Linde plc 2Q26 Earnings Teleconference and Webcast - Transcript
July 31, 2026

Operator

Ladies and gentlemen, good day and thank you for standing by. Welcome to the Linde Second Quarter 2026 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.

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

Juan Pelaez

Abby, thank you. Good morning, everyone, and thanks for attending our 2026 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 on the slides and note that it applies to all statements made during this teleconference. The reconciliations of the adjusted numbers are in the appendix of this presentation. Sanjiv will provide some opening remarks, and then Matt will give an update on Linde's second quarter financial performance and outlook, after which we will wrap up with Q&A.

Let me turn the call over to Sanjiv.

Sanjiv Lamba

Thanks, Juan, and good morning, everyone. During the second quarter, we achieved record sales and EPS levels with both growing at near double-digit percent, while increasing the backlog by $1 billion to a record $8.1 billion after securing a new electronics win in the US. In addition, the backlog project pipeline remains healthy with several new project opportunities under development. For the remainder of the year, we are expecting to start-up more than 20 projects that add-up to approximately $1.3 billion in investments.

Even after accounting for these start-ups and based on the opportunities I see today, I expect our sale of gas backlog to finish the year with an 8 handle, underscoring the continued strength of our long-term growth outlook.

While these results demonstrate the strength of our core business and the future growth prospects, we are not satisfied with our margin performance for this quarter. Operating margins excluding cost pass-through declined approximately 30 basis points year-over- year, primarily driven by the Americas segment. Some of this is due to higher equipment and hard goods sales in our package business, which actually I view as a good sign of US manufacturing recovery, but the majority is driven by the US Homecare business.

Even though we have been actively pruning this portfolio, it simply has not been enough to overcome the continued headwinds led by higher cost inflation, and policy changes. We have a series of actions underway, and I fully expect sequential improvement into the third quarter.

At the same time, we continue to evaluate the strategic fit of this US homecare business within Linde, both in part and as a whole, while remaining focused on improving its performance and ensuring it earns its place in the portfolio. Matt will speak more to the numbers, but I remain confident in our long-term margin expansion story.

Now I'd like to touch on some growth trends, which can be found on Slide 3. Consumer- related markets grew versus prior year and sequentially. Healthcare and food & beverage grew along with demographic trends and consumption, with stronger sequential growth related to beverage seasonality.

As expected, electronics is the fastest-growing end-market with the combination of project startups and higher demand tied to hardware associated with AI. As I mentioned earlier, we added $1 billion of new electronics wins to the backlog to support the expansion of advanced node fabs in Western US.

Consistent with other backlog projects, we've already begun constructing the plants under reimbursable LOIs while the supply contracts were finalized. I'm pleased to see this addition to our existing network of plants in Arizona and look-forward to winning a few more large opportunities that we're currently pursuing.

Not included in the backlog are a couple of electronics wins by our Taiwan JV, which will invest approximately $800 million to build, own, and operate ASUs and hydrogen production units to supply to new semiconductor fab and advanced packaging facilities there. Overall, I expect electronics to remain our largest backlog contributor and one of the fastest-growing markets for the foreseeable future.

Moving to industrial-related markets. Manufacturing remains the fastest-growing market. We experienced volume growth across APAC and the Americas, although the US is still the primary driver with both aerospace and construction activity related to data centers.

In fact, aerospace accounted for more than a third of the manufacturing growth during the quarter. Both metals and mining and chemicals and energy markets grew low-single digits. Metals and mining activity was solid in the US and Brazil, and most of the chemicals growth relates to project backlog contributions in APAC. Aside from these regions, both end-markets remained flattish across other geographies.

In summary, we've lapped the more difficult comps and are starting to see green shoots of growth across certain geographies and end-markets. Furthermore, the project backlog reached a new record from the large-scale electronics wins, and we anticipate some further base CapEx investments to support our commercial space customers. Regardless of the current challenges, you can be assured that the entire Linde team is focused on being the best-performing industrial gas business globally.

