Linde plc 3Q25 Earnings Teleconference and Webcast - Transcript
October 31, 2025

Operator

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

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

Juan Pelaez

Abby, thank you. Hello, everyone, and thanks for attending our 2025 third 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 the teleconference. The reconciliations of the adjusted numbers are in the appendix to this presentation. Sanjiv will provide some opening remarks, and then Matt will give an update on Linde's third quarter financial performance and outlook, after which we will wrap up the Q&A.

Let me now turn the call over to Sanjiv.

Sanjiv Lamba

Thanks, Juan, and good morning, everyone. Once again, the third quarter has proven the strength and resilience of our model. EPS of $4.21 grew 7%. Operating cash flow grew 8%, and we generated $1.7 billion of free cash flow. The backlog remains at $10 billion, contractually securing long-term EPS growth while increasing our network density. Despite the challenging macroeconomic environment, Linde employees continue to generate shareholder value while maintaining industry-leading results across key metrics that matter most to our investors. This culture of ownership, deeply ingrained throughout our organization, is a foundation of our performance culture. And it serves us well in both good times and bad. Given the current economic uncertainty, I thought it would be helpful to provide you an overview of what we're seeing around the world.

Slide 3 provides the end market trends for organic sales, which include both price and volume. Starting with consumer related end markets, which make up about a third of global sales. Healthcare encompasses both institutional and home care sales, primarily for respiratory ailments. You may recall last year, we proactively pruned certain parts of the U.S. home care portfolio, which lapsed by the end of this year. Going forward, I expect healthcare to remain a stable and steadily growing segment.

Food and beverage continues to grow low-to mid-single digits, driven by a combination of consumption trends and innovative application technologies that enhance food quality and preservation. This is a workhorse of the portfolio that may not get a lot of the spotlight, but it provides consistent growth and is remarkably resilient.

Electronics at 9% of sales was the fastest growing end market this quarter. Note this 9% does not include an additional 2% of electronic sales in Taiwan through our non-consolidated joint venture, which is also growing well. The 6% growth we achieved is evenly split between onsite project startups and demand for process gases and advanced materials. Growth was fueled primarily by high end chip production in Korea, Taiwan, and the U.S., and some lower end chips in China and Southeast Asia. We observed increased fab activity in Q3, spurring merchant and packaged gas demand, as well as new onsite bidding opportunities, particularly for cutting-edge advanced nodes. I expect this end market to provide robust growth for some time and serve as an important part of our project backlog growth.

Turning to industrial end markets, which account for about two-thirds of our sales. As many of you know, this is an area we've been cautious on for several quarters in a row. So recent macro trends have not been a surprise. Starting with metals and mining, which were slightly up, largely due to inflationary price increase, while base volumes were mostly negative. Metal trends were region-specific and also impacted by tariffs. China is up where Linde benefits supplying Tier 1 customers.

But I believe the trends for Tier 2 and Tier 3 steel mills are considerably more stressed, but we do not supply them. U.S. has been a bright spot for metals, not just production levels, but also new capacity opportunities as they've been supported by the new tariffs. Europe, by contrast, is the weakest as demand continues to drop, led by weak industrial activity. We've been supplying steel mills for many decades, and we've seen the cycles. We have confidence in the competitiveness of our customers, but also the opportunity to deploy our applications that enable our customers to either reduce energy consumption, de-bottleneck, and enhance efficiency.

Chemicals and energy are up 1% driven by inflationary price increases. Overall, base volumes are down as chemicals is one of the most challenged end markets today. The U.S. and China saw flat volumes. India continues to see moderate growth, while the rest of the world is seeing volume decline as they adapt to trade policies and lower demand. Europe remains the weakest, with continued broad-based demand challenges. Fixed payments are being made, so the profit impact for us is therefore limited. Despite the current challenges, I expect the cycle to rebound, as all prior ones have, especially given our confidence in the cost position of our top-tier customer base.

Manufacturing, which grew at 3% year-on-year, was the fastest-growing industrial end market. Let's start in the Americas. We're seeing solid volume growth, especially in the United States. We seem to have lapped some of the tariff concerns, and this has translated into a healthy uptick in manufacturing activity. In addition, I'm pleased with the momentum in our commercial space business. Growth has been strong as we remain the trusted supplier of fuel for rocket launches and satellite propulsion systems. This sector continues to present exciting opportunities for Linde as we invest in additional capacity.

Turning to APAC. Manufacturing volumes are holding steady. China's numbers appear to be leveling off, while India remains on a strong growth trajectory. Europe again continues to face challenges, with widespread softness in manufacturing activity. Summarizing these trends, consumer markets are performing as one would expect. Pricing continues to track inflation, and despite some of the volume challenges from the ongoing industrial recession, Linde is well-positioned to supply as industrial activity and volumes recover. In other words, it's business as usual.

Finally, more recently, I've heard some talk of a potential recession and the possibility of an economic contraction. As far as I'm concerned, we've been in an industrial recession for more than two years. And here at Linde, we've taken proactive steps, while navigating contractions across several industrial end markets. We've been making our model recession-resistant for many years now, stressing on productivity and efficiency within our business, focusing on

targeted high-quality growth while maintaining disciplined capital management. Our operating model is designed to plan for the worst and be ready to capitalize on opportunities as they come. When things get tough, there is no group in the world I'd rather have in my corner than this Linde team.

