expect to see that 1% to 2% contribution to trend up alongside that. The next factor is what we are -- what we practice every day. This is pricing and productivity. We've explained this in a lot of detail to you guys. I won't kind of recap all of it, but to say that we expect about more than half of that EPS growth to come from proactive management actions related to pricing and productivity. So, about 4% to 6% of that EPS growth comes and contributed from pricing and productivity.

Next, volume. Now obviously at this point in time, you've heard us say that our guidance has zero volume assumed at the midpoint. So, if there is a volume uptick, even a little bit of a tailwind on industrial activity, obviously we will pick that up and there's a multiplier effect that you've seen. We've demonstrated that in 2021. We constantly remind people that even with a little bit of a rebound on the industrial side, we were able to deliver 30% EPS growth in that year. But in the absence of that, our algorithm still suggest with zero contributions, we will continue to deliver that 10% plus EPS growth. And last but not least, we have a lot of cash that we generate.

So, this cash after investing in the business is swept into share buybacks, and they contribute about 2% of that EPS growth. Put that together, that 10% plus EPS growth, I can say with a high degree of confidence, is where we stand in terms of our business for this year and going forward.

Michael Leithead

Great. Thank you.

Operator

Our next question is from David Begleiter at Deutsche Bank. Your line is open.

David Begleiter

Thank you. Good morning. Sanjiv and Matt, the sequential volume growth of 3% in the quarter was positive. The volume comparison in Q3 is not hard, maybe even easy at minus 2%. So, why wouldn't we see volume growth for Linde in Q3 year-over-year?

Matt White

Hey, David. It's Matt. I think, to your exact point, we absolutely see the comps getting easier in the back half. So, on a year-over-year basis, you might see neutral to positive just because the prior year comp is a little easier. But our view of no macro improvement that we're laying out is more on a sequential basis. So, to your exact point, even if you see little to no macro improvement sequentially, it still could result in potentially neutral to positive year-on-year just because of the comps that you're up against. So, the comps do get easier in the back half. That's absolutely correct on a year-over-year basis. But we're taking our standard approach, which is on a forward-looking sequential basis, assume no economic pickup, and then we'll just need to manage to the reality of whatever happens, good or bad.

David Begleiter

And just one more question. The order intake was the lowest, I think, since Q2 2020 at $300 million. I know it's lumpy, but is bidding activity lower or less than it was 6 or 12 months ago?

Sanjiv Lamba

David, our folks in engineering are very busy, and there is a lot of front-end work currently that is happening around studies, feeds, and so on and so forth. So, we're seeing activity at the front-end being very, very busy. What we aren't seeing at the moment, and the delay tends to be moving from that front-end activity, which is whether it's a feed or a study, to actually getting to FID. And we certainly see customers taking a little bit longer to getting to that FID piece. So, a lot of activity isn't translating just yet to FIDs. We've said this before in the last call as well, we are seeing people taking a little more time before they get to an FID decision on some of these large projects.

David Begleiter

Thank you.

Operator

Our next question is from Duffy Fischer with Goldman Sachs. Your line is open.

Duffy Fischer

Yes. Good morning, guys. Can we dig in a little bit on healthcare? Again, traditionally, you think about healthcare kind of growing year in and year out a little bit. How much pruning do you have left roughly? How much of the portfolio needs to go away? When do you think that's done? And then when you get to that mid-single-digits, what's the breakdown of that price versus volume? And can you recoup inflation in that business like you can in your other businesses?

Sanjiv Lamba

All right, Duffy. So, let me first explain what's happening in the pruning, then we'll talk a little bit about how the growth around healthcare happens. So, as far as pruning is concerned, we have been looking at that portfolio, we've been acting on it, you've heard us speak about it in the last quarter, those actions continue. My expectation is by the end of the year, you will see some of those actions getting lapped out. So, that's what you should be thinking about. Long-term -- mid to long-term, I'd say demographics will support that mid-single-digit expectation of healthcare growth.

