**Linde plc 4Q24 Earnings Teleconference and Webcast - Transcript**
**February 6, 2025**

Operator

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

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

Juan Pelaez

Abby, thank you. Good morning, everyone, and thanks for attending our 2024 fourth 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 sections. Please read the forward-looking statement disclosure on Page 2 of the slides and note that it applies to all statements made during this teleconference. The reconciliations and adjusted numbers are in the appendix to this presentation.

Sanjiv will provide some opening remarks, and then Matt will give an update on Linde's fourth quarter financial performance and 2025 outlook, after which we will wrap up with Q&A.

Let me now turn the call over to Sanjiv.

Sanjiv Lamba

Thanks, Juan, and good morning, everyone. Looking back, 2024 was another successful year for the Linde organization. I'd like to personally thank the 65,000-plus employees for their relentless drive to deliver shareholder value while delivering core values every day.

This isn't something that happens overnight or can be copied or indeed driven top-down from a handful of individuals. Rather, it is a result stemming from decades-long culture, mindset, and operating rhythm, and it can best be exemplified by the results shown on Slide 3.

From my perspective, there are four key categories that Linde must excel at, day in and day out, to maintain a long-term industry-leading position. Of course, we must deliver on our key financial metrics and remain responsible stewards of our owner's capital. That's a given.

But we have a sustainable leadership position. For that and the long-term, that requires continual investment in our people and surrounding communities, as well as doing our part to help improve the environment.

Finally, we must position ourselves for the future to ensure resilient and continuous growth and improvement. We can never be complacent based on past performance. I want to start with our people and communities, because Linde's success has always been, and always will be, attributed to our employees' ownership mentality and collective efforts.

We continuously strive to be good corporate citizens in thousands of communities where we live and work. Also having a safe and diverse workforce is a top priority in order to ensure Linde's competitiveness for many years to come. And you can see the improvements we've made from an already leading position.

More work is to be done, and I fully expect to leverage technology in that effort, but I am pleased to see the progress made to date. While people and communities are a priority, efforts towards ensuring a sustainable environment are becoming more challenging every day. I think it's fair to say we're seeing more extreme weather now than in prior years.

And here at Linde, we will continue to do our part to help the environment. Through an increased focus on low-carbon power, Linde increased its active low-carbon and renewable energy consumption by 19% year-over-year.

In 2024, over 40% of our total power consumption is now low-carbon-based. These are just a few of the many accomplishments, and I want to encourage you to read our annual report for many more.

Furthermore, it is rewarding to see our sustainability efforts being recognized by some of the most prestigious names such as the Dow Jones, which included Linde in its Sustainability World Index for the 22nd consecutive year.

In addition, we pride ourselves in helping our customers avoid more than 2x our CO2 emissions through the use of our products and services. But there is much more work ahead to achieve our ambitious sustainability goals, including reducing our greenhouse gas emissions 35% by 2035.

Turning to financial performance, Linde once again led the industry across key metrics. 25.9% ROC. EBIT margins increased 190 basis points to 29.5%. EPS increasing 10% ex FX and $7 billion of capital returned to shareholders from the significant excess free cash flow.

These are the best metrics in the industry, some by a wide margin. This provides us with a source of pride and ownership. But we also recognize this is the past. Valuations are derived from a combination of past performance and future expectations. So we must continuously position ourselves for future growth, regardless of the macroeconomic conditions. Positioning for the future starts with a concise strategy and a capital allocation policy.

At Linde, we know that the investments we make and the ones we avoid are equally important. Because mistakes in this industry can have long lasting consequences. This is why sticking to our core business while maintaining disciplined contract terms is critical to building safe, reliable and profitable supply infrastructure.

The year ended with more than $10 billion in backlog, including a record sale of gas backlog of $7 billion. Included in this is a $2 billion plus Dow win in Canada, which is a great example of a high quality project in a core geography. This project not only has a fixed payment structure with predicted returns, but materially improves our local supply density in a fast growing region for clean energy.

I fully expect to be announcing new projects and customers in the near future. But growing in industrial gases in more than just mega projects. We have to continue keeping our eye on smaller opportunities, as well ensuring that they add attractive annuity-like growth.

During 2024, we once again set a record for small on-site wins, signing 59 long-term agreements for a total of 64 plants, all of which will increase reliability and strengthen our network density. Acquisitions of small tuck-in package gas opportunities also remain an important part of synergized growth, with 18 signed transactions with annualized revenues of approximately $200 million.

All in, 2024 was another successful year, despite the many challenges. That being said, it's time to move forward and look ahead. All of you have seen the new earnings guidance for 2025, and therefore I believe it's important to reiterate the components of our longstanding EPS growth algorithm on Slide 4.

For many years now, we've defined our EPS growth into three categories, of which both capital allocation and management actions are within our control, and the economy is not.

Capital allocation represents contributions from a longstanding and stable capital management policy. The main elements include our contractual project backlog, share repurchases, small bolt-on acquisitions, and capital structure efficiencies generally achieved through interest and tax management.

It's important to note that our backlog definition is unique in our industry, as it only includes incremental growth from contractually committed customers with fixed payment elements and termination provisions to ensure a minimum return on capital. While no other company follows the strict interpretation, it certainly provides Linde a greater certainty of backlog EPS contribution in any environment.

