Linde plc 2Q25 Earnings Teleconference and Webcast - Transcript
August 1, 2025

Operator
Ladies and gentlemen, good day, and thank you for standing-by. Welcome to the Linde Second Quarter 2025 Earnings Call and Webcast. At this time, all participants are in a listen-only mode. Please be advised that today's conference is being recorded. After the speakers' presentation, there will be a question-and-answer session. And I would now like to hand the conference over to Mr. Juan Pelaez, Head of Investor Relations. Please go ahead, sir.

Juan Pelaez
I appreciate it, Abby. Good morning, everyone, and thank you for attending our 2025 second quarter earnings call and webcast. I am Juan Pelaez, Head of Investor Relations and I'm joined this morning by Sanjiv Lamba, Chief Executive Officer and Matt White, Chief Financial Officer.

Today's presentation materials are available on our website at the linde.com, in the Investors section.
Please read the forward-looking statement disclosure on Page 2 of the slides and note that it applies to all statements made during this teleconference. The reconciliations of the adjusted numbers are in the appendix to this presentation. Sanjiv will provide some opening remarks and then Matt will give an update on Linde's second quarter financial performance and outlook, after which we will wrap-up with Q&A. So now let me turn the call over to Sanjiv.

Sanjiv Lamba
Thanks Juan, and good morning, everyone. I'd like to thank our Linde employees for once again delivering solid results. EPS of $4.09 and operating margin of 30.1% both represent all-time quarterly highs, against the backdrop of a challenging macro-environment. Operating cash flow grew 15% and ROC of 25.1% continues to comfortably lead the industry. And these results are underpinned by a healthy balance sheet that ensures access to low-cost capital.

Overall, Q2 was a successful quarter, which Matt will provide some more further details. But before that, I'd like to review one of my top priorities, which is to ensure future growth for Linde.

Slide 3 highlights the sale of gas project backlog, which is one key element of that future growth. One cannot discuss project backlog without first aligning on definition of what is included. And unlike others in the industry, Linde's definition has been clear and consistent with the most disciplined criteria. Inclusion in Linde's project backlog requires incremental growth, secured by contractual fixed fees with high-quality customers. Contract renewals, plants without customer commitments or LOIs are not included in our backlog. It's important to make this distinction, because backlogs are simply not comparable within the industry. And while many like to tout the overall size of the backlog, it's the turner -- turnover of the backlog, which is one of the most important metrics, which actually can be seen in the center graphic represented by wins and startups.

In a little over four years, the sale-of-gas backlog has approximately doubled from $3.6 billion to $7.1 billion. The same is true for the number of projects moving from 33 projects to 70 projects. During this time, we added $9.2 billion of new projects and more importantly, started up $5.7 billion of these wins. This represents more than 150% backlog turnover in 4.5 years. So while I'm pleased to see the sale-of-gas current backlog at record levels, I'm equally encouraged by the accelerated turnover from timely execution and strong contracts. Of this $7.1 billion backlog, almost three quarters are in the Americas, mainly in the US for future plants serving the electronics end market and clean energy.

To the right, you will see some of the high-quality customers that make-up the majority of this backlog. One recent add is the Blue Point Project, which is a JV between CF Industries, JERA and Mitsui, that will produce low-carbon ammonia in Louisiana. We're proud to have been selected as their industrial gas partner due to the capability and track record of our US Gulf Coast team. The addition of this facility will help further build-out supply density in a fast-growing region in the US.

Furthermore, this win represents a third large clean energy contract signed, bringing the total to approximately $5 billion, which validates that the right low-carbon projects will continue to reach FID and execute contracts. Also not included in the slide is a sale of plant backlog, which today stands at $3.2 billion and typically converts one-to-one to sales over a three-year cycle.

Now it's important to note that while we've made nice strides with the backlog, it does not represent all investments for future growth. We actually spent over $1 billion in CapEx annually for what we call base volume growth. Decisions for making these investments follow the same process as the backlog and require a consistent risk versus return criteria. They are just missing one or two key requirements to be classified as backlog. Most base growth CapEx supports packaged and merchant supply models and is critical to further developing network density. Now small on-sites, an important supply bridge from merchant to on-site can also be included as base CapEx when individual plant CapEx is less than $5 million. One recent base growth addition includes a Southeastern US merchant investment in support of space launches, a sector that continues to offer attractive growth opportunities. While these wins are contractual commitments by customers, the lack of guaranteed fixed fees precludes eligibility in the backlog.

Finally, I'd be remiss not to mention the role small tuck-in acquisitions can play for sustained high-quality growth. While I don't expect this number to be an overly large driver, it can consistently deliver an annual percent or two bottom line improvement from both acquired profits and self-help synergies. For the second quarter, you can see the 1% top line increase from US and APAC bolt-on acquisitions, mostly in packaged gases.