We see that currently on par, and that demographics obviously drive both the hospital care, which is obviously a large part of our business, as well as the home care business, which is in some selected geographies where we operate. As far as inflation is concerned, this is a business that relies enormously on productivity actions. And therefore, we always find that inflation and productivity will have to go hand-in-hand for us to get the pricing that we need and keep that business at an attractive margin level.

Duffy Fischer

Great. Thank you, guys.

Operator

Our next question is from Peter Clark with Bernstein. Your line is open.

Peter Clark

Yes. Good morning, everyone. Two questions, but sort of one related, but it's on the ExxonMobil contract that Air Liquide announced. Obviously, one of the things that they're getting to the return hurdle is the big ramp in argon merchant, where they're claiming 50% increase in their merchant availability. I know it's not quite fit. I know it could be four years plus away, but what sort of impact could that have just in the market?

I know argon has been tight, but it's quite a slug of capacity that would come pretty quickly. And related to that, obviously part of that deal, they're allowing access to the pipelines. They've probably got capability to do that. I think you're probably sold out a bit more than them on your Gulf Coast pipelines. But is that something you would consider in some regions, access to pipeline for the right sort of contract? Those are the two questions. Thank you.

Sanjiv Lamba

Thank you, Peter. So, as you know, the U.S. market is one of our largest merchant markets. And therefore, there is current growth in demand. On the demand side, in fact, we are actually putting in some capacity as well. And we see the market remaining short on argon for an extended period of time. So, from my perspective, obviously what Air Liquide has done with their economics is something you need to ask them. But from our perspective, it's a stable market. There is growth in the market. The molecules get absorbed fairly quickly. Our view of the market continues to be fairly bullish. And I expect product as it comes on will get placed in the market at a reasonable pace.

As far as pipeline access is concerned, I'll just give you our view. I'm not going to try and comment on what the strategy or the view from Air Liquide might be. From our perspective, we have over a period of maybe three or four decades now developed a very significant pipeline network that underpins significantly the kind of business and growth that we've developed in the U.S. Gulf Coast. We see that pipeline network as being critical to continue to deliver growth through that very network in that very exciting part of the world where we see growth, particularly as it's driven in the future with low-carbon hydrogen developments as well.

So, for us, in many ways, our competitive advantage lies in the infrastructure that we've invested in and developed over three decades, and we want to fully leverage that infrastructure, as we did with the OCI project, to make sure that we continue to win and actually grow that business significantly. I remain very bullish on the opportunities I see in the U.S. Gulf Coast, and I see us developing and actually developing that infrastructure further, building further caverns, as an example, something that we are progressing with, and using that for future growth.

Peter Clark

Thank you. You didn't surprise me with your answers.

Sanjiv Lamba

That's good, Peter. Consistency is what we strive for.

Operator

Our next question comes from Vincent Andrews with Morgan Stanley. Your line is open.

Vincent Andrews

Thank you, and good morning. I don't ordinarily think of your business as being interest rate sensitive, but we have had an unprecedented increase in rates in a short period of time, and now it seems like we're pivoting to a decrease in rates. So, I'm wondering just what your thoughts are on if we assume rates come down over the balance this year and through next year. Will that change your macro outlook at all? And do you think it will change your customers' behavior in terms of their ability or desire to move forward in FID projects that they would work with you on?

Sanjiv Lamba

Vince, I'm going to let Matt talk to you about this. It's a topic he's very passionate about, and then I'll maybe add to that. Go ahead, Matt.

Matt White

Hey, Vince. Thanks, Sanjiv. Obviously, as you know, Vince, it's speculation at this point. Nobody knows for certain. But obviously, we have an opinion like everyone else. And to your point, I mean, my personal opinion on this is as interest rates rose rapidly, the area that was affected most were large durable goods, large capital deployments, so our customers that may enter into that area. Even when you think about something like the consumer, home loans, auto loans, those in some cases effectively doubled and changed the dynamic on that purchasing power of those more

durable goods, which tend to have more plastics and then more metals, more glass, cement, the kind of more industrial infrastructure you tend to see.