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

Matt White

Thanks, Sanjiv. Third quarter results can be found on Slide 4. Sales of $8.6 billion are up 3% from last year and 1% sequentially. Recent weakness in the U.S. dollar led to a currency tailwind of 1%. Token acquisitions in Americas and APAC added another 1% and engineering impact decreased 1% from project timing. Excluding these items, year-over-year underlying sales increased 2%. Price increases of 2% were broad-based and aligned with globally weighted inflation, except for helium, which continues to experience price pressure from excess supply. Overall volumes were flat. This contribution from the project backlog was offset by weaker base volumes, driven primarily by European industrial customers. As Sanjiv mentioned, the weaker industrial activity was not a surprise, as trends mostly followed our guidance expectations.

Underlying sales were flat sequentially as seasonal increases in APAC were offset by seasonal decreases in EMEA. Note we had a supplier settlement in the U.S. home care business broken into two separate payments to Linde. The majority was paid Q3 2024, as disclosed in the 10-Q, while a final smaller payment was received in the second quarter, 2025. The payments recovered prior excessive costs and resulted in a current quarter operating profit headwind of approximately 2% or 40 basis points versus last year and 1% or 20 basis points sequentially. Aside from this, profit growth was primarily driven by price increases. EPS of $4.21 increased 7% or 4% more than operating profit, primarily from a lower share count and tax rate. While a share count is part of our ongoing repurchase program, the tax rate relates to favorable timing versus the upcoming fourth quarter. We anticipate full-year ETR to be in the mid to high 23% range, which is similar to 2024.

Slide 5 provides an update on capital management. Operating cash flow increased sequentially to $2.9 billion, or 8% over prior year. Second half operating cash flow is seasonally higher, so I expect a similar level for the fourth quarter. Overall, despite economic headwinds, the bar chart validates our resiliency through significant free cash flow generation. To the right, you can see how we deployed year-to-date capital, with $4.2 billion invested into the business using our disciplined investment criteria, $5.3 billion returned to shareholders. We have an under-leveraged balance sheet with significant access to low-cost capital, so we're well positioned to capitalize on future opportunities.

I'll wrap up with a guidance update on Slide 6. Fourth quarter EPS guidance is $4.10 to $4.20, or 3% to 6% growth. While this assumes a 2% FX tailwind, it also assumes an approximate 2% tax rate headwind, so these two mostly offset. As mentioned earlier, third quarter tax rate was slightly lower than the run rate, but we anticipate fourth quarter to be higher. There aren't any structural reasons, rather just timing effects. It's possible there could be upside to this tax rate estimate, but time will tell. Excluding these two items, underlying EPS growth is holding in the mid-single digit range, as we maintain the assumption of base volume contraction at the top end of guidance, similar to last quarter. The quarter guidance rolls up to a full-year range of $16.35 to $16.45, or 5% to 6% growth against the challenging macro backdrop.

In summary, we remain cautious on the outlook. It's difficult to identify near-term catalysts which could materially improve industrial activity for the remainder of 2025. And while we may take this prudent view, it does not negate our ability to generate shareholder value. Over the last two years, the global economy experienced recessionary industrial

conditions with restrained capital activity, yet Linde has grown operating cash and EPS mid-to high single-digits while contractually securing a record high quality project backlog. Looking ahead, if conditions worsen, we're prepared to take appropriate mitigating actions. And when things recover, we're well positioned to capitalize. Either way, we won't spend time predicting the future but rather focusing on the actions to shape it.

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

Question-and-Answer Session

Operator

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

Laurent Favre

Yes, good morning, guys. My question is regarding the backlog. And I remember that three months ago, you were talking about defending the $7 billion by year end despite startups. I was wondering if you think, I mean, I'm not aware of any significant new intake in Q3. Are you expecting significant new projects coming in in Q4?

Sanjiv Lamba

Well, thanks for that question. Obviously, the backlog at $7 billion, this is a sale of gas backlog is at a record level. I had said three months ago, my expectation is, we will end the year with a seven handle on the backlog despite starting up $1 billion in projects during the course of the year. We're on track for that. And I believe at this stage, we're on track to getting that seven handle by the end of the year as well.

Laurent Favre

And you talked about new projects on the steel side, in metals in the U.S. Can you talk about that opportunity? Is it something for the near-term or do you see multiple opportunities over the next 12 to 18 months?

Sanjiv Lamba

So, I just want to make sure I understood that correctly. You're asking about opportunity pipeline broadly and then in the U.S.?

Laurent Favre

No, it was more about metals, or I would say traditional projects away from electronics, away from decarbonization.

Sanjiv Lamba

Good question there, Laurent. So yes, I think we are seeing that as a result of the tariffs that steel and metals broadly, are likely to see some continued expansion in the U.S. We find ourselves well positioned with the right players who are

contemplating that expansion. So, the answer is yes, we are looking at steel and metals opportunities and potential for new expansion projects, which will lead to greater gas demand, which we will either feed from our existing network or with additional assets that we are proposing to put.