Overall, despite the unfavorable economic backdrop, we are forging an independent path to growth. This comes not only from a high-quality disciplined project backlog, but also incremental base CapEx investments and roll-up acquisitions. I'm highly confident in the Linde team's ability to not only win more than our fair share of high-quality opportunities, but also to execute them as promised to deliver value for both customers and shareholders.
Simply stated, I continue to be bullish on industrial gases as a critical foundation in making our world more productive, and I'm certain Linde will remain the undisputed leader in this effort.

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

Matt White
Thanks, Sanjiv. Slide 4 provides a summary of second quarter results. Sales of $8.5 billion increased 3% over prior year and 5% sequentially. Year-over-year FX headwinds abated as we saw a 3% sequential improvement from broad-based weakening of the US dollar. Cost pass-through trends were driven by energy fluctuations but have no impact on profit. And as Sanjiv mentioned, acquisitions lifted sales 1% over prior year from synergistic deals in the US and APAC.

Excluding these items, underlying sales grew 1% over prior year and 3% sequentially. Broad-based price increases continue to track with globally weighted inflation, except for helium and China. Volumes are down 1% from last year as weaker base volumes, primarily in EMEA, more than offset contribution from the project backlog.

As mentioned in prior calls, much of this decline stems from existing contractual customers using less gas in their operations. So any recovery would be immediately beneficial. And while volumes did increase 2% sequentially from seasonal effects, the core trend remained somewhat stagnant.

Operating profit of $2.6 billion increased 6% over prior year. The operating margin of 30.1% increased 80 basis points or 100 basis points when excluding the effect of cost pass-through. EPS of $4.09 also increased 6% from prior year as a lower share count was mostly offset by a higher effective tax rate.

Despite the base volume headwinds, business quality continues to improve from self-help actions. Further support of this quality can be seen in operating cash flow growth of 15% as well as a healthy ROC exceeding 25%.

More details on capital management can be found on slide 5. The operating cash flow trend shows sequential stability in the first half of this year, consistent with our commentary from last quarter. Recall that the first half of the year is seasonally weaker due to timing of certain cash impacts like taxes, interest and incentive compensation.

I expect a step-up for the back half, like what we experienced last year. Base CapEx is stable, which has enabled healthy levels of cash flow available for shareholder returns, M&A and project investments. The pie chart represents a steady and disciplined capital allocation policy, which deployed almost $6.5 billion year-to-date. Of this $2.8 billion comprises investments that met our risk-reward criteria, an increase of 20% over last year.

Equally important is our ability to consistently access low-cost capital. This quarter, we issued bonds of CHF0.5 billion with an average yield less than 1%. Ability to raise cost effective capital will continue to be a key component of shareholder value creation, especially as we see greater discrepancy across interest rate policies.

I'll wrap-up with guidance on slide 6. For the third quarter, we're providing a guidance range of $4.10 to $4.20 or 4% to 7% above last year. This includes an assumed 1% currency tailwind, which would be the first quarterly FX benefit since late 2023. While the FX assumption improved from our prior guidance level, we mostly offset that with a more negative assumption of the economy as the top end now assumes economic contraction.

During the second quarter, we were able to capture the full FX upside on top of meeting the original expectation. However, the currency volatility and general economic uncertainty don't give us enough confidence to raise the outlook at this time. Rest assured, we'll strive to outperform this projection, but time will tell if we're being too conservative or not.

For the full year, we simply approached it the same way as the third quarter, updated the improved FX, but offset with an assumption of a contracting economy at the top end of the range. This resulted in a new range of $16.30 to $16.50 or 5% to 6% growth, including a 1% currency tailwind. The last time we saw a full year currency tailwind was 2021, so I believe it's appropriate to remain guarded.

In summary, the EPS algorithm remains intact. Linde employees continue to manage what's within their control to deliver value. But we know there's always room to improve. The current negative volume headwinds are a function of contractual customers taking less gas due to the economic uncertainty. Between internal initiatives and industrial recovery, I expect this level to improve like it always has. And when that happens, coupled with the self-help growth initiatives that Sanjiv laid out, I'm confident Linde will return to the double-digit EPS growth that our owners have become accustomed to.

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

Questions And Answers

Operator
Thank you. (Operator Instructions). And our first question comes from the line of Duffy Fischer with Goldman Sachs. Your line is open.

Duffy Fischer
Yeah, good morning, guys, and congrats on a really good quarter. We're hearing a lot of different things from the companies in this space over the last week about just where business is globally, whether it's tariffs and stuff like that. So could you take some time and just go geographically by end-markets kind of what you're seeing and what you expect to see in the back half of the year?