And therefore, I think this, in my opinion, was a driver of the very weak industrial production PMI numbers you've seen over the last 18 plus months, as Sanjiv mentioned. To some extent, in many countries in the world, we've been in an industrial recession. And I believe those customers that were affected by that were the more interest rate sensitive. I think on top of that, you add, I would argue, probably a little bit less government infrastructure spend than what you normally see because a lot of it was tied up more in various incentive packages that needed a lot of clarity. And so, that clarity --lack of clarity stretched these out. Conversely, the consumer was stronger throughout that time in non-interest sensitive areas of consumption, services.

But at least based on what I'm seeing now, it seems like that aspect of the consumer is starting to slow. So, in theory, what's possible? Maybe you start to see GDP contract, which then would actually define a real recession. And at that point, to your exact point, if interest rates decline, hopefully what that could do is thaw out some of the durables, some of the larger capital-intensive purchases, and start to help that environment, because what we're seeing today on some of these projects, the customers are committed, they want to do it, but the CapEx costs are high. And I think that's a function of the inflation, that's a function of the rates working their way through.

If that were to reverse, it could probably bring a little more stability and a little more reasonable pricing, which I think could cause some projects to finally clear the FID and sign the contract. So, it's speculative, right? Nobody knows for certain, but that's how I would at least view it at this state. And I would view it as positive with the lower rates to try and move some of these projects over the final signature hurdle.

Operator

Our next question comes from the line of Laurent Favreau with BNP Paribas. Your line is open.

Laurent Favreau

Thank you. Good morning, all. My question is around electronics. Sanjiv, you mentioned the TSMC startup, and I was thinking that we haven't seen any announcements of new projects in electronics in a while. So, I was wondering if you could talk about the opportunity from here for new projects and also if there's anything you can see or say on the incremental opportunity from AI and data centers. Thank you.

Sanjiv Lamba

Thanks, Laurent. So, both of those questions are excellent and something that we kind of referenced in the last call, just saying that, look, we were seeing a buildup of some early signals around the recovery in electronics. I'd say to you that we have seen that in the course of the quarter, but these are early signals. There is still more to happen in the course of the balance of this year. Let's talk a little bit about projects now. So, we started up Phase 1 of TSMC in Phoenix. We are very advanced in our built on the Samsung project in Taylor, Texas, and we're building a number of other plants, some for Intel around the world as well. We also see growth going back in terms of the Asian demand.

We're also seeing growth in the Asian demand starting to pick up and new projects getting announced there as well. So, over time, as these projects get signed up and contracted, as you know, we have a very high level of discipline around what we will announce, but you will see announcements reflecting a number of these investments that we would make as those contracts get signed up. I expect electronics will continue to see momentum in terms of new investments, new fab capacity. And to your point, this will be driven in part by large data requirements, also driven by AI requirements. I know AI have the hype, it shines off a little bit at the moment.

But the reality is AI will prove to be a tool that will be significantly, and in some cases, transformative for industries and markets. And you will see investment underpinning that coming through data centers, helped and supported then by chip production that happens out of the fabs. So, I still expect that that momentum will be there. I still expect the large majors -- large major semiconductor manufacturers to continue to make that investment. Obviously, there are some that are kind of seeing some short-term challenges, including some news today that you would have seen. But the long-term outlook remains very robust, and we continue to be very well positioned to win more than a fair share in that space.

Laurent Favreau

Thank you.

Operator

Our next question is from Steve Byrne with Bank of America. Your line is open.

Steve Byrne

Yes. Thank you. Matt, you mentioned in your remarks about the challenges in helium in your Asia-Pac business. Just curious whether that is stabilizing, or do you see further erosion in either pricing or volumes there? And perhaps it would -- more broadly, can you talk about your helium fundamentals in the other regions? Are they quite different from the impact from this Russian supply? And what exactly is the portion that is in your corporate segment? I assume that's some kind of export volume. Perhaps you can highlight what exactly is the driver there.