Laurent Favre

Thank you.

Operator

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

Duffy Fischer

Yes. Good morning, fellas. If you would, could you take a peek into next year? You've got, obviously the Q4 guide out. That is a baseline to springboard into '26. How comfortable do you feel? What does the project startup look like next year? And then if you just kind of anniversary the price you have now, how much benefit does that look like it will bring in '26? So just anything that you can kind of see forward into '26 would be helpful. Thank you.

Sanjiv Lamba

So, Duffy, in two weeks' time, we will have the entire team here going through a rigorous plan process. The plan presentation will happen there. And we will come back to you and give you good visibility on next year and provide the guide for next year as well in February, as we normally do, which you're aware of. So, I want to go through that process. Our planning process is fairly rigorous, and I think that's what gives us the confidence to come out and give visibility on next year.

I'll say a couple of things to kind of whet your appetite a little bit while you wait for us to come in February. The backlog that we have under execution, obviously is a strong input into continued EPS growth that we are likely to see into next year and beyond. So, expect that for sure. And of course, there is a variable in all of this, as you know. Our EPS algorithm, which holds well today, ensures that management actions and capital allocation does what it needs to do. At the end of the day, the variable that we'll be looking at for next year will all be around the macro. And I think that's going to be one of the factors that we will spend a lot of time talking about and planning for to ensure that we have a solid guide when we come in February.

Duffy Fischer

Great. Thank you.

Operator

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

Matthew DeYoe

Good morning, everyone. I could be wrong, but I think this is like the first quarter in some time where pricing didn't really move up sequentially. And I don't know. Maybe it's just coincidence or rounding, but I think it's just a question on, like the backdrop for pricing and whether you remain confident that you can continue to move the needle, just given some of the slower macro that we're talking about here.

Matt White

Matt, this is Matt. I think when you think pricing sequentially, you're always going to have timing differences of when the anniversaries are for certain contracts, for the escalations on certain contracts. So that's a normal part of our process. I always like to look at year-over-year as the key way to understand our pricing and then compare that to how the globally weighted inflation is. And when we look at the 2%, we have year-over-year, that's pretty much aligned with what we're seeing in our geographies on the weighted inflation basis. So, I probably wouldn't look too much into the sequential timing just because of some of the different timings of when increases occur.

Sanjiv Lamba

Matt, I might just add one comment, which is helium and rare gases, which is a drag on pricing, has been something we've mentioned in the past as well. Now, remember, helium and rare gases for us is a small portion of our revenue. So, the overall impact for us at the enterprise level isn't that great, but nonetheless, that's been a drag for us, particularly in APAC, which you've probably seen.

Matthew DeYoe

Yes, understood. All right; I'll pass it back. Thank you.

Operator

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

David Begleiter

Good morning and thank you. Sanjiv, and Matt, one more try on '26. Do you need base or organic volume growth to achieve your EPS growth algorithm next year? Thank you.

Matt White

Hey, David. So, when you think about the algorithm, there's the three parts, as we've described in the past. And the capital allocation part and the management action parts don't need any economic help. And as we've said time and time again, those two parts we view kind of mid-single digit individually. And so, the combination of those two should get us to about 10% or hopefully a little more without any help from macro.

And then the third piece is the macro, which really, we view has two parts. The FX translation, given we're a dollar functional, and the base volumes that we see. Even though they're under contract, the customers, how many molecules

they take will drive that base volume. So that's the part that's been the drag, the headwind for a few years now. But the rest of the model continues to live around the algorithm, hence why we've been able to achieve the growth we have with even the face of negative base volumes and up until recently, unfavorable FX translation.

So, we feel quite good about management actions, and we feel quite good about our capital allocation portion of the backlog. And we've talked about the strength of our backlog projects coming on stream. We've talked about the free cash flow that we can deploy on everything from stock repurchases to M&A activity. So, we feel good that that will deliver, and we feel good the management actions will continue to deliver. So, the macro, as Sanjiv mentioned, we'll give more of an update on that come February and how we view that and how we will put that together in the guide in February.

David Begleiter

Very good. Thank you.

Operator

And our next question comes from the line of Tony Jones with Rothschild. Your line is open.

Analyst

Thank you. This is Matthew speaking on behalf of Tony. So, I'd just like to ask one question about the project backlog and what major end markets do you expect to drive growth once the electronic CapEx cycle peaks over the next year or so? Thank you.

Sanjiv Lamba

Thanks. So, our view remains that the electronic cycle doesn't peak next year. The electronic cycle, in our mind, is here for the next five to seven years and potentially a little bit beyond that as well with all the build out that's contemplated. Having said that, the visibility we have on the electronic cycle comes through the engagement with various of the leading semiconductor companies and who are currently contemplating fab expansion. So that's what gives me the confidence to give you that sense that I expect that electronics in the capital cycle or CapEx investments to continue for some time to come.