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

Matt White

Thanks, Sanjiv. Please turn to Slide 4 for the consolidated results. Sales of $9.3 billion rose 9% from prior year and 6% sequentially. Versus prior year, FX was a 2% tailwind, while acquisitions and engineering each contributed 1%.. Cost pass-through rose 1% on higher power in all segments, but was partially offset by lower natural gas for US hydrogen. Excluding these items, underlying sales rose 4%, split between higher volume and price. Almost half of the volume increase relates to project startups in APAC and Americas. The remaining is driven by organic growth in the US, China, Korea, India and the Advanced Materials business.

While aerospace and electronics continue to lead, industrial end-markets are improving in select geographies, especially the US. The price increase of 2% was broad-based across all geographies and generally tracked with local inflation.

Sequentially, underlying sales increased 4% from 3% volume and 1% pricing. More than half of the volume increase relates to seasonal factors, with the remainder being organic. Operating margins of 29.5% decreased 60 basis points from prior year, or 30 basis points when excluding the impact of cost pass-through.

As Sanjiv mentioned, the US Home Care business negatively impacted the Americas. Excluding this, margins would have increased. But regardless, actions are underway to improve. Separately, US hard goods sales are up double-digit percent from prior year, and while this mix is dilutive to margins, it could bode well for US manufacturing recovery.

Finally, the APAC erosion is mostly due to lower-margin equipment sales for electronic customers. Overall, we expect many of these margin headwinds to be temporary and thus recover in the coming quarters.

Operating profit rolled down to an EPS of $4.50, or 10% over prior year. From a combination of net income and lower share count. Slide 5 provides an overview of capital management. The operating cash-flow trend shows moderate year-over-year growth as higher earnings are partially offset by unfavorable timing in the engineering business.

Recall that the first-half results are seasonally lower, so we expect the second-half to step up like prior years. Available cash flow, which we define as operating cash flow less base CapEx, remains at healthy levels, enabling significant excess cash for secured growth and shareholder distributions, which can be seen in the pie chart.

Year-to-date, we've deployed $6 billion of capital, split evenly between business investments and shareholder returns. $1.9 billion of secured growth represents capital deployed for acquisitions and the project backlog.

When considering the record $8.1 billion sale of gas backlog, continued roll-up acquisition targets and project pipeline opportunities, we expect this number to remain a significant use of capital for the foreseeable future.

I'll wrap up with guidance on Slide 6. Third quarter guidance range is $4.45 to $4.55, or 6% to 8% growth. This assumes no currency impact from prior year, but does assume a 1% FX headwind sequentially. Consistent with prior approach, the range assumes no economic improvement at the midpoint.

The updated full-year range is $17.70 to $17.90 or 8% to 9% growth, excluding a 1% FX tailwind assumption. This range raises the prior bottom-end by $0.10, but leaves the top unchanged.

While base volumes showed some recovery in the second quarter, we'd like a few more quarters under our belt before incorporating this trend into future guides. Therefore, we're leaving the back-half guidance assumption the same as before.

The Q2 to Q3 sequential EPS trend is projected to increase $0.05 at the midpoint when excluding FX, which reflects some of the actions being undertaken. Of course, this is merely a guide. How we perform is what matters most. We know our owners expect more and the organization is committed to delivering on those expectations.

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

Questions And Answers

Operator

Thank you, and we will now begin the question-and-answer session. (Operator Instructions). And our first question comes from the line of Laurent Favre with BNP Paribas. Your line is open.

Q - Laurent Favre

Yes, good morning. Thank you, and Sanjiv, I think you said it's all within the first five minutes. Can I dig a little bit deeper in that healthcare comment? Can you give us a sense of how much of a headwind it has been over the last year? Is the business in the US currently profitable at all, or how much of a margin drag it has been on the business, please?

A - Sanjiv Lamba

Thanks, Laurent. So I think in the slides itself, we've laid out the fact that the Americas business ex the US Homecare or Lincare business, would be up 20 basis points on margin ex pass-through, as we normally do. So that is a reflection of the gases business doing well.

As we said in the remarks as well that, there is a bit of a mix effect, which, actually, to be honest, I see the gases business doing well. I will take the hard goods, -- double-digit hard goods sales that we're seeing in the business. It's a good signal of manufacturing recovery in the US. Yes, it has a small dilutive impact on margin, which is temporary.