Matt White

Sure, Steve. I think on a couple of things, just for some baseline data. So, helium is low single-digit percent of our global sales, just to put in perspective the component that it makes up for us. Furthermore, to your point, helium is one of the very, very few molecules that is truly global pricing, supply-demand driven. As you know, the vast majority of our products price to inflation contractually, but helium is a difference as it is more supply-demand driven, given the nature of that molecule. So, with that as the backdrop, I think to your point, you are seeing different regional aspects of pricing with APAC seeing the most pressure from this Russian supply.

Now we have no participation in that Russian supply. We are not using Russian supply. We cancelled that contract per our allowance a couple of years ago. So, from that perspective, it is finding its way primarily into China. But as you can

imagine, APAC is a larger consumer of helium primarily because of the electronics sector. So, given the electronics sector in certain parts, especially like Korea, maybe a little slower, coupled with this Russian supply, it definitely created some pricing pressure. I would say now it is stabilizing, but it is something you still got to keep an eye on.

But the way we always think about this, and it has been true in this business going back decades, is you have to have a significant diversity of supply. You have to have all supply modes to move the molecules, and you have to have a very robust global business across all end markets. And when you have all those things, it gives you much more stability and a healthy business. And that always has been the case for us, and I expect it will always continue to be the case. As far as the helium component of the other segment, just to clarify what that is. So, given helium is more of a global business, we sell it intercompany to all of the gas segments since we operate it as a single global business.

So, the intercompany transfer pricing aspect is what we show in the other segment. So, that will just be at a cost-plus transfer price that is eliminated. And the actual majority of the helium profit will be represented in each of the gas segments. So, it tends to be somewhat stable with the one exception that as you see swings in the cost of helium, up or down, that will reflect more in the other segment. Whereas pricing dynamics tend to reflect more in the gas segments, the geographic gas segments for the end market pricing. So, that's how to think about that just as in terms of how we structured our segments.

Steve Byrne

Very helpful. Thank you.

Operator

Our next question comes from Mike Sison with Wells Fargo. Your line is open.

Michael Sison

Hey. Good morning, guys. Just curious, Sanjiv, if you think about the ISM and stuff, it didn't look really great the last couple of days. What if things get worse sequentially into the third and the fourth, how do you think your portfolio or strategy will change and how does that sort of change the maybe order backlogs and stuff? Thanks.

Sanjiv Lamba

All right, Mike. So, maybe I'll break that up into a couple of different conversations. Let's talk about the business itself. And I think you'll recall, Mike, we had a conversation a few quarters ago when we described the profile of our business as being defensive. And I think in that -- in doing that, we'd explain that a combination of factors ensures that we have the robustness and the resilience that sits in the business portfolio that we have. So, part of that, we said, was obviously our contracted on-site business as we've seen through some difficult -- the period of energy crisis in Europe, as an example, that that's held really well. Contracts have been honored. And I think that that defensiveness of that and the resilience has shown through in many ways.

So, that's one part of that defensive nature of our business. The other is the resilient end markets that we supply, which are not prone to manufacturing PMIs and so on and so forth being food and beverage. Again, you saw that 8% year-on-year growth in food and beverage, and I expect to see continued growth in that segment as well. In addition to that, healthcare, which we are now kind of sorting out some of the portfolio issues, but underlying healthcare, mid-single-digit growth expectations going forward. That resilience will continue to be there. Again, secular in many ways of what happens to manufacturing and industrial activity. So, that portion of supplies to the resilient business.