Similarly, the majority of acquisitions are justified on cost synergies only, and therefore provide a high degree of confidence on capital return and thus EPS generation. Finally, share repurchases offer an attractive and flexible use of excess free cash flow as project startup and acquisition cadence will ebb and flow enabling a highly consistent EPS contribution from overall capital allocation.

All of these elements have historically contributed 4% to 6% EPS growth, and I feel confident this will continue for the years to come. Management actions represent the daily self-help initiatives our employees undertake to ensure growth, regardless of the macro climate.

Digital solutions and AI are increasingly supporting productivity, price and cost management, which are controllable initiatives deeply embedded into our culture and operating rhythm, and which allow us to grow earnings regardless of the economy.

History has proven for these to be the largest compound value generators, as they are not directly correlated to overall economic activity. This combination of capital allocation and management actions is expected to deliver 10% plus EPS growth each year with margin expansion, and 2025 is no exception. With a pre or post-merger, these two components have been the dominant drivers of our long-term double-digit EPS growth CAGR. While I remain confident in our ability to deliver on this 10%, we are constantly striving to find more opportunities to improve.

Conversely, we cannot control the third category which represents macroeconomic factors. For Linde, these are two factors that matter the most, the foreign exchange rates and industrial production as a proxy for base volume trends.

Recall that we are a U.S. dollar functional company with approximately two-thirds of earnings denominated in foreign currencies and thus exposed to FX translation.

Similarly, while our customers are often under long-term contracts with fixed facility fees, the incremental gas they consume is a function of their own production rates which typically highly correlates to industrial demand. Hence why global IP is a generic proxy for our customer gas consumption or base volumes.

The current 2025 guidance range assumes a 4% FX translation headwind, while the midpoint of the range assumes 0% IP growth environment. Overall, it's clear that the growth algorithm is well intact, but we have our work cut out regarding unfavorable FX translation. This does not come as a surprise, as you may recall from our statements last quarter and subsequent self-help actions that we initiated.

Furthermore, we will continue to identify and execute additional management actions to mitigate macro weaknesses. Eventually, these economic headwinds will convert to tailwinds, as they always do. And until then, you can be rest assured that the entire Linde organization will be focused on creating shareholder value and maintaining our long-term industry leadership, no matter the environment.

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

Matt White

Thanks Sanjiv. Fourth quarter results can be found on Slide 5. Sales of $8.3 billion are flat prior year and down 1% sequentially. For both the prior year and sequential comparisons, foreign currency translation was a 2% headwind. Excluding FX and cost pass-through, underlying sales grew 2% versus last year and were flat from the third quarter. Price increases of 2% over 2023 and 1% sequentially continue to track with globally weighted inflation.

Volume growth was flat, as contribution from the project backlog in the Americas and APAC offset lower base volumes in EMEA. The sequential volume decline is primarily attributed to softer EMEA metals and mining volumes and seasonality factors in APAC.

In general, economic trends mostly followed our prior guidance, although the FX impact was worse than expected from a significant strengthening of the U.S. dollar toward the back half of the fourth quarter. Operating profit at $2.5 billion grew 9% and resulted in a 29.9% margin, primarily from management actions around price, costs, and productivity. EPS, $3.97, grew 11%, or 13%, excluding FX.

The 9% CapEx increase is entirely driven by contractual projects, as base CapEx decreased from a combination of currency, productivity, and lower base volumes. I anticipate this trend to continue as we execute on the record $7 billion sale of gas backlog to support future growth.

Further details on capital management can be found on Slide 6. Full-year operating cash flow ended at $9.4 billion, with almost 60% occurring in the second half. As mentioned in prior calls, I expect this split to remain due to seasonality of specific cash outflows, including incentive payments, taxes, and interest.

The pie chart on the right shows the full-year capital allocation. We invested $5 billion back into the business, with half underpinned by secured, high-quality growth opportunities. And we returned $7 billion to shareholders in the form of dividends and stock repurchases.

Returning this amount of capital to our owners year-after-year requires a disciplined capital allocation policy and a very healthy balance sheet, two things that are much easier said than done.

I'll wrap up with guidance on slide 7. We're initiating full-year EPS guidance of $16.15 to $16.55. We're representing 4% to 7% growth, or 8% to 11% when excluding an estimated 4% currency headwind. As mentioned earlier, the 4% impact is from the accounting translation of foreign earnings, which experienced a rapid strengthening of the U.S. dollar toward the end of 2024. Recall this is merely a projection, as we're required to book the actual month's average rate to the income statement.

The methodology used for this estimate is consistent with prior practice by using the forward curves on a weighted basis for each foreign currency at the start of the month.

Historically, large currency devaluations have often been followed by periods of more significant local inflation, with 2022 being a recent example. If that occurs, I'd anticipate incremental pricing opportunities to recover the currency devaluation impact. These potential pricing opportunities are not baked into the guidance range at this time, since the amount or timing of subsequent inflation is difficult to estimate.

The midpoint of this range assumes no economic improvement from the current environment, and thus assumes flat base volumes. As Sanjiv mentioned, our base volumes derive from customer supply contracts. Their growth is a function of gas consumption from our contracted tanks and cylinders. Hence why local industrial production tends to be the best proxy.