And then, of course, we talked briefly about sale of equipment elsewhere, particularly APAC, where there was that impact as well. But from our perspective, not happy with where the margins are. Actions are aggressively underway to essentially attack the issues that we've identified in the Lincare business, and I expect that we will continue to see sequential improvement as we move forward.

Q - Laurent Favre

Thank you. And just as a follow-up on the electronics side, I think the contracts that you announced have been, I guess, in the pipeline for a while. I was wondering, in terms of geographies or maybe some of the key customers, where do you see the biggest opportunities on the electronics side? Is it still in the US or elsewhere in Asia, maybe in Korea, Taiwan, et cetera?

A - Sanjiv Lamba

Laurent, absolutely. The electronics pipeline, as I said in my remarks as well, is looking healthy at this point in time. And you certainly heard from me say that I expect that we will end this year on the backlog with a 8 handle despite bringing on investments of up to $1.3 billion. So we will -- the backlog will go down from the current sale of gas backlog of $8.1 billion by about $1.3 billion, and we will add back into that backlog. So it has to be supported by a robust pipeline. Those projects stand the wall, to your point, and I see bulk of those projects out of the US, but see strong pipelines in Taiwan and Korea as well and some in China.

Q - Laurent Favre

Thank you.

Operator

And our next question comes from the line of Patrick Cunningham with Citi. Your line is open.

Q - Patrick Cunningham

Hi, good morning. Thanks for taking my question. I guess, just talking about some of the manufacturing growth assumptions, particularly in North America, it doesn't seem like you have some of this base volume assumption trend sort of baked into the outlook. But

is the bulk of that inflection that you've seen coming from commercial space? I was hoping maybe you could dig into the health of some of the other end-markets and what you're sort of anticipating for the second half.

A - Sanjiv Lamba

Sure. So why don't I start off with a quick view? I think I provided a broad overview in my prepared remarks, Patrick, there. Let me just kind of give you a sense of what we think the outlook for the second half looks like. So traditionally, our resilient markets, healthcare and food & beverage, have been consistent, and we continue to expect the same outlook for the rest of the year there. Nothing significant to change.

Electronics, as you saw year-on-year, had 18% growth in second quarter. We expect electronics momentum to carry on for the rest of the year as well. So again, pretty positive in terms of that. And of course, adding to the backlog helps us get the future growth prospects locked in as well.

A point on electronics worth noting, and I think in APAC in particular, the sale of equipment that we provide to many of our electronics customers is very important for us because, while from a margin point-of-view, not

that exciting, the reality is the pull- through on gas sales that happen in the future; I think this kind of ensures that. So feel good about that as well as we look at the second half.

On the industrial markets, and I'd say to you, manufacturing, which you kind of specifically mentioned, looks robust. Signals from the US market in particular, where the recovery is most prominent, and looks good. The feedback from the customers suggest that they see that outlook for the rest of the year as things stand today.

Now, within that, the indicators that we look for and I referenced this again in my remarks briefly, the sale in the US package business is a good leading indicator. Here, the gases side has been growing mid-to-high single-digit, with the hard goods themselves growing double-digit, and I think that's where the confidence that the manufacturing recovery that we're expecting, not just recovery, I think the momentum that we're expecting in manufacturing in the US likely to continue. We see that also elsewhere. Asia-Pacific saw manufacturing and momentum pick up as well despite the fact that there are some Middle East-related challenges in Asia, in particular, but the manufacturing underlying seem to continue to perform well. So again, the outlook for that continues to be reasonably robust.

Aerospace did provide for more than a third of that growth for manufacturing. So to your point, I expect that momentum to carry on into the second half as well. Chemicals & Energy has been a little bit spottier. I think low single-digit growth. We've obviously had the benefit of some good backlog contributions coming in Asia. So I think that's looked good. But I do not see a fundamental shift in the chemicals & energy piece.

Obviously, there's a lot of volatility in the market at the moment. There are lots of geopolitical events that could impact one way or the other, and in part, you would see from our guidance that we've taken a neutral stand in terms of what's going to happen to the economy. We are happy for our investors to take a view on that because at this point, it's all speculation.