Sanjiv Lamba
Thanks, Duffy. That's a good place to start. So why don't I do just that, walk you around the world and share some insights. I'll start off here in the Americas. And I'm expecting volumes to be flat, maybe very slightly up, led essentially by growth in the resilient end market, but being partly offset by softer industrial sector.

I have to say, I remain positive on the US market. In Q2, we saw volume move in line with slightly positive IP numbers that were published earlier this week. Year-on-year volumes were up for metals and mining, chemicals, energy, food and beverage, electronics, while manufacturing showed a slight decline. Sitting in manufacturing is our commercial space market, which continues to be a very attractive growth opportunity. And Linde, of course, is well-positioned in that space.

The opportunity to supply fuels for rocket launches, propulsion systems for placing satellites into orbits, it's fueling double digit growth for Linde in that particular market or end market. And not only do we supply the leading and probably the most well-known company for space launches, but also working with many others who are looking to scale-up and we expect to see that growth continue.

So our recent announcement regarding the new investment in Texas and Florida is likely the first of many that you'll see. And again, we're trying to see how we take this business globally. And in doing that are finding opportunities in Europe that are starting to look attractive as well. So that's really Americas for you with a lot of confidence in the US market, if you will.

From that excitement of space, I have to bring you down to some ground realities, when I talk about Europe. So Europe is expected to continue to soften -- see softening in demand, led primarily by Western Europe. Any growth in the resilient end markets will be more than offset by decline in the industrial sector across metals, manufacturing, chemicals, energy, all with volumes lower than last year. So in the short-term, Europe has several challenges to get their economy back on their feet. And I currently don't see any catalyst for economic improvement this year. Volumes, therefore, are likely to be negative in the second half. I think it's going to be driven almost entirely by the industrial sector. Our team in Europe is doing all they can to manage through this economic environment, working on levers that

they know and are in control of such as price, productivity, cost actions. And of course, you can see that reflected in the double-digit EBIT growth that they were able to provide in the quarter.

But looking ahead into the rest of the year, I'm not -- I'm not feeling any level of confidence that you're going to see improvement. If anything, you're going to see a likely decline continue there.

If I move on to Asia, I'll start with China maybe and just tell you, China remains a mixed bag. You've heard me say this in previous calls, I expect China to remain flat for the year and that continues to be our expectation. There is EVs and batteries and electronics end markets that will continue to grow, but that will be more than offset by much weaker metals and chemicals for the remainder of the year.

Industrial activity in Australia is seeing declines which are similar to Europe, almost across all industrial sectors, really a reflection of the level of industrial activity in the country. Again, the Linde team there is busy executing their self-help actions, which will show results at the back end of the year and beyond.

Now the bright spot in APAC remains India with merchant volumes growing in their teens and a healthy opportunity pipeline for new investments. This is unfortunately offset by declines in the ASEAN countries. South Korea, the other main market in APAC, mainly driven by electronics end market is also expected to see some growth. So all-in, I'd say when you wrap it all-up for APAC, it's probably going to be just balanced or flat volumes for the year.
That essentially is how we are seeing the market. I think the summary is resilient end markets continue to have low to mid-single digit growth, but more than offset by the industrial sector, largely across the board with particular negativity coming out of EMEA.

Operator

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

David Begleiter
Thank you. Good morning. Sanjiv, your price mix has been very stable over a number of years. Do you see any risk to not getting future price increases given the weak macro we are now in? Thank you.

Sanjiv Lamba
So David, I've often quoted that over the last 25 years, Praxair Linde has always achieved positive pricing, being -- be it through economic cycles which are up or down. And I think I'd say to you that remains the expectation going-forward as well. A great proxy for our pricing is globally weighted CPI. You should see us track to that as we do at the moment. And I guess when I look at pricing today, and you can see the numbers as we provided in the deck, you'll see that pricing across all countries is actually pursuing that and in line with that globally weighted CPI.

There is an exception, China, which sits in APAC, which has got some challenges, particularly around helium pricing where we are seeing high single digit kind of price declines and some rare gases as well and a little bit more pressure on China pricing generally. But beyond that, every other country is tracking in-line with our expectations. So I do not see any reason why we would not see positive pricing going-forward. I've said this many times in the past, David, that the

way we create value for the customer and the fact that we are a small sliver of that cost stack, I think that balance always works in our favor when we have a conversation on pricing.

David Begleiter
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. I wanted to ask on margins, particularly in the Americas where margins were flat year-over-year, but you did have positive price and volume. But in some of the other segments, you had margin expansion year-over-year with maybe not as robust volume and price. So is that a function of the business mix in the quarter in the Americas or is there something else going on?

Sanjiv Lamba
I'll let Matt respond to that and then I'll add a couple of comments at the end.