First quarter EPS guidance range is $3.85 to $3.95, with similar assumptions to the full year. At this time, we believe it's appropriate to remain prudent with a more cautious economic outlook. If things turn out better, so too will our results. And if they worsen, we'll take additional mitigating actions.

But regardless of the economy, I'm confident Linde will continue to create shareholder value through our time-tested execution culture, disciplined capital allocation, and proven management actions. This has been embedded in our DNA for decades. And over the years, while many have claimed they'll simply copy this model, all have failed. Because here at Linde, we're often imitated, but never duplicated.

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

Question-and-Answer Session

Operator

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

Michael Leithead

Great. Thank you. Good morning, guys. Sanjiv, there's a lot of political noise out there right now between tariff potential, a new administration, some pullback on green energy funding. I guess, how has your discussions with potential project partners evolved at all?

I'm really trying to get at say projects that are pre-FID today. Have those discussions slowed down or picked up at all?

Sanjiv Lamba

So Mike, as we've referenced in previous calls, we have seen people take a little bit more time and apply a bit more rigor before going to FID. I think it's a good thing because you do need that when you're doing multi-billion dollar projects typically.

And I think we're seeing that phase continue. In there, built in there obviously is some uncertainty around the regulatory framework and requirements in terms of what the new administration may or may not do. The one thing I do want to emphasize though, and I think in the context of clean hydrogen, this is particularly important.

People tend to think about the IRA and there's a lot of talk around what happens with the IRA under the new administration. Within the IRA, there is a specific provision, an IRS provision in fact, called 45Q, which predates the IRA. It actually goes back to around 2008 when it was implemented.

And about 90% of the projects that we're developing in the U.S. are actually looking at 45Q as a potential incentive. And I think we feel fairly confident that that structure around the 45Q will remain as given particularly that it predates the IRA. So I just want to provide that specific clarification because I get a lot of questions around that.

But generally, we're seeing people take a bit more time to get to FID and we're seeing that they are actually being a little bit more rigorous in their approach before they make a final call in terms of putting capital on the ground.

The other point I'd just quickly add to that, Mike, is you're aware that in the past we've talked about, I think it was actually two years ago, we talked about $8 billion to $10 billion in clean energy investments from a Linde perspective. We're about halfway there given the two projects, the large projects we've already announced North America. We're obviously continuing to develop projects elsewhere.

Those two current projects we're working on are both likely to see another phase, which likely means that we will see equivalent investment there, plus the other projects as well. So when I look at the overall pipeline, I feel pretty good about the quality of projects that we're pursuing and the path to getting to that $8 billion to $10 billion of investments over the next few years looks pretty much intact.

Michael Leithead

Great. Thank you.

Operator

And your next question comes from the line of Steven Haynes with Morgan Stanley. Your line is open.

Steven Haynes

Good morning. Thanks for taking my question. So, it kind of looks like exiting the year, your EMEA margins are now like 200 basis points ahead of America's, maybe 100x the cost pass-through. So, do you think your Americas margins

will gain ground in 2025? And then also, as a second piece of this, I think the gap is kind of widening versus APAC. So, I was wondering if you could also kind of frame the opportunity there. Thank you.

Sanjiv Lamba

Thanks, Steven. So, if you go back historically about five years ago, many of you asked the same question when Americas margins were leading. And I think APAC and EMEA were at 17% and 19%. And we had said then, and I want to repeat again today, that our business is homogeneous and there is no impediment to getting to the highest margins we see anywhere in our business. The one thing I often point out when we have this conversation around margins is each one of our segments has a country or a business that has a margin with a 4 number in front of it. And in many ways, we encourage our businesses, each of the segments, to push and try and understand what those successful businesses with 40%-plus margins are doing to ensure that we can bridge the gap.

So, to answer your question, both for America's and APAC, my expectation remains that margins will continue to improve. And again, we've said in our prepared remarks earlier on, you should expect to see margin expansion in 2025 for Linde PLC overall, which obviously is an aggregation of the different segments.

I say to you that, I'd probably say that that margin expansion range is between 20 to 50 basis points typically. That's what we expect longer-term. Obviously, we've been delivering well in excess of that, and that obviously sets up some expectations. But expect margin expansion. Each of those segments will continue to grow margin, no impediment to APAC bridging that gap. And of course, America's got a solid business, which will continue to expand its margin as well.

Steven Haynes

Thank you.

Operator

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

Duffy Fischer

Yes. Good morning, guys. You talk about IP being your biggest KPI, which is fair. Roughly, what is the leverage if IP is up or down 1%? How much EPS does that generally drive for you? And then if you would maybe just take a spin around the world, what are you seeing IP, I know guiding to flat is prudent, but where do you see potentials for things to be better or worse than that?

Sanjiv Lamba

Duffy, I'll let Matt talk a little bit about the IP correlation, and then I'll give you a walk around the world.

Matt White

Yes, Duffy. So, to start, as you probably know, we split our volumes into project and base, and our project volumes solely track our startups. So, that is, as you know, completely independent of any IP or macroeconomic factor, and

it's purely contractual based on the fixed element. So, that one is part of the capital allocation contribution of the EPS algorithm.