Metals and mining, again, pretty robust in the US and in Brazil. I expect that trend to be about steady. Obviously, in the US with all the build-out that's happening with data centers, et cetera, metals are getting a little bit of fill-up, so that's good. Listening to some of our customers' calls over the last few weeks, I've seen slightly more -- slightly higher degree of optimism as well on steel. So it'll be good to see that flow-through into the next half as well. So I think that kind of broadly gives you a sense of where we are seeing momentum and what the outlook for second half looks like at this point.

Q - Patrick Cunningham

Great. Thank you so much.

Operator

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

Q - Patrick Fischer

Yeah, good morning, fellas. A question just around the impact that you've seen on your business and on your customers from what's happening with the Strait of Hormuz and kind of the greater Persian Gulf area, obviously, particularly with helium, but then just with the general business. And then, if that issue reside -- or resolves itself this year, what do you think the impact will be a year out as that starts to normalize?

A - Sanjiv Lamba

So, Duffy, the Middle East impact, as you know, and I'll start with helium just to begin with, because I think that's a good place to kind of give a sense of how we've managed and navigated that fairly complex set of issues, but -- and then talk a little bit about what happens elsewhere.

So starting with Helium. I think as far as helium is concerned, I'm really pleased with how our team has navigated this whole set of developments over the last many months, largely because we've done what we need to do in ensuring that reliable and safe supplies happen to our existing contracted customers and we've had a lot of positive feedback coming from them because that's what they would expect from Linde.

But more importantly, our teams have also gone out and they've signed-up new customers with long-term contracts as well, leveraging the fact that we have the confidence in our supply-chain due to the diverse sources that we have supplying into the helium supply-chain, the cavern that we maintain and of course, quite importantly, the capability around supply-chain logistics in terms of tanks, et cetera, all of that's played well into positioning this for new business growth that we've seen.

We have had the pricing move along as well, which has been a good thing. Obviously, with dislocation costs related to helium, the overall recovery probably doesn't quite show through in the margins just yet, but I fully expect that it will over the next couple of quarters. I think equally important to just underscore on the helium piece is the fact that, looking ahead, we continue to be confident in our ability to maintain that supply chain despite the more recent developments in the Strait of Hormuz.

Any change in the Strait of Hormuz, and the fact that we restart helium production back in Qatar and get the alignment of all the supply-chain elements that need to come together between tanks and shipping and so on and so forth, I think will have a lasting impact for the rest of the year. I don't think you will see normalization. This year, it will -- once those issues are resolved, which of course itself remains a little bit of a question mark today. Once issues are resolved, we will see normalization progress at a small -- slower pace than most of us would like and will kind of probably take us into the early part of next year.

As things normalize, yes, next year, we should see a more normalized helium market, but at this point in time, seeing the resolution of what happens in the Strait of Hormuz is probably more important than speculating what next year is going to look like.

Let me talk about some of the other markets. So where we have seen an impact of the Middle East crisis is the fact that in Asia, countries highly dependent on hydrocarbons coming out of the Middle East have had to scale back industrial activity, and I think markets like India, some parts of ASEAN, Australia, and to a lesser extent,

China have seen that. And I think that's where the impact over this second quarter as we've kind of mentioned to you is probably a little bit more visible.

Everybody is hoping for a resolution. Once that happens, you will see that normalization happen fairly quickly, but each of those countries has been looking at different strategies to manage these issues that they're currently contending with.

Q - Patrick Fischer

Terrific. Thank you.

Operator

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

Q - Vincent Andrews

Hey, maybe just a two-part. One. First on helium, just to clarify, did you all change anything in your guidance assumptions relative to what you had assumed back at the start of the year?

And then secondly, in Americas, the kind of year-on-year price step-down, I think it was flat sequentially. Was that the hard goods mix issue, or is underlying sequential price leveling off? Thank you.

A - Matt White

Hey, Vince. It's Matt. I could probably answer those. So I think first on helium, yeah, so we left the guidance intact. So by default, that kind of means no material change in helium would also be part of that. So to your first point, we didn't change it, and just kind of building off what Sanjiv said. When you think about the helium business right now, what we've seen, we are seeing strong price improvement, but we're also seeing higher costs for dislocation as Sanjiv mentioned.