Matt White
Hey, Vince. I'll start with, anytime you look at quarters, you can always have some noise and some bumpiness. I mean, we've always tend to see that within the quarters. For me, the most important thing is how you're tracking full year and year-to-date. That being said, yeah, you're going to have some mix in there primarily with some of the home care, I'd say that might be a little bit of an impact. But we feel quite good at the almost 32% margins we're tracking. We clearly see more room to improve. We expect to improve that further. So I wouldn't look very far into a single quarter at this point and I don't think there's anything really of concern on a go forward in my basis, but I don't know, Sanjiv?

Sanjiv Lamba
So thanks, Matt I think you've actually covered it all. All I'd say is the expectation of margin expansion is something that we have laid out, that 30 to 50 basis points of margin expansion is how you should be thinking about the margins across all the segments.

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

Laurent Favre
Yes, good morning, guys. I was wondering if you could talk about the appetite for new projects from customers given the macro backdrop that you are indicating? Is there any risk of, I guess, a slowdown or slippage on intake so that your backlog may finish the year below $7 billion? Thank you.

Sanjiv Lamba
So Laurent, I said this in the last call as I recall, my expectation remains that we will end the year with a backlog with a seven handle on it. Now this despite the fact that we will start-up another $1 billion of the investments that are currently sitting in our backlog in the second half of this year and most of that will start ramping-up towards the back end. So our view, my view remains, and our business is currently supporting and giving me confidence that there is enough opportunity pipeline on projects that we're currently working on that we will be able to bring home $1 billion to get that backlog to $7 billion plus.

Laurent Favre
Thank you.

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

Jeff Zekauskas
Thanks very much. Both you and Air Products had very strong EBIT growth in Europe. I think for both of you, it was double digits, which was a step-up. Did something happen in Europe to the industry in general? Was it a function of currency? Was it a function of other factors? And secondly, your competitors in Allentown also said that the helium penalty to them was $0.55 or $0.60 a share as they estimate it for 2025. When you heard that number, did you say, oh, that makes sense? That's a comparable -- sort of comparable to what we're experiencing, or do you have a different experience, if you are quantifying it?

Sanjiv Lamba
Jeff, I'll let Matt talk about the EBIT growth and then I'll give you a comment on helium.

Matt White
Yeah, Jeff. So I mean, just using our table in the back with EMEA, clearly FX is part of that, right? You've got a 4% component of our 11% growth. Obviously, the euro has strengthened, the Sterling has strengthened. So that's definitely helping. But on top of that, we continue to have pricing opportunities. We continue to have productivity opportunities. So while the volume is negative, a large portion of that are with the onsite contracts, which are heavy volume effect, but they tend not to be overly impactful to the operating profit given the fixed-fee structure.

And so that's kind of the makeup that we have strong contracts. We continue to price to inflation. We have a lot of productivity initiatives and we're getting a fairly nice tailwind on the FX. And the combination of all that is giving us the double-digit OP growth despite some of the underlying macro challenges that you see.

Clearly, when we lap that and that stabilizes that should give us some opportunity. But at this stage, we're not banking on that and we're not guiding that. We're just kind of expecting a continuation of the same.

Sanjiv Lamba
And on Helium, Jeff, I'd say to you, as you're aware, of course, that our exposure on helium is very different and much smaller than our friends you referred to earlier. So what I'd say to you, the trends I see in helium, year-to-date, our helium volumes are flat. We have not seen a decline. And yes, pricing is down high-single-digit and that's really just a function of the oversupply in the market, particularly around Asia and maybe a little bit of cooling off in-demand on the electronics side of things.

So our expectation remains that helium supply will be long. You would have seen our recent announcement that we are putting a 3 billion cubic-feet helium cavern in and that really is around making sure that we are optimizing the sourcing end of things, giving ourselves more flexibility with the cavern to ensure that we have a plan in place that addresses the sourcing cost issues associated with that and creates productivity out of that benefit -- productivity benefit out of that sourcing. So as things stand, I think we don't really see a concern. And again, as I've said before, not -- it isn't a significant exposure for us.

Jeff Zekauskas
Thank you so much.

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

Matthew DeYoe
Thank you. So I just wanted to dig in on Europe a bit. So, I guess, first, if we decelerate again next year, would you still feel the volumes hit your on-site or your customers kind of largely at the low-end of their commitments? And then just longer term, right, we have this deindustrialization of Europe. We're probably in the early innings of just chemical plant closures; I would suspect other industrial plant closures. And I know you've got contracts here, right, but there's merchant, there's package. So let's -- can we just hash out what this looks like across the top line for you as you look out two years, three years? Is Europe just going to be a minus 2%, minus 5% for you or how do you manage what might be loss of density on closures?