But to your point, when you think about base volumes, as Sanjiv mentioned, we have the rental, which is fixed, irregardless, that gets back to the resiliency of our model. As you recall, about 65% of our revenues are fairly resilient. But of the molecules that they take, whether in the cylinder or whether in the tank for liquid, and to some extent over fixed fees in the pipe, that's just going to be a function of their production.

So, from that end, that tends to best proxy to IP. And so, I would say within the base volume piece, it aligns. Now, to your point, we tend to get higher IP leverage in developing countries where they are expanding more, which you'll look at as intensity of gas per capita.

Whereas in more developed nations, it's closer to a 1:1 ratio you tend to see on the IP and the base volume track. So, that's how I would think about that. When you look around the world, I think we can all agree that how some countries report IP is not equal in all countries.

But when we adjust for what we feel are a little bit of, some noise in the numbers, what we've been seeing is IP close to zero, maybe tens of bips globally weighted in our businesses is what it's been ranging at. But we'll have to see how it plays out going forward.

I think, EMEA, a drag, as you know, America has been pretty solid. And I think China, depending upon which number you actually want to use, it can range anywhere from close to zero to the official number of 5%. And that's how we would kind of see the IP. But I'll hand off to Sanjiv, maybe he can give you a little walk around the world just with general color on trends.

Sanjiv Lamba

Thanks, Matt. So, that's helpful in just kind of grounding you on how IP plays into our equation, but also how we think about it.

Duffy, let me just walk you through the world. I think it's a question I'm sure it's on many people's minds. I'm going to try and break this down and parse it by two different perspectives. I'll start off with the markets that we have, the end-markets, and use that as a characteristic to kind of define what we're expecting, and then talk about different geographies as well.

So, starting off with resilient end-markets. By their very nature, you would expect them to grow, and therefore, we expect low-to mid-single digit growth in our resilient end markets, driven primarily by electronics and food and beverage.

Industrial sector, obviously more cyclical impacted by industrial activity and demand. And we do expect lower volumes there. And, versus last year, we expect flat, low volumes, particularly in metals and chemicals.

If I now take the other perspective and talk about geographies, and I'm going to start off with maybe the Americas. Our expectation, low-single digit growth in the Americas, across the resilient end markets. The industrial sector also expected to be kind of flattish against what we see last year. I won't specifically talk about the U.S., though. And in the U.S., I'd say to you, our current view remains, and I've said this before, right? U.S. volumes and sales at a high

watermark. Our expectation remains that in the first half of the year, they're likely to be flattish. That's what we're hearing from our customers. But towards the back end of the year, the second half for sure, we are expecting increased momentum across the U.S., and we'll see that play through in how we see the Americas volumes and growth activity come through.

On the other hand, a bit of a contrast, unfortunately, in Europe, we expect to see continued softening. This is primarily in Western Europe, also a little bit in Eastern Europe, but primarily in Western Europe. The resilient end markets will continue to grow. There is a good trajectory there, and we'll expect that, but metals, manufacturing, chemicals, energy, all expected to be softer and lower volumes versus previous year. So, Europe, unfortunately, is a drag at the moment.

Now, as far as Asia Pacific is concerned, I'll start over China, because I know that's on a number of your minds. I was in China two weeks ago, spent a week with the team, talking to our customers, meeting a number of CEOs, and getting a flavor of what I think is going to happen in China.

And I think, my short summary is, from our perspective, we don't expect anything significant in China in 2025. We're not baking in any kind of recovery. I think industrial volumes and activity will remain stable, but flat, no recovery in any of those sectors. Metals and mining specifically is likely to be negative year-on-year for a number of reasons, driven partly by demand, but equally by some large turnarounds that our customers are taking in the course of the year. So, we kind of see that play in Q1 and Q2.

But again, metals and mining, unlikely to see any growth.

The one sector in China that is growing today and will continue to grow is their electronic sector. Lot of energy and a lot of money has been put into that sector by the government as well. So, we do expect that that'll play out and continue to see some level of growth.

If I was looking at China a bit more broadly, I'd say to you two trends of particular note coming out of my visit. The first that the government has recognized the need for support if it's got to get personal private consumption and the property market to pick up. said a lot of things, not enough stimulus has gone into the market, so we haven't seen any improvements other than the fact that the last quarter you saw a bit of improvement from industrial activity for exports, but we haven't really seen private consumption pickup happen.

Now, there are all kinds of subsidies in place that they're putting out there, they're small, but hopefully they will have an impact over a period of time. So I'd say to you, I wouldn't hold my breath for 2025 in terms of improvement, but beyond that longer-term, certainly we will see the China market stabilize and probably grow at a smaller pace than we're used to, but certainly we will expect to see growth come back.

The rest of Asia Pacific is largely flat versus previous year, except for India, which is obviously the growth story at the moment, and again, given our strong presence in India, we are making the most of it, winning more than our fair share, feel really good about where that's going. That's kind of a view around what we see across the world and expect in 2025.

Duffy Fischer

Great. Thank you, guys.

Operator

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

David Huang

Hi, it's David Huang here for Dave. What are your concerns if any of the products here at Linde will be now imported as products given the recent management change? I guess, would that be a negative for Linde as they shift away from focusing too much on megaprojects? Or could that change resulting in an even more rational industry pricing environment?

