

LIN Earnings Call Transcript

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Quarter: 3

Operator: Ladies and gentlemen, good day, and thank you for standing by. Welcome to the Linde Third Quarter 2025 Earnings Call and Webcast. [Operator Instructions]. Please be advised that today's conference is being recorded. And after the speakers' presentation, there will be a question-and-answer session. I would now like to hand the conference over to Mr. Juan Pelaez, Head of Investor Relations. Please go ahead, sir.

Juan Pelaez: Abi, thank you. Hello, everyone, and thanks for attending our 2025 third quarter earnings call and webcast. I'm Juan Pelaez, Head of Investor Relations, and I'm joined this morning by Sanjiv Lamba, Chief Executive Officer; and Matt White, Chief Financial Officer. Today's presentation materials are available on our website at linde.com in the Investors section. Please read the forward-looking statement disclosure on Page 2 of the slides and note that it applies to all statements made during the teleconference. The reconciliations of the adjusted numbers are in the appendix to this presentation. Sanjiv will provide some opening remarks, and then Matt will give an update on Linde's third quarter financial performance and outlook, after which, we will wrap up the Q&A.; Let me now turn the call over to Sanjiv.

Sanjiv Lamba: Thanks, Juan, and good morning, everyone. Once again, the third quarter has proven the strength and resilience of our model. EPS of \$4.21 grew 7%. Operating cash flow grew 8% and we generated \$1.7 billion of free cash flow. The backlog remains at \$10 billion, contractually securing long-term EPS growth while increasing our network density. Despite the challenging macroeconomic environment, Linde employees continue to generate shareholder value while maintaining industry-leading results across key metrics that matter most to our investors. This culture of ownership, deeply ingrained throughout our organization is a foundation of our performance culture. And it serves us well in both good times and bad. Given the current economic uncertainty, I thought it would be helpful to provide you an overview of what we are seeing around the world. Slide 3 provides the end market trends for organic sales which include both price and volume. Starting with consumer-related end markets, which make up about 1/3 of global sales. Healthcare encompasses both institutional and home care sales, primarily for respiratory ailments. You may recall last year, we proactively pruned certain parts of the U.S. home care portfolio. which laps by the end of this year. Going forward, I expect health care to remain a stable and steadily growing segment. Food and Beverage continues to grow low to mid-single digits, driven by a combination of consumption trends and innovative application technologies that enhance food quality and preservation. This is a workhorse of the portfolio that may not get a lot of the spotlight but it provides consistent growth and is remarkably resilient. Electronics at 9% of sales was the fastest-growing end market this quarter. Note, this 9% does not include an additional 2% of electronic sales in Taiwan through our nonconsolidated joint venture, which is also growing well. The 6% growth we achieved is evenly split between on-site project start-ups and demand for processed gases and advanced materials. Growth was fueled primarily by high-end chip production in Korea, Taiwan and the U.S. and some lower rent ships in China and Southeast Asia. We observed increased fab activity in Q3, spurring merchant and packaged gas demand as well as new all side bidding opportunities, particularly for cutting-edge advanced nodes. I expect this end market to provide robust growth for some time and serve as an important part of our project backlog growth. Turning to industrial end markets, which account for about 2/3 of our sales. As many of you know, this is an area

we've been cautious on for several quarters in a row. So recent macro trends have not been a surprise. Starting with metals and mining, which were slightly up, largely due to inflationary price increase, while base volumes were mostly negative. Metals trends were region-specific and also impacted by tariffs. China is up where Linde benefits from supplying Tier 1 customers, but I believe the trends for Tier 2 and Tier 3 steel mills are considerably more stressed, but we do not supply that. U.S. has been a bright spot for metals, not just production levels, but also new capacity opportunities as they've been supported by the new tariffs. Europe by contrast is the weakest as demand continues to drop led by weak industrial activity. We've been supplying steel mills for many decades, and we have seen the cycles. We have confidence in the competitiveness of our customers, but also the opportunity to deploy our applications that enable our customers to either reduce energy consumption, debottleneck and enhance efficiency. Chemicals and Energy are up 1%, driven by inflationary price increases. Overall, base volumes are down as chemicals is one of the most challenged end markets today. The U.S. and China saw flat volumes. India continues to see moderate growth. While the rest of the world is seeing volume decline as they adapt to trade policies and lower demand. Europe remains the weakest with continued broad-based demand challenges. Fixed payments are being made. So the profit impact for us is therefore limited. Despite the current challenges, I expect this cycle to rebound as all prior ones have, especially given our confidence in the cost position of our top-tier customer base. Manufacturing, which grew at 3% year-on-year was the fastest-growing industrial end market. Let's start in the Americas. We are seeing solid volume growth, especially in the United States. We seem to have lapped some of the tariff concerns, and this has translated into a healthy uptick in manufacturing activity. In addition, I'm pleased with the momentum in our commercial space business. Growth has been strong as we remain the trusted supplier of fuel for rocket launches and satellite propulsion systems. This sector continues to present exciting opportunities for Linde as we invest in additional capacity. Turning to APAC. Manufacturing volumes are holding steady. China's numbers appear to be leveling off, while India remains on a strong growth trajectory. Europe, again, continues to face challenges with widespread softness in manufacturing activity. Summarizing these trends. Consumer markets are performing as one would expect. Pricing continues to track inflation. And despite some of the volume challenges from the ongoing industrial recession, Linde is well positioned to supply as industrial activity and volumes recover. In other words, it's business as usual. Finally, more recently, I've heard some talk of a potential recession and the possibility of an economic contraction. As far as I'm concerned, we've been in an industrial recession for more than 2 years. And here at Linde, we've taken proactive steps while navigating contractions across several industrial end markets. We've been making our model recession resistant for many years now, stressing on productivity and efficiency within our business, focusing on targeted high-quality growth while maintaining disciplined capital management. Our operating model is designed to plan for the worst and be ready to capitalize on opportunities as they come. When things get tough, there is no group in the world I'd rather have in my corner than this Linde team. I'll now turn the call over to Matt to walk through our financial results.