Beyond that, today we have a fairly strong pipeline of projects that we're working on. And that happens to be across a number of end markets. And I still feel pretty confident that we will continue to see growth, certainly in electronics as I mentioned, but also in a number of other areas, including steel in parts of the world where we continue to see some possible opportunities. We mentioned the U.S. is one, India is potentially another. We expect chemicals and refining in other parts of the world to also continue to see some level of activity. And last but not least, while we don't explicitly look at decarbonization projects separately, they're still embedded within our end market. Companies are still looking at their programs for decarbonization and that will continue to provide an opportunity pipeline that looks pretty good, certainly for projects that have a strong economic basis on which to progress.

Analyst

That's very helpful. Thank you.

Operator

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

Vincent Andrews

Thank you and good morning, everyone. Just wondering, as we're far enough along in the fourth quarter, are you getting any sense particularly maybe in Europe that we'll see earlier than normal seasonal shutdowns or is the sense you're getting that, there was a comment to this, maybe there's a little bit less pessimism now that some of the trade deals have gotten pushed along. So just any thoughts on that would be helpful.

Sanjiv Lamba

So generally, Vince, in Europe, Q3 tends to have a seasonal impact, and my expectation remains that Q4 will largely be flat. When I look at the broader European context today, unfortunately, as you know, we are seeing negative volumes there sequentially. That industrial market remains soft. I don't see a catalyst for change in the near-term to, kind of change that fundamentally. I'll talk about a couple of geographies that are looking like we might see movement.

So, I'll start with Germany to begin with. The economy is slow. You probably just saw data that came out yesterday and this morning suggesting that maybe a slight uptick. There is an expectation, and again, we don't base our plans and strategy on hope, but generally, there is an expectation and hope in Germany that the spend on infrastructure, the $500 billion that's been planned, will provide an impetus or momentum for industrial activity to pick up. I don't see that happening before middle or maybe even Q3 of next year, but nonetheless, that is something that people are looking forward to.

The UK economy, on the other hand, also large in the European context, remains stagnant and we aren't seeing much movement there. And I can't see really a catalyst there either for a fundamental change. There is a bright spot in Europe, I have to mention that, which is the Nordics. The Scandinavian businesses seem to be seeing growth. They seem to be seeing some momentum and that's good news, but they aren't large enough to move the overall European context. So, I'd say to you, for the rest of the year, I expect that declining trend that we have in volumes to remain consistent. Sequentially, you should expect that to be flattish. Nothing beyond that at this stage.

Operator

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

Patrick Cunningham

Hi, good morning. One of the desired outcomes from the trade and tax policy is clearly an increase in U.S. manufacturing and it seems like we've lapped some of the tariff concerns. We started to see some uptick here. How would you frame

the market risk near-term, which seems to be getting a bit better, versus what maybe your customers are saying in terms of doing new projects, CapEx plans and level of certainty on sort of forward growth expectations?

Sanjiv Lamba

Hey Patrick, that's a good question. Let me kind of give you a two-part answer to that. I'll talk to you about our U.S. packaged business that reflects the near-term realities of what we're seeing and what we saw in Q3. We expect that to be consistent into Q4 and I'll give you a little bit of a sentiment view from what I'm hearing from customers as well.

Let's start with the packaged business. So, the packaged business, the U.S. packaged business grew mid-single digit organically. That's volume and price together. Gas volumes were down low-single digit. They were impacted by helium as well within that. So, the industrial demand underlying there was quite stable. Hard goods sales were up mid-single digit. Volumes were particularly up due to growth in automation and equipment sales. Now, that's usually a good sign because it shows that customers are preparing for order book pickups to happen and therefore getting ready for that. So, that's a good signal that we obviously track quite closely. So, I'd say that growth in automation equipment suggesting that they're willing to make some of that upfront investment to be prepared for the orders as they come through.

Now, larger projects, and I think answering your question around customer sentiment now, I'd say that there remains a degree of caution. There is no question we have lapped the tariff concerns, but there still remains a degree of caution. And I think we see people progressing on looking at their major expansion projects or CapEx investment into the ground, but we still see a degree of caution around that. Broadly, I'd say when I look at broader manufacturing, the volumes are resilient, which suggests that that trend is likely to continue into Q4 with hopefully the pickup happening in the first half, maybe middle of next year, in terms of actual projects on the ground, ensuring that volumes have a pickup.

Operator

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

John Roberts

Thank you. I think China is lowering the prices quickly on electrolyzers, the same way they did on equipment for solar and wind. Do you think that might cause any recovery in green hydrogen, ammonia? It's been very quiet in the last couple of years here.

Sanjiv Lamba

John, I think the Chinese cost curve on electrolyzers, alkaline in particular, has been declining for some time. This isn't necessarily new. They've had a couple of hiccups around the scale-up technology being reliable and working through. But notwithstanding that, I fully expect Chinese electrolyzers to provide a very good option in the market as people evaluate the economics of green hydrogen or renewable hydrogen. What I would say to you, though, is that the issues with renewable hydrogen are slightly more fundamental, and they come with three parts. And I know this, you know John, but I'm going to repeat this anyway. The first issue is around scalability of that technology, because we are still talking in terms of 5 megawatt stacks, 20 megawatt stacks.