Sanjiv Lamba

Dave, I didn't get your question entirely, but I'm going to answer it anyway. Linde has a leadership position in the market because of a number of factors. I said in my prepared remarks, you cannot replicate, and I think Matt put it really nicely.

You can try and copy, but you can never really duplicate what Linde has developed over many decades. And that's built into our operating rhythm, it's built into our performance culture. And more importantly, it is built into the networks that we have developed across the world, where because of the network density we have, we're able to get the margin improvement that we see.

And of course, command the strength of the relationship with the customer and have the pricing power we have. That's what's demonstrated in the margin expansion that you've consistently seen over the last five years. We will continue to work on that. What others will or won't work on really is a question you will need to address to them.

But I think Linde is the market leader, and we will reflect that in the behaviors we put out there in the marketplace consistently.

Operator

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

Laurent Favre

Yes. Good morning, guys. I've got a question on healthcare, where I think you've been around 0% organic growth every quarter in 2024. I was wondering if you could talk about what you've seen on prices, volumes, and if there's any specific area that is providing a big headwind, and I guess if you can expand into what you're thinking for 2025 for this one. Thank you.

Sanjiv Lamba

Thanks, Laurent. You've heard me say this before, that in the healthcare space, we expect long-term kind of mid-single digit growth, and that's what we would expect. Now, the healthcare sector is made up of two sub-segments, if

you like, the hospital care business, which is growing reasonably well and well on its way, and then obviously the home care business around the world, which tends to be moving forward as well.

Now, we have, as you're aware from past calls, we've said that we were doing some portfolio rationalization in our home care business out of the U.S., and in many ways what the numbers you're seeing at the moment are reflecting some of that rationalization that has been done in that Lincare business that is moving forward well. As you know, the home care business in particular, given the inflationary environment that we see, has to work really hard on productivity efforts, and I'm happy to see that at Lincare, we are really seeing that progress being made. So, it's looking pretty robust and resilient as things stand. At some stage, we will lap these portfolio actions, and you will see the long-term kind of mid-single, low-to mid-single digit growth that we would expect from health care overall.

Laurent Favre

Thank you. And if I can have a follow-up, on the project side, you talked mostly about decarbonization-related projects that could be assigned in the future. You didn't mention electronics. Is there a specific reason for that? I don't think we've seen significant new FIDs in electronics on your side over the last couple of years. Is this an area where we should be expecting new projects?

Sanjiv Lamba

Laurent, I'll only tell you this, that 20% of my all-time record sale of gas backlog is electronics. We are executing on electronics projects as we speak, and I'm more than happy to tell you that we'll be announcing new wins very shortly as well. So, I'm not sure whether that question really addressed a specific point, but I feel really good about electronics and our specific position in there. In fact, we took our Board recently to our Phoenix facility, which serves TSMC, which has been a very successful project for TSMC. So, feel really good about it. Executing a number of projects as we speak. They are starting up and providing impact, and we continue to win more than our fair share.

Laurent Favre

Excellent. Thank you.

Operator

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

Jeffrey Zekauskas

Thanks very much. In 2024, your cash flow from operations was up 1%, even though your EPS grew about 10%. Was that a depressed number? And so, when you look at So when you look at 2025 and your EPS growth of 4% to 7%, is cash flow from operations going to grow higher or lower?

And then secondly, in terms of market share in the overall industrial gas market, is market share pretty much constant for all of the major players, or are you gaining share overall or losing share? Is there any share shift? Thanks.

Sanjiv Lamba

Jeff, I'll let Matt talk about the cash flows and then we'll talk about the market.

Matt White

Yes, Jeff. So on the OCF, to your point, yes, I tend to look at EBITDA rates to OCF rates. So similar to what you're saying, but instead of EPS EBITDA. And to your point though, they should grow similarly. And the ratio we tend to always look to achieve on OCF to EBITDA is usually in the low 80s.

And to your exact point, what we had occur over the last probably, I would say 24 months, give or take, is this unwinding of our engineering portfolio as we worked out the sanctioned projects. And so what that created was you had a large influx of deposits of cash that stopped, and then we had to settle the payments to basically suppliers, and you had a very rapid acceleration of an unwind.

So that created a large outflow of cash associated with the engineering business. And that's what created a slower growth of OCF relative to EBITDA, because essentially what you had was some liabilities, which are the contract liabilities.

If you look at that specific line has been quite unfavorable. And what it is, is these liabilities are unwinding on the wind down, but they're not cash generative. So that's why they create that unfavorable aspect on the working capital line that you see.

So that is what's been driving this inability for the EBITDA and OCF to grow together. We've substantially gotten through all that in our engineering business. I expect 2025 to be a lot closer aligned on those growth rates.

But this is normally, this is how the engineering percent completion business works. Normally it's spread over a four-year build cycle, so you don't notice it. But given the events of the sanctioned projects, it got compressed into a much tighter structure as we had to deal with the sanctioned projects.

Sanjiv Lamba

Thanks Matt. And let me talk about market share. So actually Jeff, to be honest, we don't spend a lot of time thinking and talking about market share. I think it's something that we can segment down and talk about specifics and that's what I'm going to do for you.