Add to that, we have contracted rental streams that come in, in respect again of activity levels. You follow all of that together, you've got a business where nearly three-fourths of our business is contracted in or locked in through these various mechanisms, giving that defensive nature. Irrespective of what happens to the industrial activity and manufacturing PMI that everyone is referencing at the moment, the reality is that defensive nature will continue to be very resilient as we move forward. The other part of your question was what happens to backlog, right? And again, I just wanted to say, backlog at $7.9 billion, we're working our way through that. We're starting up this year between one and $1.5 billion to $2 billion worth of projects.

In the first half itself, more than about half of that has already been done. So, that backlog is contracted growth. Usually, it's date certain. So, irrespective of what is happening with the customers' project, we get a stream of revenues through that project coming through. And we see that as a very robust part of our future growth plan, which are locked in and contracted. And we feel really good about the quality of that backlog that we're currently executing. And as I said before, backlog is, as an example, this quarter itself, we started off the TSMC Phase 1 project, and that's going to start contributing to earnings based on the contracts that we have. So, again, a very resilient part of that. So, I think you look at that, I think that kind of gives you a flavor of what we're looking ahead to in terms of how we think about the resilience underpinning the business.

Michael Sison

Thank you.

Operator

Our next question comes from Josh Spector with UBS. Your line is open.

Josh Spector

Yes. Hi. Good morning. I was wondering if you could talk about pricing, specifically in the Americas. I think it's been a source of strength for you guys and some of your competitors that have reported. So, just curious, one, if that's more of a U.S. phenomenon or if that's more South or Central America where you're getting more pricing. And two, I guess, with energy prices semi-stable, demand kind of semi-stable, what's driving some of that sequential acceleration and pricing within the region? Thanks.

Sanjiv Lamba

Thanks, Josh. So, again, I think pricing is, and we've said this a number of times before, Josh, I'm just going to maybe go back and recap that very briefly. We've said if you go back and look at the long-term pricing trend, we track or are slightly ahead of globally weighted CPI for us. That trend has been consistent over an extended period. I go back 15, 20 years, we've demonstrated positive pricing across that period, aligned with what we think global CPI has done. And that is actually a great proxy to think about how we continue to see pricing going forward. So, I want to just -- as you're thinking about pricing and as you're looking ahead, I want you to just keep that in mind because that I think in truth is really where our pricing efforts will continue to yield results going forward. Our pricing continues to be robust in the Americas. I think we are seeing positive pricing both in the U.S. as well as in our Latin American businesses.

And this again, the trend itself is not inconsistent. It's a trend that we've been able to -- we have seen through the course of the last many quarters, and in fact, consistently proven over the last five years as well. So, again, there's nothing happening over there that's exceptional. All we're doing is management action drives pricing is how we think about it. And I think management action is driving the pricing efforts that we see in the Americas at the moment. Both Americas and EMEA are tracking globally rated or rated CPI for their respective regions. In APAC, I would say to you that I think we're finding pricing a little bit shorter at this point in time, and that's where currently the push is to make sure that we get that over the line. Obviously, China is in deflation. So, that doesn't help. But again, we've got pricing efforts continuing in that space as well.

Josh Spector

Okay. I mean, that's helpful. I guess maybe one more follow-up around that is just the, when I think about CPI and that being something to look towards, again, I guess, focusing on the Americas, I mean, with your mix, your pricing is up, call it, mid-single-digit year-over-year in Americas and maybe it's up, I don't know, 3% to 4% on a merchant level sequentially. I guess what CPI indicator is going up at that rate on a quarter-over-quarter basis?

Matt White

Yes, sure, Josh. It's Matt. I think you have to remember, when you think about Americas, you have all of South America, to your point, which we have leading positions in just about every country there. So, whether it's Brazil or Central America like Mexico, other countries in South America, Argentina, you've got Chile, Colombia, you are continuing to see inflation rates that are much higher than what you would see in a U.S. scenario. So, that is all aligned and relative to that and something we do track consistently. I mean, as you well know, just look at recently the devaluations you've seen across a wide basket of LATAM currencies, and that is being offset through higher inflation local in these countries. So, it is driving that. It is part of that.