That isn't a scale at which we can really operate. So, you have hundreds of modules to come together in case you want to build a 200 or a 500-megawatt facility, which again, in the larger scheme of things, when you compare that to a large steam methane reformer, is a fraction of what the steam methane reformers deliver. So I think from that scalability point of view, there is a challenge for electrolyzers, as is the challenge around reliability in terms of being able to operate, clearly not 24-7 because of the availability of renewable energy, but even from the grid, I think the ability to give that 24-7 consistently over the course of a year is still fairly challenged around electrolyzer technology. So that's the first piece.

The second piece is what you refer to, which is capital efficiency or the lack thereof. And I think that's being addressed in part, certainly by the Chinese more rapidly than anyone else. I've said this before, so at the risk of repeating myself, that's probably the cost curve on the capital side needs to probably get a reduction of between 60% to 70% before you start seeing an inflection point which makes renewable or green hydrogen more competitive.

And last but not least in all of this, we shouldn't forget the fact that we need availability of electrons generally, but renewable energy in particular, because that's what the preferred option for green or renewable hydrogen is. And as you know well, today any electron gets taken out very quickly and all of this build out on data centers and AI-led data center development means that renewable energy is going to get scarcer, if you will, from a renewable hydrogen perspective. So that's something also that is structural for now that needs to get addressed before we get to a point where you see that scale-up happen.

John Roberts

All right. Thank you.

Operator

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

Jeffrey Zekauskas

Thanks very much. In your commentary on the APAC segment, you said your prices would have been up or they were up in all areas except for helium and rare gases. So, if half of the penalty is helium, maybe that's $15 million. And in your other segment, you're losing about $15 million, and that segment used to earn about $15 million. So, the helium hit there is at least $15 million, maybe it's $30 million. So, it looks like maybe the helium penalty this quarter was $50 million year-over-year. It had to be a minimum of $30. And so, if you annualize that, that's trimming your EPS growth by about 2%. Maybe it's 1.5% to 2.5%. Is that the correct math?

Sanjiv Lamba

So, I'm sure you've done the math. I'll let Matt, kind of respond back to that. I'll just give you my flavor on what is happening to APAC pricing to just reconfirm that APAC pricing excluding helium and rare gases, so I would urge you to not forget that. So, APAC pricing excluding helium and rare gases is positive. Now, you have to remember in APAC also that China is going through deflation, so we do see that reflected in Chinese pricing more broadly.

But Matt, what do you say to the math that Jeff just put together?

Matt White

Yeah. I think on a high level, Jeff, I would agree with the basics of your math. When you think about full-year, we'll stick with full-year basis rather than quarter, but on a full-year basis between helium and rare gas, if you take both the volume impact because you did see some curtailment of volume whether it's for balloon or whether it's for MRI coupled with some of the pricing impact, you could argue on a year-on-year basis that's probably a 1% to 2% impact, probably on the lower end of that range, but on the EPS year-on-year. And APAC, unfortunately, is impacted the most given that's where the larger percentage of demand for those products are, but that is how I would summarize.

I mean, when you think about helium and rare gas, it is low-single digit percent of our global sales and just given some of the volume and pricing impacts, you have seen an impact year-on-year related to that. So, I would say pretty much flows close to those numbers, but we hopefully have seen some stabilization definitely on the pricing of rare gases, and helium, I think it still remains to be seen on some of the Russian supply.

Jeffrey Zekauskas

Okay. Great. Thank you so much.

Operator

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

Michael Sison

Hey, guys. Nice quarter. Sanjiv, I wanted to dig in a little bit in your comments on the chemical industry. Unfortunately, I see all red today for our sector in terms of stock prices. But you had commented that you thought the cycle will turn positive. We've seen a lot of companies this quarter have asset write-downs, there's more announcements of asset reductions or rationalization, particularly in Europe and other parts of the world. So, what do you think, why do you think there could be a recovery in the sector over time? And I just worry that maybe there's structural issues that could prevent a recovery anytime soon. So just curious on what you think needs to happen for that industry to turn the corner.

Sanjiv Lamba

So, Mike, that's a good observation. I think the chemical industry, as I said in my remarks, is probably the most impacted at this point in time. And therefore, every view on the industry or all perspectives on the industry tend to be quite negative. The reality is, and you know this well, Mike, we've seen the chemical industry go through these cycles before. There are some elements that are structural. There's nothing that, we have to accept that, particularly Europe, right? And we have seen the rationalization of capacity in Europe, supporting capacities elsewhere in the world. The one market where chemicals is still doing reasonably, including in the last quarter, was China. Now, obviously, a lot of capacity put in China on chemicals, which doesn't help the global supply-demand situation. But nonetheless, we have seen chemicals continue to have a reasonable growth in China in the quarter, and the expectation remains that that'll be the case.

I do expect that with the rationalization in Europe, you will see the broader chemical asset base start looking at the recovery or a rebound over time. I'm not suggesting it's happening tomorrow or anytime soon, but I do expect that cycle to turn. And based on feedback we have from many of our customers now, the expectation remains that once the rationalization actions are being taken into account, there will be a fundamental shift back to a point where you will see that chemical industry come back a little.