So I'm going to start off by just reminding you record sale of gas backlog of $7-plus billion plus, right? That's a good test of where market share is headed, and to be honest, we're winning more than our fair share of those large projects, which are, as I'll remind you, and as we said in our prepared remarks, these are contracted growth with good solid terms and conditions, including termination, guaranteeing a minimal return on capital that is guaranteed. So just as a reminder, that very rigorous definition of backlog, where we are excelling today with a record backlog kind of demonstrates on the larger project side, how we are positioned in terms of market share.

For the merchant and package business, the concept of market share is less relevant. What is more important, and which is where we spend most of our time, is thinking about network density. Clearly, if you have network density, you are the leading player in that market, usually by a mile. So, it is very important to make sure that network density is what you drive through the decisions you make, and in terms of how you manage your business on a day-to-day basis.

So, I feel pretty good about the network that we've developed and the strength of our market position in each one of those networks, which actually results in as I said earlier, getting the margin expansion that we look for and getting the market position and the strength of our relationship with our customers because of those networks that we've developed.

So, I'll just summarize by saying, Linde remains the market leader, and we expect that leadership to continue to move forward, given these elements that I just talked about.

Jeffrey Zekauskas

Great, thank you.

Operator

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

Steve Byrne

Yes, thank you. I was wanting to better understand these 59 small on-site wins, maybe more specifically. How would you compare the contract terms of those small on-sites versus the long on-sites? I would assume these are long-term take-or-pay agreements. Some of them, maybe even have your own employees on-site. So how would you compare the returns on these projects versus the big ones? And can you comment on, what are the gases that are driving these small on-sites? I.e., is this oxygen for oxyfuels, or is this hydrogen, et cetera? Thank you.

Sanjiv Lamba

That's a fantastic question, Steve. And I really wanted somebody to raise it. So, thanks for doing that. 59 long-term contracts, you would have read, we signed 59 long-term contracts and are building 64 plants. All of this happened in the space of the last 12 months. So, I feel really good about breaking that record.

Now, let's talk about the profile of the small on-site. I get excited about small on-sites because from so many different perspectives, they are actually a perfect way of generating annuity income for this business. And you can imagine that building 64 plants will be starting out more than one plant a week to make sure that that revenue and cash generation happens.

Let's talk about returns, terms and conditions, and the types of gases. So I think good to start with the types of gases. We use both oxygen, nitrogen, and indeed, in the future we expect to see electrolyzer-based hydrogen, which is currently not included in our definition for small on-site wins, but at some stage we'll see that as a developing portfolio element to be added onto the small on-site.

Oxygen, nitrogen, largely. Oxygen, I'll give you a great example. So we've been working with many customers. I'll take one, Owens-Illinois, where we've been supporting them on their decarbonization efforts. And in this particular case, we have a piece of applications technology called OPTIMELT that we have developed, and we have deployed that successfully across a number of class customers, Owens-Illinois being a good example of one of those, where we are able to recover, do heat recovery, which allows them to get significant efficiencies, reduce natural gas consumption,

and run the throughput of their furnaces at a significantly higher level. That's a good example of small on-site goes on-site, as you provide that. We do the same with paper and pulp. We do the same with electronics, et cetera, which is where we would largely use nitrogen as an example.

So both of these gases drive our small on-site portfolio and are kind of largely equally split between the different technologies that we apply and when. The terms of these small onsite contracts range between 10 and 15 years, exactly identical to what you would typically see on the large on-site fees.

The terms and conditions are almost identical as well. Same fixed fee elements that we talk about. Similar profile in terms of cash flows. What tends to happen though is that the execution timeline for these projects is much shorter.

Typically, we'd be able to deploy a small on-site anywhere between 9 to 15 months. As you know, the large on-site projects or the larger projects that we do tend to take longer in terms of their construction commissioning period. So again, a very nice piece. Often on the small on-sites, we're able to de-risk the execution as well, because the execution or a portion of the civils is carried out by the customer.

And again, helps us both implement and construct quickly, but also have the customer take the risk around the civils piece as well. That brings me in the end to returns. And our returns typically for small on-sites are above what we would see on average for some of the large projects.

So I feel really good about the return, highly accretive to our portfolio. And again, you've been seeing over the last four or five years, we've put a lot of focus on developing this part of the portfolio and are really seeing the benefits of that in these 59 long-term contracts we signed and the 64 plants we're building up.

All in, I think really a good part of the portfolio we have, very excited about it.

Steve Byrne

Thank you.

Operator

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

Analyst

Hi. This is Abigail on for Mike. Thanks for taking my question. This was sort of touched on earlier in the call, but I wondered if you could just clarify the contributions from pricing versus productivity and cost management when we're talking about forward-looking guidance for the quarter and for the year. Thanks.

Matt White

Hey, Abby. It's Matt. So, we don't split that out, but as Sanjiv mentioned on the algorithm, , we've got 10%-plus in the combination of the capital allocation contribution and the management action contribution.

And for purposes of guidance, I'd say roughly split 50-50, just say 5% at this stage. Historically, management actions have been the larger contribution, but we always need and want to think about that as a spread, right? To think about one in isolation to us doesn't make a lot of sense because you'll see very different inflation levels in different countries. So, the local spread of price to cost inflation is a critical metric for us, because that positive spread is what's part of the compound value creation of the model.