Sanjiv Lamba
Matt, good question on Europe. And clearly, as you can see, we remain bearish on Europe, and it's reflected in our guidance as well. But so that is a view for the short-term. I'd say to you we are both cautious and conservative around our expectations from Europe. I said before in my commentary that I do not see a catalyst for that fundamentally changing in the near term.

Now, for the quarter, as you saw, the impact did come through. So the general macro-environment that affects the merchant and package side of the business from various end markets, but in particular, manufacturing and a little bit of chemicals and metals led to that negative volume decline that we showed, exacerbated, of course by the onsite volume decline that you just mentioned.

So that's what kind of came through. As you know well, on the onsite, the contracts do protect us well. And really the question I ask every month is for customers who are below and top on those contracts for onsite, are they paying up and that is a critical assessment that we make. And you know what, every customer is paying us. So those signals look good.

But the longer term is a question that you're also referring to. And I have been bearish on the long term, but I'm going to give you a couple of perspectives which are -- which are kind of suggesting that you will see some potential change happen. I'm going to start-off by a conversation on Germany. As you're aware, Matt, Germany has made this extraordinary commitment to investing EUR1 trillion over the next 10 years in defense and build-out of infrastructure. That's a very significant industrial stimulus to the German economy.

And while you debate the reasons, the reality is it will have an impact and will uplift both Germany, but also more broadly because the supply chains are integrated across a slightly broader Western European region, you will feel that impact come through somewhere else as well.

So while in the short term, we are seeing some of these challenges reflect in the chemical industry in particular, but the longer term view, which I think is expected to start showing some initial signal, send some initial signals over the next couple of years, both from an increased level of infrastructure spend and defense spend, I think will be an important part in how we look at the long term view on Europe.

There's one other thing which I want to just cover off briefly, which is on Eastern Europe. And this relates to conversations around Ukraine rebuild. Now, I recognize we need to take that with a pinch of salt just given everything that we're reading in the newspapers at the moment. But the reality is at some stage, there will be a resolution of sorts and that will result in potentially moving the Ukraine rebuild forward, large numbers being thrown around. I take them with again a fairly large pinch of salt. But we have operated in Ukraine over the last three years. We continue to supply steel mills, medical facilities, et cetera with product even today. And we are pretty strongly positioned for any recovery that happens in Ukraine, not just for the Ukrainian business, which by all standards is on the smaller end, but by the infrastructure and footprint we hold in Eastern Europe broadly, which is a very strong footprint supporting whatever happens in Ukraine.

So those two -- those two developments, I would say, Matt, are going to dictate how the longer-term development in Europe is going to look like. And again, we'll have to wait and watch how that plays out. I obviously can say with high degree of confidence that Germany will go through that recovery in the foreseeable future. Ukraine we'll have to just see when that happens.

Matthew DeYoe
Thank you.

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

Mike Sison

Hey, good morning, guys. Nice quarter. Just wanted to dig into the space a little bit. The recent agreements, a merchant contract as I recall. So when do you think the -- when do you think these will convert into an onsite and maybe frame up the growth potential since we're sort of in an early phase of the development for that industry.

Sanjiv Lamba
Sure, Mike, great question. So I said in my commentary earlier on describing my walk around the world that I do see space as a very attractive opportunity for growth and the fact that Linde has been so well-positioned, particularly in the US with a history of more than five decades of supporting space development and more recently, significant rocket launches, our two new investments are going to significantly spur that growth momentum.

Now, having said that, let me give you a couple of data points just to help you kind of frame the growth potential that you were asking about. So over the last three years or so, we've seen our supplies into space and our revenue generated from that commercial space segment almost quadruple.

We today supply, I would say, more than four out of five launches that happen in the US and the investments we're making in the infrastructure through the air separation plants, the distribution equipment because much of this liquid is carried in and out using tankers, hydrogen production, related infrastructure, all of those by the end-of-the next couple of couple of three years, we would have invested just under $1 billion in building this infrastructure to support the space ecosystem going forward.

I also mentioned that I see not just one probably the most prominent launch company. I may not name them, but I know you -- I know you'll know who they are, will have a prolific number of launches, but actually we are seeing that spread and many other companies in that space now scaling up and looking at future programs as well. So again, I see that opportunity pipeline for growth being very, very attractive.

Mike Sison
Great.

Sanjiv Lamba
We have strong customer commitments, Mike. So just to make the point on onsite versus merchant. The critical factor here is you have a strong customer commitment, and we have strong long-term customer commitments. It's just a commercial structure that doesn't allow us to classify that. And as you know, we have a very disciplined and rigorous definition of backlog that I spoke to earlier. So we just don't put them in the backlog for that reason. But, the customer commitments are there and they are over the long term.