Michael Sison

Got it. And then just one quick follow-up, SG&A was up 9% year-over-year, sequential was up 3%. Any particularly, any reason for that trend, and how do you see that going forward?

Sanjiv Lamba

Yes, the answer for that is fairly simple, Mike, and I always look at SG&A because quarterly trends have things in and out. You've got merit, you've got inflation, you've got stuff like that. I always look at year-to-date, year-to-date, SG&A is up 1%, and really, I think when you dig a little bit deeper under that, you've got M&A impacting that by about 1%, you've got inflation impacting that by about 2%, and then we have, as you know, a whole restructuring set of actions happening which take down our SG&A by 2%. So, net-net year-to-date, we're up about 1%.

Michael Sison

Thank you.

Operator

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

John McNulty

Yes, good morning. Thanks for taking my question. Maybe a follow-up around some of the European capacity closures. So, it looks like there have been a lot announced at this point, and so far, you all seem like you've avoided being tied to too many of them, likely a lot of good partnerships that you've kind of picked over the years. I guess, can you help us to think about, at least given the announcements that have come out in the last quarter or so, if there's any speed bumps that we should be aware of as we look out over the next year or two where assets are getting shut down, maybe you get a big one-time payout, and then the business disappears. I guess, how should we be thinking about that?

Sanjiv Lamba

John, I'd say to you that the rationalization has been something that we have looked at, and to some extent, we internally have kind of mapped out what we thought the pace of that would be. All of that's playing to exactly how we thought it would be. So, I'm not seeing any surprises in there. I would also say to you that there are a few customers that are below MTOP at the moment in Europe largely around steel and chemicals. And I think we still are being paid.

The thing that I look at when I look at these large customers is whether we're getting paid the fixed fee. And that's what contractually protects us from any exposure. So, we see that happen. I do not expect any significant rationalization

impact of the order and kind of the way you defined it, where things shut down with large one-off payments. We are just seeing, again, it's the pedigree of the customers we have, the cost positions that they have, which ensure that these Tier-1 customers in the chemical sector that we serve will remain. They will be much, much the last man standing, if you will. And I feel good about that portfolio.

John McNulty

Great. Thanks very much for the color.

Operator

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

Joshua Spector

Hey. Good morning. I had a follow up just on the manufacturing comments. I mean, I think if you look at the declines you're calling out in Europe, but then the growth in the U.S. side or Americas broadly, I mean, you're doing much better than the PMI metrics and what we're looking at. So just curious if you could comment maybe a little bit more detail by market or wins and how that's driving itself the quarter. Maybe some of that's redundant with when you answered Patrick, but I wasn't sure if there's anything else to add. Thanks.

Sanjiv Lamba

Yes. So, I think as I explained there, Josh, the manufacturing piece more broadly is seeing two things are happening, right? We're lapping the tariff concerns or the trade concerns that were there. And I think that's resulted in manufacturing coming back and rebasing. So, the uptick in manufacturing that I referenced earlier on is driven by that. And then obviously we are seeing some of the clarity that is now coming into the market, allowing people to plan and progress with their activity and potentially expansion in that space as well.

I won't point out any specific elements. I'll give you a couple of examples of the U.S. manufacturing clearly. I've given you the example of the U.S. packaged gas business. That is a great proxy for U.S. manufacturing, has done well mid-single digit organic growth. That is, of course, both price and volume. But I'll also give you examples in China, as an example, which we've been struggling with manufacturing being in steady decline. We have seen particularly around selective subparts of the manufacturing end market. We've seen EVs and batteries show some growth. So, we are seeing a bit of a mix bag around the world. The U.S. leads that in terms of the manufacturing activity and the growth we see in there. We're seeing, obviously India. I gave you the example of China. Where we see manufacturing broadly remain struggling is Europe. And I think it shouldn’t come as a surprise to you. We've been kind of looking at that and it is exactly as you know we had expected unfortunately.

Now the expectation there is that the $500 billion spend in Germany is going to spur some of that manufacturing activity. I'd love to tell you that it's going to happen on the 1st of January 2026. But you and I both know that by the time the German system puts its whole process around that, it's going to be a few quarters before we get the benefit of that, and you will see that play out. I think there's a certainty around that, but again we'd have to watch for that to happen before we can really kind of comment on it.

Matt White

And Josh, this is Matt, the only other one thing I'd add to Sanjiv's points are we do put commercial space in the manufacturing that is growing and clearly driving some of the growth in that end market. That obviously will not correlate with PMI given it's a very different type of growth trajectory but that is also having a positive impact on the manufacturing end market.

Sanjiv Lamba

Matt, I don't know how I forgot that, because I think of space as an end market by itself. I think it's about time we grew that enough to be able to show that as an end market. But yeah, very healthy double-digit growth, feeling really good about aerospace broadly and commercial space specifically, Josh. And I'll just give a bit more color there just to say, look, the reason we are excited is, not only are we seen as a reliable partner for, by almost all the space launch companies, but as the companies are ramping up their activity and accelerating their manufacturing process around both production of engines, testing of engines and obviously launch, we see this significant opportunity for growth and we are putting a lot of capacity on the ground today particularly in the U.S. to serve that additional oxygen, nitrogen, hydrogen demand and of course rare gases for propulsion systems for satellites as well. So yes, that certainly sits in manufacturing and Matt was absolutely right in just pointing that out.