So the contribution on a dollar basis, it is positive. It's not as large as we'd like it, but it's positive. But on a margin basis, that grossing up effect right now is a little bit dilutive. That should stabilize. It normally does. But as you can imagine, right now, meeting our customers and getting new contracts signed is the priority, and doing it at positive dollar contribution is happening, it's just the margin gross-up effect. right now, it's a little bit dilutive on that front.

On the Americas, just to make sure I understand, I mean, price is up 2% year-over- year. Sequentially, we're flat. As you know, when we talk about sequential, I tend not to spend a lot of time on sequential just given the different timings of some of the escalations that are done and the pricing actions.

Year-over-year always is a more important metric for me. So when I think about that, it is, I'd say for Americas, delivering on expectations. Obviously, you're going to have -- again, we talked about Lincare, there is not pricing in that business right now, a significant amount. It is probably not keeping up with what it needs to be. So that will be a little bit of a drag. That's been the case though for many years now.

So I would say pricing in Americas on the year-over-year is tracking where we'd expect and what we want to see. Hopefully that answers your question, but make sure -- I don't know if you have a follow-up on that.

Q - Vincent Andrews

Okay. Thank you.

Operator

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

Q - David Begleiter

Thank you. Good morning. Sanjiv, I know it's early, but if you look at next year 2027, given project startups, helium may be being a tailwind next year, Helium, growth in space, pricing productivity. Do you need much of any macro improvement to get to double-digit 10% EPS growth next year? Thank you.

A - Sanjiv Lamba

Thanks, David. As you know, our EPS algorithm lays out the fact that between management actions and capital allocation combined, we should be delivering 8% to 12%. We're not looking for macro as long as macro is not taking away from that. You should expect us to look at that 8% to 12% range, and I think we will be consistent on that as we look-ahead to next year as well. Obviously, any tailwinds that we get will be factored straight in, and you will see that improvement come through at the EPS line.

Now as you know, this is very early to talk about 2027. So later in the year, we'll have -- and early next year is when our guidance will be more clearer on that. But later in the year, we'll obviously be doing a lot of work planning for next year to make sure that we have a good handle on how the business is going to play out.

Q - David Begleiter

And to be clear, helium should be a headwind -- it should be a tailwind next year. Is that fair?

A - Sanjiv Lamba

Helium will be normalized next year. I think we'll have to wait and see what that means. The complexity of volume and price mix, I think, will play a role in what helium does next year.

Q - David Begleiter Thank you.

Operator

And our next question comes from the line of Josh Spector with UBS. Your line is open.

Q - Josh Spector

Yeah, hi, good morning. I wanted to ask on the CapEx raise for this year. I think you addressed it in the prepared remarks briefly, but did you indicate that a lot of that increase was linked with commercial space? And I guess if you can give maybe any other breakdown of that $500 million increase, that would be helpful.

And I'm just curious with that, if you are building more for that market through your merchant pipeline, what does that mean for space customers' approach in your view to make versus buy in terms of oxygen, nitrogen, and the gases for that market? Thanks.

A - Matt White

Hey, Josh, it's Matt. I could probably handle those. So starting on the CapEx. Yes, you are correct, the CapEx number on the estimate was bumped up, clearly with backlog wins that will drive that. So by adding the new project that Sanjiv mentioned in the prepared remarks, that is contributing to that, and yes, there are going to be more commercial space activities in the base CapEx that also are contributing to that as well. So the combination of those two, both the project backlog and some of the base CapEx will drive that.

As far as the make versus buy, that -- when you think about our traditional onsite customers, that always is something that has been something we managed for many, many decades, right? A traditional onsite customer would look to buy a plant versus outsourcing the sale of gas model, and that's something we had always managed through -- usually a hybrid approach because we have the capability to do both.

I would say with commercial space, given the quantities of propellant they require, you're seeing a similar dynamic at least with certain players that have comfort and the access of capital to have a desire to vertically integrate.

Now this right now is primarily only with certain players in atmospherics. We are not seeing it in the hydrogen side, which is a very, very different dynamic for any hydrolox- based engines. So it's a normal occurrence, I'd say, when you start seeing these kind of quantities. It's something that's very akin to how we navigate the onsite business for many decades, and we're very comfortable with it.