Mike Sison
Got it. Thank you.

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

John McNulty
Yeah, good morning. Thanks for taking my question and nice results in a tough environment. Just wanted to dig a little bit more into the sale-of-gas project backlog. And in particular, just get some color as to whether you see the return profile of those projects having improved over the last few years as that backlog has built-up. It seems like with one of your competitors maybe focused in other areas, the opportunity set might be higher for you just given there's maybe less competition for that. But I guess, is that a fair way to think about it or maybe you can add some color to it?

Sanjiv Lamba
Sure. The sale-of-gas backlog and every individual project that sits in there, all 70 of them, John, have gone through the rigorous process of being assessed at our investment committees, against that investment criteria that we set out. And not only do we go through that process with some rigor and if they met the investment criteria, they obviously get approved and go into the backlog. So the return profile hasn't moved significantly because the risk-return equation has to play out based on the investment criteria that we have.

So I feel pretty good about the return profile that we have. But an equally important portion of that return profile is how well do you execute. The point I made earlier on in my prepared remarks around the turnover of the backlog is absolutely critical. For an industrial gas company, it is very important to be able to execute them in a timely manner to have a strong contractual position to ensure that you're monetizing that project and creating the returns that were promised when they were -- when they were presented to the Investment Committee.

And I feel really good about the capabilities that we have within Linde, both on the engineering side, our team does a phenomenal job over there, and on the gas side where we do some great contracting and work closely with customers. That's really what's reflected in that return profile, which you then see as we start these projects up, come back and reflect in the EPS growth that we commit out of these decisions that we make. So I feel-good about that.

I'll give you one of the data points since you asked about how that competitive kind of environment looks. Juan actually did a really nice study a couple of years ago, which looked back and said, if you think about the competitive dynamics when you're bidding out these projects, about half the time, the decision is a make or buy decision. As you know, our customers are sophisticated. They will make a make or buy decision. And of course, if there are projects where we have an interest, we are usually able to get that converted into a sale-of-gas project because we can show the benefits and the benefits of the reliability, safe delivery of product coming with the benefit of network density. I think that's a very compelling case for the customers. But about half those projects are make or buy. About a third of the projects are where you see one other competitor in the fray. And the rest, you see multiple competitors. We tend to be very selective about projects in what's left over. So from our perspective that hasn't changed. That analysis is still relevant. And I think we obviously have to be -- have to have a compelling proposition for our customers when they look at it for them to move over.

John McNulty
Got it. Thanks very much for the color.

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

Patrick Cunningham
Hi, good morning. Thanks for taking my question. I'm curious on the electronics outlook from here. It seems year-on-year sequential growth is down slightly. How much of this is helium pricing or maybe there was some modest pull-forward in positioning in 1Q? And how would you characterize the shape of volume and new project starts for the balance of the year?

Sanjiv Lamba
Thanks, Patrick. So let me just start-off by making sure that this is understood well. The industrial gases sales to the electronics end-market grew both year-on-year and sequentially. The drop that you see in the end market slide that we have in the deck is all driven by our Advanced Materials business that sits in the global other segment, which provides electronics targets to some of these electronics customers. The instance over here was destocking happening with one of the larger customers and that's going to correct itself in the second half. So really no concerns there.

Just to clarify what the Advanced Materials Group is doing over here. So essentially the Advanced Material Group develops and builds, manufacturers precious metal targets, which are used in the chip making process to deposit a thin film of materials onto the semiconductor vehicle. So the process is called sputtering. What happens is we provide high energy particles, bombarding the target that's been set up. And what it does is it ejects these atoms to then provide a coating, a very thin level of coating on the wafer forming layers for components like transistors, interconnects, et cetera. All of this is about putting very precise material deposition on the integrated circuitry. And that's what sits in that Advanced Materials business, which is the reason why you see that slightly negative.

Now as far as electronics outlook is concerned, my expectation remains that we have a very healthy, not expectation. The fact remains that we have a healthy pipeline of projects that are going to come up in the next 12 months or so and we will obviously be participating. And as you would expect from Linde, we're winning more than our fair share of those projects. The outlook for both new projects as well as startups remains on track with the backlog that we've just shown you.

Patrick Cunningham
Thank you.

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

John Roberts
Thank you. The Economist magazine this week has a story on what's called Green hushing. So your backlog, you said is going to grow. The point of the story was that companies are still going-forward with their energy transition investments. They just don't talk about it as much. It's not making the headlines. So two or three years from now, do you think energy transition will be still as big a percentage of your backlog or based on what you're currently talking to customers about, are they actually pulling away because we don't hear a lot of companies talking about their energy transition programs anymore?