Joshua Spector

Great. Thank you.

Operator

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

Kevin W. McCarthy

Yes. Thank you and good morning. Sanjiv, you commented in the prepared remarks with regard to electronics that you expect robust growth for some time. So, I was wondering if you could unpack that for us a little bit. For example, what sort of industry level growth do you see over the next few years, however you think about that, square inches of silicon or otherwise. And in the past, I think that you've asserted that industrial gas demand into electronics actually grows at a premium rate due to shrinking nodes and maybe changes to chip architecture, etc. Is that still the case and what is that premium and how do you see it evolving with AI data centers, etc.?

Sanjiv Lamba

Sure, Kevin, that's a great question. So, as I said in the prepared remarks and also in the response to a question earlier, we still see a very robust pipeline for growth over the years to come over there. I think when you think about semiconductors broadly, the expectation remains that over the next five years or so, you should see semiconductor industry grow to $1 trillion. And I think the expectation of growth between 9% to 11%, I think, depends on which study you pick up.

Within that, clearly, as you're aware, logic is the steady growth element in there. And of course, memory, more recently driven by HBM, really is seeing a significant pickup as well. And that's where a lot of the capacities today, both in terms of logic for the GPUs as well as HBM memory, are really finding the investments play out. I would say to you that I expect that the 9% to 11% growth range is a good number to begin with. You will see, as it always happens, once fabs come on the ground, in terms of actual consumption from an industrial gas perspective, we tend to start the plants up, and obviously, you see a bit of a momentum there, and then it evens out and gives you that 9% to 11% longer-term. So, I feel good about how we will see that reflected, both coming from logic as well as HBM, particularly, but memory more broadly as well.

The second part of your question was around the intensity of gases, and the answer is absolutely yes. The more advanced nodes we see, the intensity of gases goes up and has continued to go up. The tools that we now see with the OEMs who are putting the tools together, even looking at the next generation of tools, and our R&D engagement with them suggests that that gas intensity increase continues to be the case, and that's what gets us excited, right, that there is significant growth happening, but not just that, you're actually seeing a higher intensity of gas application in that process as well. I know for a fact that Juan's done some really good work around that gas intensity analysis. If you want, you can reach out to him, he can share some more information with you.

Kevin W. McCarthy

Thank you.

Operator

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

James Hooper

Good morning, guys. Thank you very much for taking my questions. My question is more on the margins in EMEA. I mean, 36% is very, very impressive, and you've done over, kind of 200 basis points year-on-year excluding pass-through. But are we starting to reach terminal velocity or margins here? Without kind of volumes coming back, how much further can we go, and what levers are you looking to pull to keep growing here? Thanks.

Matt White

This is Matt. I think starting with, yes, as you look at EMEA right now, clearly you have negative volumes and positive price, and that combination is creating a very strong margin contribution result year-on-year. And as we mentioned on the volume side, the industrial on-site customers are primarily driving a portion of that, so we are still getting paid. But they are, in some cases, noticeably below the MTOP levels. So, you will get a little bit of a boost on that. When you see some recovery in those on-site customers, I don't expect any margin expansion. If anything, you might have a minor margin dilution simply as you start to bring up some of the power costs, which essentially flows through. So that component would have an impact on the recovery.

As far as base merchant and package recovery, that would be margin-accretive, right? That would be as you would expect as that volume flows back through. So, we've always found in our history that in more difficult times, our margin expansion tends to be greater, and that's simply because of the earnings algorithm that we talked about earlier, that you

tend to have more contribution from management actions, which can be highly margin accretive. When we get recovery periods, we still get margin expansion, but not at the same clip, simply because then you shift more of your growth towards volume, and you just get a little bit of a mixed change effect there. So that's how I think of EMEA, but they are doing what you would expect this model should do in the environment they're in, which is they're getting price to inflation, their fixed contracts are maintaining, as you would expect, and they're managing their cost stack given the environment they're in.

Operator

And our next question comes from the line of Lawrence Alexander with Jefferies. Your line is open.

Laurence Alexander

Hi, would you mind updating specifically on packaged gases? Two issues. One is what you're seeing in terms of demand trends there, particularly in, sort of the welding applications, but also where we are on the regional consolidation in Europe versus the U.S. And how much farther do you think you can go in terms of consolidating the U.S. market? Like, where do you think your market share might top out?

Sanjiv Lamba

Thanks, Lawrence. So, I described the U.S. packaged business earlier on, and I think within that, the comment I made was we're seeing, certainly on the hard goods side, in the last quarter, in fact, we saw mid-single digit growth from an organic sales perspective. Volumes were up, particularly driven around growth in automation and equipment. And that's a good sign because that shows that the welding end of the manufacturing cycle is looking stronger. Obviously, some of that is going into large construction projects, including data centers, something we don't normally talk about, but, and obviously LNG projects in the U.S. et cetera, which are driving some of that growth. And I think the growth still looks pretty robust. And as manufacturing laps, all these concerns around tariffs, et cetera, we have an opportunity to see a good growth pattern there as we look ahead into the future.