So, I would say, it's a very local discussion, but the spread needs to remain positive. That's a big component of the margin expansion, the long-term margin expansion as well. But I'd say for purposes of the guidance right now, just assume it's roughly half from management actions of the 10% and half from capital allocation of the 10%, so 5% and 5%. And as Sanjiv mentioned, we're obviously going to continue to take actions to try and improve on that, but that's what's laid out in the guidance at this stage.

Analyst

Okay. Thanks.

Operator

And your 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. So, a question around the $10 billion backlog between sale of gas and the sale of equipment. How much of the equipment at this point is locked in where we don't have to worry about tariffs or maybe the benefit of the strong dollar and how much of it is there a little bit of exposure on? How should we be thinking about that?

Sanjiv Lamba

Thanks, John. So again, as you said, $10 billion in backlog, about 3.1 or 3.2 of that sits in the SOE side, the sale of equipment side, and the balance 7 plus sitting in the sale of gas side. So as far as tariffs are concerned, obviously we've been looking at the portfolio.

On the SOE side, our contractual protection typically takes care of that. So, we go in with form pricing with our contractors and wherever necessary, we'd have contractual protection to make sure that events like tariffs, et cetera, get adequately covered. On the sale of gas side, where we're doing a lot of the procurement, we're obviously managing and tracking that quite closely. We did that study recently for our U.S. projects, and actually the impact of tariffs is de minimis. So really, we are not seeing any impact there.

Now, our experience of the past has been, there have been tariffs for a while now, including the first round of the administration a few years ago, when we dealt with this. One of the things we found was, when tariffs did get introduced, typically, they didn't really impact our firm offers that we put in on the procurement cycle.

But also more importantly, we got some benefit typically out of devaluation of currencies that more than offset the tariff impact, if there was impact of any significance. So all in, I'd say to you, we've looked at tariffs, it's part of what

we've done in the past, and we've managed it adequately. At this point in time, we feel pretty good about where our projects stand.

John McNulty

Great. Thanks very much for the color.

Operator

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

Peter Clark

Yes, good morning, everyone. I got kicked off, so I hope I don't ask something that's been asked before. But I'm not terribly surprised with the guidance, but maybe I was a bit off on the FX. And using the sales line, I get slightly lower.

But I'm assuming you've got some very profitable markets in there that have been hit very hard with the currency. I'm thinking Mexico, maybe Brazil a bit. Just wondering if there's an element of that in that guidance. And then allied to that, the tariff risk. I know gases don't travel. I know it's mostly for customers in the region.

But again, some of these very profitable markets are ones at risk in terms of tariffs. And again, Mexico would be a classic in terms of that, just how you think around that as well. Thank you.

Matt White

Hey, Peter, it's Matt. So we'll start on the FX. Yes, you actually hit on the two bigger ones. Brazil and Mexico were the larger ones. I would say if you think about the evolution of FX through 2024, some of the European-based currencies, as you probably know, were almost quite favorable to flat in the beginning of 2024.

But unfortunately, what you were seeing were a lot of LATAM currencies devalue fairly materially. The peso, the Mexican peso being one, the Brazilian real, and then Argentinian peso, as you can imagine, which is on a managed devaluation, which uses hyper currency inflation.

So the LATAM currencies were probably seeing more of the brunt in the first half to two-thirds of the year. But what we saw in the fourth quarter, just given some of the geopolitical and political events, was a significant flight to the dollar.

I think DXY index is probably the best indicator of that. If you sort of look at DXY right around the beginning of the prior to the U.S. elections to where it ended in the year, it appreciated almost 10%. And I think he gave a pretty good indication of the six major basket currencies of which that index is comprised of, how much those major currencies, you saw that move.

So that was, I would say it was a two-stage impact on the rates. And what that ended up with was some of the more larger currencies like the euro and the sterling and the aussie dollar, et cetera, really devalued in the back half of the fourth quarter. So that, I'd say that was the dynamic we saw. It'll be what it'll be. Right? We'll obviously, as we've

mentioned, we book on the average rate each month and then we'll see if the devaluations do create inflationary aspects.

I think Sanjiv had mentioned the tariffs and as you could imagine, our impact on the tariffs is really indirect. We don't, since we're so localized to your point, we don't have much direct impact. Sanjiv mentioned the equipment, which is small and that tends to self-correct. So, it really just comes down to a function of the customers that we supply and what production levels they have.

Given our leading density positions in a lot of these economies, we feel quite good that we are there to capture where the products move to. Because I think at the end of the day, which you have to ask yourself with these tariffs, is production shifting or will there be a reduction of production? But in a shifting basis, we feel quite good we'll capture where it goes. And if there is a net reduction, the question will be from where. So, time will tell on that, but this is more going to be a function of that IP we talked about, and we'll see how it plays out. But given the guide we gave on basically a zero IP at the midpoint, we'll have to see how things play on that.

Peter Clark

Got it. Thank you.

Operator

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

Patrick Cunningham

Hi. Good morning. Just on the step-up in CapEx for 2025, is most of that being driven by the two large projects? And is this step-up from those projects more meaningful in 2026 as well? Thank you.