Matthew White: Thanks, Sanjiv. Third quarter results can be found on Slide 4. Sales of \$8.6 billion were up 3% from last year and 1% sequentially. Recent weakness in the U.S. dollar led to a currency tailwind of 1%. Tuck-in acquisitions in Americas and APAC added another 1% and engineering impact decreased 1% from project timing. Excluding these items, year-over-year underlying sales increased 2%. Price increases of 2% were broad-based and aligned with globally weighted inflation, except for helium, which continues to experience price pressure from excess supply. Overall volumes were flat as contribution from the project backlog was offset by weaker base volumes driven primarily by European industrial customers. As Sanjiv mentioned, the weaker industrial activity was not a surprise as trends mostly followed our guidance expectations. Underlying sales were flat sequentially as seasonal increases in APAC were offset by seasonal decreases in EMEA. Note, we had a supplier settlement in the U.S. home care business broken into 2 separate payments to Linde. The majority was paid Q3 2024, as disclosed in the 10-Q while a final smaller payment was received in the second quarter 2025. The payments recovered prior excessive costs and resulted in a current quarter operating profit headwind of approximately 2% or 40 basis points versus last year, and 1% or 20 basis points sequentially. Aside from this, profit growth was primarily driven by price increases. EPS of \$4.21 increased 7% or 4% more than operating profit primarily from a lower share count and tax rate. While

the share count is part of our ongoing repurchase program, the tax rate relates to favorable timing versus the upcoming fourth quarter. We anticipate full year ETR to be in the mid- to high 23% range, which is similar to 2024. Slide 5 provides an update on capital management. Operating cash flow increased sequentially to \$2.9 billion, or 8% over prior year. Second half operating cash flow is seasonally higher. So I expect a similar level for the fourth quarter. Overall, despite economic headwinds, the bar chart validates our resiliency through significant free cash flow generation. To the right, you can see how we deployed year-to-date capital with \$4.2 billion invested into the business using our disciplined investment criteria and \$5.3 billion return to shareholders. We have an underleveraged balance sheet with significant access to low-cost capital. So we're well positioned to capitalize on future opportunities. I'll wrap up with a guidance update on Slide 6. Fourth quarter EPS guidance is \$4.10 to \$4.20 or 3% to 6% growth. While this assumes a 2% FX tailwind, it also assumes an approximate 2% tax rate headwind, so these 2 mostly offset. As mentioned earlier, third quarter tax rate was slightly lower than the run rate, but we anticipate fourth quarter to be higher. There aren't any structural reasons rather just timing effects. It's possible there could be upside to this tax rate estimate, but time will tell. Excluding these 2 items, underlying EPS growth is holding in the mid-single-digit range as we maintain the assumption of base volume contraction at the top end of guidance, similar to last quarter. The quarter guidance rolls up to a full year range of \$16.35 to \$16.45 or 5% to 6% growth against the challenging macro backdrop. In summary, we remain cautious on the outlook. It's difficult to identify near-term catalysts, which could materially improve industrial activity for the remainder of 2025. And while we may take this prudent view, it does not negate our ability to generate shareholder value. Over the last 2 years, the global economy experienced recessionary industrial conditions with restrained capital activity. Yet Linde has grown operating cash and EPS, mid- to high single digits while contractually securing a record high-quality project backlog. Looking ahead, if conditions worsen, we're prepared to take appropriate mitigating actions. And when things recover, we're well positioned to capitalize. Either way, we won't spend time predicting the future, but rather focusing on the actions to shape it. I'll now turn the call over to Q&A.;

Operator: [Operator Instructions]. And our first question comes from the line of Laurent Favre with BNP Paribas.