Now at times, yes, you may see some different quarter-to-quarter sequential variances just because on the timing, the pricing goes through to inflation, that could create a little bit of a noise. But when we look at the CPI tracking, we tend to look at it in an annualized basis because that's a little bit cleaner on timing. But as Sanjiv said, it continues to track quite closely. It's something that we look at country by country. And when you look at the balance of inflation levels you're seeing, especially in LATAM, they continue to be elevated, especially vis-a-vis a country like U.S. or a region like Europe.

Josh Spector

Got it. Thank you, both.

Operator

Our next question comes from Jeff Zekauskas with JPMorgan. Your line is open.

Jeffrey Zekauskas

Thanks very much. I think a couple of years ago, you talked about a $3 billion investment opportunity to decarbonize Linde, and I think the direction was to produce more blue hydrogen to change over to ATRs or change your SMRs. Have you -- how much have you invested? And does that $3 billion number still look good? Have things been stretched out in time? Are they according to plan?

Sanjiv Lamba

Thank you, Jeff. So, yes, we had laid out our decarbonization strategy and roadmap, if you will. And as part of that, we said there were three levers. The first lever was, and this was out of a $50 billion investment over 10 years, we had said in the past. First lever was decarbonizing our own operations with that $3 billion estimate at that point in time. We said a bulk of our deployment would be in enabling our customers to decarbonize, which is the second pillar. And the third pillar was just some new opportunities for hydrogen to act as an energy vector and for export purposes, et cetera. The first pillar, which is what you're referring to at the moment, is where a lot of our work at the moment is happening.

As you know, we have a large fleet of steam methane reformers, or SMRs, in the U.S. Gulf Coast. They are part of that network that connects that 500 miles of pipeline that we have and serves between 60 to 80 very large customers for their hydrogen requirements. And we are currently in various stages of feed studies for those SMRs to understand the best opportunity for us to do decarbonization. On the SMRs, technically speaking, there are different ways to do that. We can do post-combustion capture. We can do syngas capture. The feed studies are ongoing at this point in time.

My view is that we will actually progress with those probably over the next few years. They are in line and on track with our 2035 targets that we set for ourselves. And I expect to see those business cases be developed as we get to a more technical conclusion as far as the feed study is concerned. Whether that's $3 billion or more, I think the feed will tell us that. So, I think we'll wait for the feeds to come through. But order of magnitude, I'd say to you that's in about the right ballpark.

Jeffrey Zekauskas

Okay. And then quickly, I realize that your volumes in the United States year-over-year were flat. But if you had to -- I'm sorry, in the Americas. But if you had to break it up into packaged, merchant and on-site, and compare the volume changes, what would they look like for the second quarter?

Sanjiv Lamba

So, Jeff, why don't I just talk a little bit about what we're seeing in Americas? I think this is a good lead into that because I think it'll give you a flavor of where the volumes are and I think hopefully answer your question as well. So, I'll start off by just saying that the U.S. market has been incredibly resilient, right? I mean, it surprised most people. But we are now seeing industrial activity being more sluggish. It is reflecting the softer demand growth that is there in the marketplace. And obviously, everyone is quoting the PMI, et cetera. In the last quarter itself, we'd referenced that we were starting to see that sluggishness in the market. So, an exception to that, a notable exception to that, is hydrogen demand. Hydrogen volumes are at very high levels, and I expect them to remain strong for the rest of the year.

So, again, that is a reflection of what's happening in the chemicals and energy space. And again, the on-site piece, which I think you were querying, is one of the key elements of that comes out of those high core volumes that we've seen. The other indicator that I watch carefully is the hard goods out of the U.S. packaged business. You heard me say before, I consider hard goods a leading indicator of what is happening in manufacturing and industrial activity. Again, during this quarter, we saw hard goods sales decline year-over-year in the low single-digits. A clear indicator that you're seeing a softer manufacturing environment.