Sanjiv Lamba

So, Patrick, we just referenced the sale of gas backlog being an all-time high at $7.1 billion. Clearly, that's the reason why you're seeing the step-up in CapEx. And obviously, sitting within that are the two large projects that we're executing around the clean energy piece, but also a number of electronics projects, et cetera. So that is really -- that's all that's driving the CapEx number as things stand.

Operator

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

John Roberts

Thank you. Your competitor had a large non-recurring helium sale in the quarter. Did that take down industry helium prices, or how would you characterize the helium market?

Sanjiv Lamba

John, I think the helium market continues to display exactly the characteristics that we've been seeing for most of 2024, in fact.

As I look at the helium market today, I say to you that there are parts of the world where helium is long. Asia is one of them. As you know, about 1/3rd of all the imports into China are coming out of Russia, which obviously has unbalanced that market to some extent.

Demand side on helium remains flattish. We see some softness around electronics and maybe MRI, but that tends to kind of pick up during the course of the year. Pricing, as things stand, remains stable. We are not seeing any significant movements on pricing. Corrections had happened, as you know, about a year, 18 months ago. There's nothing unexpected happening. You're referencing a transaction that I won't comment on at this stage, but there are shifts in helium supply and demand all the time. There is nothing new happening over here that would impact the market itself.

John Roberts

Thank you.

Operator

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

Matthew Hettwer

Hi, this is Matt Hettwer, on for Kevin McCarthy. Regarding the new CCS hub in Jubail, could you provide more details on the scope and structure of your investment in the project? How large is the investment, and do you see this project being foundational in nature in that it could turn into a base hub for additional follow-on investments with the goal of increasing regional asset density?

Sanjiv Lamba

Thanks, Matt. So, essentially, I'm going to give you a high-level view of the project. It hasn't gone to FID. When it does, you will hear us talk a bit more about it. But essentially, it's a three-way joint venture that is developing, which will be in its first phase, a very large CCS project in Saudi.

The three partners are led by Saudi Aramco, SLB, and Linde, each kind of contributing their skill set into that project. The first phase of the project is between 9 to 11 million tons per annum of CO2 being sequestered. There is an expectation that there will be two more phases.

By the end of the third phase, when it gets completed, this could well be the world's largest CCS project at 54 million or 53 million tons per annum of CO2 being captured and sequestered. So, yes, there is potential for growth beyond. Obviously, we will assess those phases when they happen. At this point in time, this joint venture structure is developing the project. The feed has been completed. The capital is being assessed as we speak, so I'm not going to give you a firm number just yet.

I expect FID in the next few months, and once that happens, you'll get a lot more detail around it. But it is a fairly significant project with some exceptional partners in a part of the world where Linde will strengthen its position and obviously there will be a future opportunity to continue to grow with this.

Alongside this project, we will also look at developing a blue hydrogen project which would leverage the CCS infrastructure that has been developed in this project. Again, when that goes to FID in due course and meets our investment criteria and we have a project worth talking about, you will hear us talk a bit more about that.

Matthew Hettwer

Thank you.

Operator

And we will now take our final question from the line of Laurence Alexander with Jefferies. Your line is open.

Daniel Rizzo

Hi. This is Dan Rizwan for Lawrence. I was just wondering what your view is on the depth of the pipeline of potential hydrogen projects, particularly in the EU and in Japan?

Sanjiv Lamba

So, I said this earlier, and I'm going to maybe just quickly recap my earlier comments and then talk specifically about the markets you've mentioned. So, we have seen that people are being more rigorous and applying more diligence before they take on FID decisions for these large projects. And when I think about our pipeline and the context of that, I feel really good about the strength of the high-quality projects we have in our pipeline that we are developing. We're developing those projects, as you would expect, in the U.S., in Canada, so in North America, in the Middle East, largely in Saudi Arabia, but also potentially in Emirates, in Europe, particularly with partners like Equinor where potentially we have an opportunity to provide low-carbon hydrogen or blue hydrogen into the European network. And then we are looking at some projects in Asia which are localized for local markets.

Your specific question around Europe and Japan, I would say to you that the projects in Japan are minimal other than the fact that Japan is a very important market from an import perspective, that they would want to import in either clean hydrogen or derivatives such as ammonia or methanol into their market for a host of applications that they've determined are needed for their decarbonization efforts. So, everybody is looking at far east from a point of ability to export into that market, which is why it remains an important market, alongside Japan and South Korea as well. But the development itself in Japan, I think, is minimal.

As far as Europe is concerned, obviously, you see a lot of discussion around clean hydrogen in Europe, including green and including blue and so on and so forth. The reality is that the regulatory framework is so difficult that to be able to get to a decision point in a very large substantive investment requires a lot of time, and I think we're seeing that play out in Europe as things stand, which is why there is a real fear that the European aspirations for the amount of hydrogen they need for that market will not be entirely met, because the combination of the time to kind of decipher the regulatory framework and to make investment decisions in this environment is obviously a little more challenging.

Daniel Rizzo

Thank you very much.

Operator

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

Juan Pelaez

Abby, thank you. And thank you, everyone, for participating in today's call. If you have any further questions, feel free to reach out directly. Take care.

Operator

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