On consolidation, I'll give you a global view, and then I'll focus a bit on the U.S. because that's where the action is. So, there is consolidation, and there are opportunities for consolidation on tuck-in acquisitions in the packaged gas space. And we've seen that now, taking the model that we've got in the U.S., and we've applied that in, elsewhere in the world, including in Asia, and increasingly now looking at opportunities in Europe as well. So, there are opportunities for consolidation globally. But the biggest opportunity lies in the U.S. There is no question around that.

And while I may not comment on the market share piece, I can only say this to you. I still believe we have a number of opportunities for tuck-in acquisitions in the US, and we have the balance sheet strength and the appetite to go about doing that. From memory, I'm just trying to think back. I think we closed 18 deals last year globally. This year, we're seeing about a percent of our sales are going to come from acquisitions. Much of that's going to be tuck-in acquisitions coming out of the packaged gas space. So, we feel really good about that space. We expect significant opportunities still in that space for us to continue to do that.

Laurence Alexander

And just if I may, on the cylinder rental price increases over the last five, seven years, given how soft the end markets have been, have you seen any material pushback or pricing fatigue where you may need -- feel you need to walk back to cylinder rental to help the market, or just describe what's going on there?

Sanjiv Lamba

The easy answer is no. We have a robust rental process. And of course, our customers see the value that comes out of that and the rental stream, and the growth we've seen within that has matched a CPI, globally weighted CPI that we see as a proxy for price increases that we would normally expect. So, we've seen exactly that trend come through on rentals as well.

Laurence Alexander

Okay, perfect, thank you.

Operator

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

Arun Viswanathan

Great, thanks for taking my question. Hope you guys are well. Last quarter, you mentioned, maybe some thoughts around disinvestment in Europe and your thoughts that maybe that would not continue. Maybe you can just provide an update and updated thoughts there, as well as here in the U.S., you just mentioned strong opportunities. However, we're also seeing some rollbacks here. So maybe you can just kind of elaborate on how you think the path forward could look in both those regions from an industrial and investment standpoint. Thanks.

Sanjiv Lamba

Sure. So let me give you a quick walk around the world. So, you've got to get a sense of what the different end markets are doing. I'll now maybe channel that into the opportunity pipeline that we're looking at. So, it's fair to say that most of our opportunity pipeline today comes from the Americas and Asia. That's where the opportunity pipeline today is providing projects that we're currently working on. And if those projects meet our investment criteria, then obviously these are projects that then go into the backlog and get developed.

Now, the U.S. opportunity remains robust. We see opportunities across a spectrum of end markets. I gave examples of electronics earlier on. We talked a little bit about steel. Clearly, even in other end markets, we are seeing opportunities for growth in the U.S. market. So, it's a robust pipeline of projects that we see in that space. On Europe, I'm not sure I quite got your comment on disinvestment. What I would say to you is that the number, the opportunity pipeline for Europe, or EMEA in our case, looks a little bit lighter when compared to either Americas or APAC. Not surprising, as you would expect, just given the industrial weakness that is currently there in Europe. But we still do have a number of projects in Europe that are progressing. Some of them are related to decarbonization, whereas others are related to

growth in other different end markets. So, we still see opportunity pipeline in Europe that over time, as we develop that, will convert into projects that we will take into the backlog or into base growth.

Arun Viswanathan

Thanks.

Operator

And our final question comes from the line of Mike Harrison with Seaport Research Partners. Your line is open.

Mike Harrison

Hi, good morning. Thanks for squeezing me in. You have highlighted in the past some opportunities for AI to help you improve operational efficiency and productivity. Was wondering if you could speak about any new use cases that you've found for AI that you may be implementing as we get into next year?

Sanjiv Lamba

So, Mike, I don't know how much time you have, but I could carry on the use cases for AI. Obviously, it's very topical. No discussion today is complete unless we've talked about AI. In our case, of course, we've been doing a lot of work with data which we've been capturing for about 30 years plus, and a lot of machine learning work that's been done over the last four or five years. So, much of that is in deployment today. Off the top of my head, I'd say to you, we have about 300 use cases or above that, and they range across the entire spectrum of operations. Some at the front end on the sales process, and some in our engineering and design process as well. So, healthy number of use cases, very robust deployment process.

We have an AI council that ensures that that deployment works well with the overall strategy that the company has laid out for ourselves, and we're excited about that. And the one change I would say to you is, rather than just look at standalone use cases for AI, we're now looking at different domains and trying to understand how we can introduce AI tools across a domain so that we can harvest some value.

We track AI projects just like we track all our productivity projects. It's on our internal platform in which they get reviewed and validated. And the AI team, I can tell you, has a very stretching goal in terms of what it needs to deliver as a benefit. So, we will use that, look at every use case, and look at the business case underpinning that, and those benefits are looking interesting and exciting as we speak. But again, all of that scales up over the next two to three years to have some major impact in the business.

Operator

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

Juan Pelaez

Abby, thank you, and thanks everyone for participating in today's call. Have a great day.

Operator

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