So absolutely, I expect you'll see a blend of sale of gas and some sale of plant. Generally, those sale of plants can come with what's called an operating and maintain. So you tend to run it all as a system. You may run customer-owned plants with your own plants on sale of gas, and that gives the customer kind of the best of both, and it also helps manage our both capital and management of products.

So I would anticipate that for certain customers, not all customers, and it also would probably only be on certain atmospheric. I don't anticipate it at this stage at hydrogen. So that's how I see that developing.

A - Sanjiv Lamba

The only thing I'd reiterate there, Matt, would be the fact that we will play for both sale of gas, as well as sale of plant. So we do participate in the opportunity even sale of plant in case people want to go to integrate that.

Q - Josh Spector

Okay. Thank you, both.

Operator

And our next question comes from the line of Matthew DeYoe with Bank of America. Your line is open.

Q - Matthew DeYoe

Morning, everyone. Congratulations for getting the TSMC, the large electronics customers over the line. What -- and can you share maybe some revenue intensity of the CapEx or give some guidance? Your European competitors kind of flagged like a 25% CapEx to revenue conversion on some of these projects. Is that a reasonable ballpark for you?

A - Matt White

Hey, Matt. This is Matt. So the revenue to CapEx is always going to be a function of whether it's atmospheric or whether it's processed gases like hydrogen. So as you can imagine, if you have a more processed hydrogen base that has energy pass-through, that might be higher. But traditionally for us, revenue has ranged anywhere from 20% to 50% depending upon energy pass-through or tolling, and I would just say of the ones we've won, they're very, very similar to the structure, and ones we've already had in place on the first few phases.

There's no real difference from that perspective, because those contracts follow a very similar construct on both the molecules, and how energy is managed.

Q - Matthew DeYoe

Thanks. And if I could, the other business typically a bit all over the place, but it was kind of maybe not immaterial this quarter. If I -- my memory serves me right; that's where Linde AMT is and some of the sputtering targets and that stuff. So is that the semi-cycle build here, and this should be kind of like an indication of the direction of profits, or am I -- or is this kind of a little bit of a one-off positive quarter?

A - Sanjiv Lamba

Hey, Matt, I'd say that the materials business overall has been doing well. Sitting within that are coating services, atomizers, and some sputtering, et cetera. I think all in, that portfolio is performing reasonably well under these conditions, driven by aerospace, a little bit of the commercial space buildout as well. And I think if you put that together, I think it's looking -- the outlook seems pretty robust for the second half as well.

Operator

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

Q - Jeffrey Zekauskas

Thanks very much. If I did the math correctly, the homecare penalty was $30 million in the second quarter. So, order of magnitude, is it a $100 million penalty for this year? And is Lincare all of your 23% of healthcare revenues for the Americas?

A - Matt White

Hey, Jeff, it's Matt. So I think the number is a little higher than what you have. So you're close, but I'd say it's probably higher, though, but you could probably say 30% higher than that number, give or take.

Q - Jeffrey Zekauskas

Okay.

A - Matt White

But -- so that is the headwind we have. That's what we're facing. I think when you think about the Americas, it is clearly the largest piece. Now it does not include the institutional portion, which is actually run through our traditional gas business because of the nature of the contracts and the structure. But it is by far the lion's share of the Americas healthcare, just given the size of the revenue of that business?

Q - Jeffrey Zekauskas

Okay. And I -- when we look at your healthcare revenues, they look pretty flat year-over- year. So can you talk about the dynamic that's pressuring profitability? And if you're -- have you come to a decision as to whether you want to divest this business, or is this going to be contemplated over the next quarter? Does it take longer? Can you help us with those issues?

A - Sanjiv Lamba

Sure, Jeff. Look, the challenges at Lincare are not new, right? The business has served us well through the COVID period and the immediate kind of couple of years after that. But over the last couple of years, in particular, you have heard us reference it as well. It has faced persistent headwinds, right, from labor cost inflation and changes in reimbursement environment, and I think those have contributed to these penalties that you referenced earlier on.

Now, we put a new management team in place. Their focus is on improving the quality of that business. We've been pruning the portfolio. Again, you've heard us say that in a couple of the calls over the last couple of years as well. There are aggressive actions currently in place to look at operational improvements and productivity. Those actions will create the impact that we're looking for, which is why I expect, as we move forward, we will see improvements in that business.