Sanjiv Lamba
John, we recognize that customers will continue to need to decarbonize their operations. I expect the demand for low carbon products to continue to grow over time. It's just a hype and the euphoria has gone away and reality has sunk in and that reality is a more stable, economically viable set of projects, which will go to FID and get contracted. Those are the kinds of projects -- look, at the risk of saying, I told you so, we've said this for the last, I don't know, three years.

None of this should come as a surprise to you or anyone else who has been on these earnings calls because we've said, look, it's unrealistic to expect this green hydrogen to get up to a point where it's at scale, it's cost competitive, and it actually adds and creates value. We've always said that that's probably a five-to-seven-year window for the technology to mature and then you'll see the commercials play out.

So I'm not surprised by this article. The reality is low-carbon alternatives, which is low-carbon hydrogen, otherwise known as blue hydrogen or low-carbon ammonia or products of that build will still have a demand in the marketplace and we see solid projects with good economic cases supported further by incentives such as the 45Q remain around and we are developing a number of those even today while we execute a number of those around the world as well.

So my view is, I think this trend is not going to stop. There is an increasingly economic case for it. So good projects which create that economic value will still see progress and move to FID and get contracted.

John Roberts
Thank you.

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

Josh Spector
Yes, hi, good morning. I wanted to ask, just coming back to the guidance assumptions around things. Linde's approach has been we're seeing the market like X and we're forecasting X. It seems like in this case, we're seeing the volumes down 1% and now your forecast is maybe at the midpoint down 2%, something like that. So I'd just be curious, obviously, it's a weak market, no one's expecting anything incredibly exciting here, but are you seeing anything either in June, July trends that would tell you that there is weakening and that's more of a correct way to think about it? Or is this just added conservatism for everything we don't know about, FX included? Thanks.

Matt White
Hey, Josh, it's Matt. So I think we'll start with the volumes, to your point, they're down 1% in the quarter, but the base volumes are down 2%. So when we think about sort of our economic projection, we're really talking to the base volumes because the backlog is pretty much on autopilot, right? That's contractual. So that is independent of any macro view.

So starting with the minus 2% on the base volumes that occurred this quarter, to your point, the current guide on the top end is assuming that 2% year-over-year continues out for the back half. Now while the year-on-year assumption in the top half is being held consistent, last year the comps got a little easier. So it does imply a little worsening on a

sequential basis. We'll see if that happens. When I think about it in combination, clearly FX rates improved, meaning the dollar weakened, given the uncertainties, given some of the flight to different currencies.

So it is interrelated. And so I think from this perspective, maybe you see currency -- maybe see the dollar strengthen a bit, things stabilize, maybe you see the opposite. But at this point, I think about them in combination, and we'll have to see how it plays out. But the top end pretty much has about a 2% base volume negative assumption, which is probably double the effect on EPS for the remainder of the year and we're going to do what we can to do better than that. But that's what we laid out. This is what we set down and we'll have to see how it plays out.

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

Kevin McCarthy
Thank you, and good morning. Matt, what impact, if any does the passage of The One Big Beautiful Bill Act have, maybe internally for Linde, or I appreciate any thoughts you may have on, any early feedback from your customer base as to potential stimulus in the Americas. And just wondering if it has any meaningful impact at all on your '25 guide or how you're thinking conceptually about the '26 outlook?

Matt White
Sure. So I think when we start thinking about the Bill, and I'll stick mostly to the taxes right now. What it mainly did was make permanent a lot of the existing tax policy that we were operating under since the 2017 Act. And that in of itself, I think is positive in that it gives more confidence looking ahead. When you think about the US tax policy, it had a lot of temporary items. And those temporary items can be difficult to do long-term planning and long-term investments in the country because of the uncertainty whether those temporary items will continue or not.

And with the passage of this Bill, it made many of these things permanent. And I think that in and of itself is good. Now when you look at kind of breaking it down for us, on an ETR basis, I'm not expecting much impact. Again, our current run rate had in it primarily the 2017 effect and this just extends and makes that permanent. So if anything, if this didn't pass, I would have expected a worse ETR. But given it has not, I expect no change.

On the cash tax front, this will be net beneficial and the primary driver is the reinstatement of the bonus depreciation. You may recall that was something that was part of the 2017 Act. However, it phased out and essentially has been gone for probably a little over a year with both the reinstatement of that and the retroactive nature back to January this year will give cash tax benefits to companies that make large capital investments into the country, of which we will benefit from that, especially given the vast majority of our backlog right now has US exposure.

And what that also will do is make IRRs on projects better. We saw the same effect in 2017. How much the IRR improves, it's a function of a couple of different things. But I'd say on average, you probably see -- you can see almost 100 basis-point improvement. So anyone making long term investments in the country now will get a tailwind from the accelerated depreciation. So get more confidence from making permanent a lot of the tax policy. And I think all-in all, that will be a positive development.