I expect that to continue for the next couple of quarters at least. Now hard goods were sequentially flat though. So, I think it wasn't that you were seeing sequential worsening, but you were seeing softer year-on-year movements as far as hard goods were concerned. Again, that gives you an indication of what's happening around our packaged business. I would say that between those two, I mean, that's a fair view of where we're seeing that volumes played out in terms of what we see between on-site merchant and packaged.

Jeffrey Zekauskas

Thank you very much.

Operator

Our next question comes from Patrick Cunningham with Citigroup. Your line is open.

Eric Zhang

Hi. Good morning. This is Eric Zhang on for Patrick. Deflationary conditions in China continue to be an issue. Can you talk about the cost actions you are taking in the region, and how has pricing trended?

Sanjiv Lamba

Sure. So, I'll begin by just kind of reminding you that, in China, we serve some of the Tier 1 customers, who tend to have the best cost position in their fields and have been quite stable through this downturn. So, I think it's just as a starting point, having a high-quality customer in China actually is very, very important for the stability and performance of that business. If I talk specifically about cost actions, I'll say to you, you could probably go back, I'd say about 18 months now, when we first talked about concerns around growth in China and the fact that we were treating China business as a mature business and ramping up activities, both on cost management around the fixed cost base and enhancing productivity actions as well.

And that's been ongoing for about 18 months. It isn't new. We're not acting on it now. We have been undertaking this and using this as an opportunity to reset the cost base in China. Much of that action has already been completed. I feel pretty good about where we stand with the cost base. There is obviously more we can do and the productivity programs we are running in China, leveraging AI and so on and so forth, are good examples of how we are managing that. I'll give you one very simple example. So, most companies in China, most operations in China, for instance, following recent regulatory requirements have had to recruit between one to five safety officers to go and walk around the plant and take readings and record them so that the authorities can come in and audit them.

Now most of the companies have done that. As you would expect, Linde thought long and hard about how best to accomplish that. And at the moment, we're rolling out a program called Smart Plants, where we're using a combination of drones and robots to do much of these reading of gauges and pressure points within the plant to make sure that they are then automatically recorded. But that's the productivity project where we've used technology, created a digital solution and applied that broadly across our fleet of plants in China. Clear productivity benefits. You obviously don't increase your FTEs or your employee costs as a result of doing that.

That's just one example of many that I'd give you in terms of the actions that are being taken, which are both smart, but also addressing the cost space itself quite significantly.

On pricing, China is in deflation. So, pricing, if we say we want to kind of be -- keep ourselves at that 2% mark that we'd like to see happen, that's where the team is currently pushing to try and get pricing to continue to move up. There are two elements to the pricing. On the industrials, merchant and packaged in particular, we are seeing positive pricing movement there.

It is, however, being offset by lower pricing on helium and rare gases, partly driven by lower demand from the electronics segment and partly because we are obviously seeing pressure of helium coming in from Russia into China, which has made China long on helium and has had an impact on pricing there. But beyond that industrial pricing, action continues to be strong, and I feel good about the momentum that the team has got over there, and we'll continue to see that move forward.

Eric Zhang

Great. Thank you.

Operator

Our next question comes from Kevin McCarthy with Vertical Research Partners. Your line is open.

Kevin McCarthy

Yes. Thank you, and good morning. A few questions on capital deployment for Matt. Your pace of repurchases accelerated a bit in the quarter, and in the prepared remarks, I think you talked about potential harvest of some project prepays in the back half of the year. So, could you comment on the likely glide path of repurchases that you would foresee in coming quarters and maybe contrast that with potential for bolt-on deal activity within the guardrails of your single A rating?

Matt White

Sure, Kevin. I think obviously I stated our cap allocation policy, which you know well, in the prepared remarks, and that's been consistent going back many, many years, and we expect it to remain consistent. And within that, repurchases are absolutely an integral part of that. And it's something that we expect to be every day in the market. To your point, we have a significant amount of room on the single A rating. That's obvious, given our metrics, where they stand right now. And I do expect, as I mentioned, to see a fairly nice pickup in operating cash flow in the back half of this year, just given some of the timing of things that are going to be better in the back half than they were in the first half. But that all being said, our repurchase plan will look out generally for four quarters forward.