Now, in parallel to those aggressive set of actions that we put in place, we're also evaluating what the strategic options for this business are. And I want to make sure that we do that exercise with diligence and determine one way or the other, if this business is going to have a meaningful positive impact on our portfolio.

Q - Jeffrey Zekauskas

Great. Thank you.

Operator

And our next question comes from the line of James Hooper with Bernstein. Your line is open.

Q - James Hooper

All right. Thank you very much. So, just in terms of the backlog projects, can you give a little bit more indication of the margins of these projects? And are these just -- are these going to be some of the drivers of an uplift from this point in future years? Thank you.

A - Sanjiv Lamba

Thanks, James. As you know, the backlog projects take typically between two to three years in terms of execution. By the time they come on, we then typically expect a ramp- up to happen across the board.

Now the projects that we have in our backlog at the moment all met our investment criteria. We tend to look at them from a post-tax double-digit IRR, unlevel IRR perspective. So they kind of hit the investment criteria and therefore are an attractive part of the future business growth that we're likely to see. But they do have a ramp that they go through before they actually hit their final kind of margin contributions that they make. So you should expect that cycle of backlog projects coming up, starting up, starting to deliver on margin contribution, and then through the ramp process, ensuring that that moves up. So I always expect backlog projects to continue to improve on their margin till they reach their full capacity utilization.

Q - James Hooper

Thanks.

Operator

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

Q - Kevin McCarthy

Yeah, thank you, and good morning. Sanjiv, if I look at your volume trend in Asia, it was up 6% for a second consecutive quarter versus, call it, either side of flat throughout 2025. Can you unpack that a little bit for us? My sense is you've had project startups there and maybe some sale of equipment. Just trying to get a better sense of whether the baseline demand is improving in APAC?

A - Sanjiv Lamba

Kevin, I think in parts, you've already answered your question. There are three components to what is happening in the Asia volumes, right? There is obviously base volume, which is positive. There are sale of equipment, significant sale of equipment elements sitting within there for the electronics customers that has had a somewhat disproportionate impact in this last quarter that we're talking about.

And last but not least, there are some ramp-ups. I was just referencing to James earlier on how we expect projects to ramp up. We're seeing a ramp-up of our backlog projects that were started up and are ramping up in ASEAN in particular, also contributing to that. You put those three together, I think you see that healthy 6% sitting over there.

Q - Kevin McCarthy

Okay. And then I want to ask maybe a general question on your backlog. I mean, it seems that the electronics space in particular is quite vibrant and you're winning a fair amount of business there. Does that create a positive mix effect at all? In other words, if you look at your returns, let's say over the last decade, are they any better in the electronics space relative to all of the other end-use markets combined, or would you say that they're similar?

A - Matt White

Hey, Kevin. It's Matt. I can handle that. So, as you probably know, and as we said, we make our decisions on IRR, right? That's how we make our backlog and our capital decisions. So it's not really a revenue or a margin kind of view, more of an IRR undiscounted or discounted unlevered view.

So from that perspective, I would say all of our projects, whether it's in any end-market, electronics, energy, they tend to all fall within a certain consistent range because it's based on the risk and the terms and the conditions of what we're undertaking. And of course, in electronics, you're going to have more purity requirements, and you're going to have probably more redundancy, which generally means more capital, but your return profiles tend to be consistent nonetheless. So we don't really see much disparity in on- site returns by end market. That tends not to happen.

Where you can see different margin profiles is when you get the incremental process gases, rare gases, specialty gases that tend to come with large electronic clusters because those are more specialized, require a lot more effort on purity and manufacturing, and so that bolt-on on the afterfact can create some incremental margin opportunities. But the on-sites themselves are very similar across all end- markets. And again, IRR is what drives those decisions.

Q - Kevin McCarthy

Very helpful. Thank you both.

Operator

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

Q - John McNulty

Yeah, good morning. Thanks for taking my question. Sanjiv, maybe, can you speak to what you're seeing, in particular out of APAC on the industrial side, in terms of longer-term investment? I know you spoke to -- right now there's kind of a mix of things going on, just given what's going on in the Strait and the Iran conflict. But is that having any slowdown effect or pausing effect on future projects, future growth in the industrial markets looking out over the, say, the next two to three years? Or is it business-as-usual and things are going to keep kind of coming on over time and adding to your growth as well?