Now aside from income taxes, clearly 45Q was enhanced a bit. We view that as positive. That's something that, as Sanjiv mentioned is the -- I'd say the primary incentive that was being looked at for a lot of the Blue projects. And by making that even more attractive, I think that will further help any views to use that.

So, for us, we view it as net-net positive. I would say for anyone constructing in the country would view it as positive for capital intensity and any type of low-carbon products, especially with a hydrocarbon base would view it as positive. So that's kind of how I would summarize it.

Kevin McCarthy
Thanks very much.

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

James Hooper
All right. Thank you very much for taking my question. I wanted to go back to Europe and a little bit about the energy transition there. Clearly, your backlog is a very small percentage European. And we've seen some of your competitors winning low-carbon hydrogen projects. We've seen -- since you last reported, we've seen your action plan and the start of a plan to make a plan, if you will. Do you see this being more of an opportunity for your backlog going forward? And has this made you any more positive on energy transition in the region? Thanks.

Sanjiv Lamba
James, I will say that there is a measured level of pragmatism in Europe today around the energy transition and the goals. Remember, however, the people that we are speaking to and primarily in this instance, the German government, the new government that's come in and giving them a sense of how we think about this regulatory framework that's in place. There is, of course, all of Brussels to still contend with. But there is a higher degree of pragmatism. There is clearly a move towards getting a bit more practical around some of this target setting, et cetera. So yes, I do see that as potentially having a beneficial impact on energy transition projects, which would have an economic basis, and which would support a cost effective decarbonization program for Europe.

But there is -- in Europe, most things will take time, and this will be no exception to that. So while I appreciate the pragmatism I'm seeing, I still expect that it's going to take as long as it takes for them to actually enact whatever bills are needed to get to a point where you get cost competitive hydrogen in those countries to support the decarbonization effort.

James Hooper
Thanks.

Operator
And our final question comes from the line of Chris Parkinson with Wolfe Research. Your line is open.

Christopher Parkinson
Great. Thank you so much for taking my question. Sanjiv, you actually just hit on this a little bit, but behind everything else that's going on in Europe on kind of the clean energy side, there's also been a lot of debate amongst the U27 States regarding just improving efficiencies and protecting the chemical industry. Obviously, a lot of your core customers have been actively involved in discussions. Could you potentially -- and there's been a lot of news from them even in the last three weeks or so. Could you just give us a little insight on how integral you are to those conversations? How Linde -- the Linde platform could perhaps help along in terms of basically setting some guardrails? And then also in terms of just the potential for greater infrastructure growth spend towards the end of the decade. I mean, is it wrong to think about Europe slightly differently these days or is it still essentially the status quo over the longer term? Thank you.

Sanjiv Lamba
So Chris, I kind of tried to describe this earlier. I'll say to you, let me deal with the infrastructure project first, because that really is somewhat fundamental to any industrial recovery that's going to happen in Europe. And I think when I talk about infrastructure, I'm including defense as part of that.

Germany's commitment to EUR1 trillion, I think is clearly a very significant milestone for Germany as a country, with the balance sheet and the ability to kind of finance that kind of spend. So in many ways that spending is certainly going to change our perspective and has changed our perspective on how we think about the recovery --- industrial recovery in Europe longer-term. That's a 10-year program. I manage people's expectations by telling them that, look for any procurement process to come in-place to handle that kind of spend and for infrastructure projects, there is the need for permitting, et cetera, which across Europe generally and Germany specifically all take time. So don't expect any exciting announcements in the next couple of years. Maybe the back end of next year, you'll start seeing some of those early projects announced, but really most of that allocation, you should expect in the following year beyond that.

So it's going to take some time, but the longer term view around the European economy and industrial activity is benefiting from these commitments that have been made. Obviously, Germany's made that very significant and specific commitment. Other countries have now signed up to this 5% spend for NATO. Some of that is infrastructure, 1.5% and 3.5% is defense. All of that's going to drive some level of industrial activity.

So, absolutely right in saying that the perspective on Europe has changed a little bit. I'm still cautious when I look at that and we have to see this play out and get enacted and then transacted before I would tell you with confidence in the next year, I would see this kind of growth. But for now, I think directionally, it's headed in the right direction. And your earlier comment, Linde's position in most of the serious conversations that happened in Europe, particularly given our position in Germany, we are both consulted and part of many groups that are working to ensure that the real challenges that industry in Europe broadly faces because most of them being customers of ours is being adequately communicated to those who are making these decisions.

Christopher Parkinson
Thank you for the color.

Operator

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

Juan Pelaez
Thank you, Abby, and thank you everyone for participating in today's call. Have a safe day.

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