We will determine a number that we want to deploy in cash based on the capital allocation policy. And then we'll execute inside the quarter, and sometimes we'll accelerate when we see opportunities in the stock. And we definitely saw that this last quarter. So, we did accelerate, and we repurchased $1.4 billion recently, and we got good execution, and we felt good pricing. So, the overall plan will continue to be part of the equation in our cash and our capital allocation. But day to day, we will accelerate or change our patterns based on what we see in the market. And as you know, we did that back during COVID times. We did that back during the great financial crisis, where we saw some significant opportunities to come in. And if we see anything like that again, we absolutely will take advantage of it going forward.

Kevin McCarthy

And any thought on bolt-on deal potential?

Matt White

For M&A? I mean, that's something we're always going to be evaluating for tuck-ins. You could see here in our recent cash flow statement that we had out here that we did do continued more M&A activity. It'll mostly be probably North America, maybe some in our APAC packaged gas business. These are great tuck-ins. They are justified on synergies, so they have a very low risk threshold.

And I think that's something between that and dCAPs, we are seeing more dCAP opportunities, but our investment criteria for them remains the same. So, we'll see if opportunities present themselves with our Tier 1 customers. But that's a consistent aspect of our cap allocation policy to invest back in the business with our investment criteria, and M&A is absolutely part of that.

Kevin McCarthy

Great. Thank you very much.

Operator

We will now take your final question from John Roberts with Mizuho. Your line is open.

John Roberts

Thanks. Matt, I think you've talked before about return on invested capital plateauing here. Does it stay high or maybe even drift a little higher as long as earnings are driven by productivity in the consumer-based markets, and then when the cyclical markets start to recover and the energy transition investments come in, it starts to come down? Or do you think it plateaus high here even when cyclicals do start to come back and the energy transition investments come in?

Matt White

Yes. Sure, John. I think to your point, look, when you look at both our margins and our return on capital, we have industry leading. In the case of return on capital, probably 2x or more to the next competitor. So, the way we view that is we want to continue to grow and grow quality, which means maintain or potentially improve some of the margins in ROC while growing and growing in high quality. Obviously, margins, as I mentioned, we have more room. We have room in each segment. We view them eventually converging. And so, that opportunity we'll continue to take advantage of. On the ROC, you're absolutely right. It's just a metric of a numerator with NOPAT and a denominator of the capital base.

For my earlier comments with Kevin, I mean, our capital allocation policy is very consistent. That won't change. And so, I feel quite good about the denominator, which is the long range of that equation. On the numerator, it's just going to be a function of our growth rate. Obviously, the higher we grow, you're going to see accelerations in that number. And if your growth is a little lower, then it may be a little more stagnant. So, we feel good to maintain these levels. Time will

tell if we increase them. We did increase it here another 10 or 20 bps, just given our growth rate. So, we'll see. But I am happy at these levels. But to be clear, by no means does ROC drive our investment criteria, right?

We look at cash IRR, unlevered after tax. That's how we make decisions on incremental investments, whether it's M&A, whether it's projects. And that is more driven a function as getting a premium to our WACC and risk adjusting accordingly. So, this will not affect our growth in any capacity, but it is a backward-looking accounting metric, and it's important for us because we view returns -- return on capital as a key investor metric for our owners. And it's something that we're going to continue to lead the industry on.

John Roberts

All right. Thank you.

Operator

I would now like to turn the call back over to Juan Pelaez for any additional closing remarks.

Juan Pelaez

Thanks. Nice job. Thank you, everyone, for participating in today's call. If you have any further questions, feel free to reach out. Stay safe.

Operator

Ladies and gentlemen, that concludes today's call. You may now disconnect. Thank you.