A - Sanjiv Lamba

So, John, I'd say the headline over there would be business-as-usual, reflected in a bit of a change in the mix. So clearly strong electronics growth. We talked about the backlog development. We expect the project pipeline for electronics growth in Asia-Pac to remain fairly robust, and I think that helps with some of that long-term investment profile that you're thinking about.

Where we do see a little bit of a mix effect is where the traditional end-markets, for instance -- I do not expect to see significant steel investments happen in China, as an example. Now if you go back a decade, clearly that was the case, but going forward, that's unlikely to be the area where you see.

On the other hand, the flip side to that is in India, you're seeing traditional end-market investments happen, which results in us seeing an investment cycle as well over there, and those are in the more traditional end spaces like steel and like refining and other elements of manufacturing as well.

So I think I'd say to you, business-as-usual broadly, the mix is changing a little bit, getting more positively impacted by electronics, and then the rest being made up of the more traditional end-markets.

Q - John McNulty

Got it. Thanks very much for the color.

Operator

And our next question comes from the line of Arun Viswanathan with RBC Capital Markets. Your line is open.

Q - Arun Viswanathan

Thanks for taking my question. Apologies if this has already been asked, but maybe you could just elaborate a little bit more on some of the actions you're taking to drive a little bit of the margin recovery. I know that you did have some of that within the Americas, some compression.

And then if you could -- if you can look into maybe the back half or next year, do you expect that negative operating leverage to be resolved? And what would drive that? Is it increased management actions and pricing, or productivity or how do you see that? Thanks.

A - Matt White

Hey, Arun. This is Matt. So I think a couple of things. Yeah, first, let's just talk about the comps in year-over-year. So if you may recall, 2025, we had strong front-half margins, weaker back-half margins. So when you think about the whole year in the context, I'm fully expecting us to see better year-over-year just given how last year played out. So that's just a bit of a comp scenario.

But as mentioned in the prepared remarks and as we've stated, we have a series of actions underway that we need to undertake to improve margins, and Lincare is going to be the focus given that's the biggest driver. I do think some of the other aspects like higher hard goods sales, and some of the sale of equipment, as Sanjiv mentioned, we view that as actually positive. That's something we will continue to do that will get us greater wallet share and greater connection to future gas sales. So those are an integral part of our model, always have been and will continue to be. And you do tend to see those grow stronger in certain recoveries and as markets start to expand.

But we will likely look to take some cost actions this quarter, depending on the size, that's something we want to get ahead of. I mean, it is clear you're seeing more inflation around the world and that's something that we have to manage through our productivity and our actions and in some regions, you're seeing growth, which supports it. In other regions, you're seeing inflation without the growth, and that's an area we're going to focus on specifically for this quarter, above and beyond our normal productivity initiatives we normally take as part of our everyday DNA.

So more to come on that. It's something we'll probably give a little more color on and what we've done in the October call. But I can tell you right now, these actions are already underway, and we're accumulating all them to get ahead of the next several quarters.

Q - Arun Viswanathan

Thanks.

Operator

And we will now take our final question from the line of Abigail Eberts with Wells Fargo. Your line is open.

Q - Abigail Eberts

Hi, there. Thanks for taking my question. In the past, you called out space being $1 billion opportunity. I'm just wondering if you have any update on that number? Thanks.

A - Sanjiv Lamba

Space sector, Abigail, continues to grow well. We consider that the -- and we talked briefly about some of the options around space earlier on in the call, but we are on track for that $1 billion opportunity that we laid out over the next few years. I think 2030 was the timeline billion-plus is what our expectation around the space

markets was. Once it reaches a certain size, you'll see us split that out in our end-markets and have more visibility around it.

Q - Abigail Eberts

Got it. Thank you very much.

Operator

And that concludes our question-and-answer session. I would now like to turn the call back to Juan Pelaez for additional or closing remarks.

A - Juan Pelaez

Abby, thank you. Thanks, everyone, for participating in today's call. If you have any further questions, please feel free to reach out. Have a great day.

Operator

And ladies and gentlemen, this concludes today's call, and we thank you for your participation. You may now disconnect.