Laurent Favre: My question is regarding the backlog. And I remember that 3 months ago, you were talking about defending the \$7 billion by year-end despite startups. I was wondering if you think -- I mean, I'm not aware of any significance new intake in Q3. Are you expecting significant new projects coming in, in Q4?

Sanjiv Lamba: Thanks for that question. Obviously, the backlog at \$7 billion. This is the sale of gas backlog is at a record level. I had said 3 months ago, my expectation is we will end the year with a 7 handle on the backlog despite starting up \$1 billion in projects during the course of the year. We're on track for that. And I believe at this stage, we are on track to getting that 7 handle by the end of the year as well.

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

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

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

Sanjiv Lamba: Good question there, Laurent. So yes, I think we are seeing that as a result of the tariffs that steel and metals broadly are likely to see some continued expansion in the U.S. We find ourselves well positioned with the right players who are contemplating that expansion. So the answer is, yes, we are looking at steel and metals opportunities and potential for new expansion projects, which will lead to greater gas demand, which we will either feed from our existing network or with additional assets that we are proposing to put.

Operator: Our next question comes from the line of Duffy Fischer with Goldman Sachs.

Patrick Fischer: If you would, could you take a peek into next year? You've got, obviously, the Q4 guide out. That is a baseline to springboard into '26. How comfortable do you feel? What does the project

startup look like next year? And then if you just kind of anniversary the price you have now, how much benefit does that look like it will bring in '26. So just anything that you can kind of see forward into '26 would be helpful.

Sanjiv Lamba: So Duffy, in 2 weeks' time, we will have the entire team here going through a rigorous plan process. The plan presentations will happen there. And we will come back to you and give you good visibility on next year and provide the guide for next year as well in February, as we normally do, which you're aware of. So I want to go through that process. Our planning process is fairly rigorous. And I think that's what gives us the confidence to come out and give visibility on next year. I'll say a couple of things to kind of whet your appetite a little bit while you wait for us to come in February. The backlog that we have under execution, obviously, is a strong input into continued EPS growth that we are likely to see into next year and beyond. So expect that for sure. And of course, there is a variable in all of this, as you know. And our EPS algorithm, which holds well today and shows that management actions and capital allocation does what it needs to do. At the end of the day, the variable that we'll be looking at for next year will all be around the macro. And I think that's going to be one of the factors that we will spend a lot of time talking about and planning for to ensure that we have a solid guide when we come in February.

Operator: And our next question comes from the line Matthew DeYoe with Bank of America.

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

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

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

Operator: And our next question comes from the line of David Begleiter with Deutsche Bank.

David Begleiter: Sanjiv and Matt, one more try on '26. Do you need base or organic volume growth to achieve your EPS growth algorithm next year?

Matthew White: David, so when you think about the algorithm, there's the 3 parts, as we've described in the past. And the capital allocation part and the management action parts don't need any economic help. And as we've said time and time again, those 2 parts, we view kind of mid-single digit individually. And so the combination of those 2 should get us to about 10% or hopefully a little more without any help from macro. And then the third piece is the macro, which really we view has 2 parts. The FX translation, given we're dollar functional and the base volumes that we see. Even though they're under contract to customers, how many molecules they take will drive that base volume. So that's the part that's been the drag, the headwind for a few years now. But the rest of the model continues to deliver on the algorithm, hence, why we've been able to achieve the growth we have with even the face of negative base volumes. And up until recently, unfavorable FX translation. So we feel quite good about management actions, and we feel quite good about our capital allocation portion of the backlog and we've talked about the strength of our backlog projects coming on stream. We've talked about the free cash flow that we can deploy on everything from stock repurchases to M&A; activity. So we feel good that, that will deliver, and we feel good the management actions will continue to deliver. So the macro, as Sanjiv mentioned, we'll give more of an update on that on February and how we view that and how we will put that together in the guide in February.

Operator: Our next question comes from the line of Tony Jones with Rothschild.

Mazahir Mammadli: This is Mazahir speaking on behalf of Tony. So I'd just like to ask one question

about the project backlog and what major end markets do you expect to drive growth once the electronic CapEx cycle peaks over the next year or so.

Sanjiv Lamba: Thanks. So our view remains that the electronic cycle doesn't peak next year. The electronic cycle in our mind is here for the next 5 to 7 years and potentially a little bit beyond that as well with all the build-out that's contemplated. Now having said that, the visibility we have on the electronic cycle comes through the engagement with various of the leading semiconductor companies and who are currently contemplating fab expansion. So that's what gives me the confidence to give you that sense that I expect that electronics in the capital cycle or CapEx investments to continue for some time to come. Beyond that, today, we have a fairly strong pipeline of projects that we're working on. And that happens to be across a number of end markets. And I still feel pretty confident that we will continue to see growth certainly in electronics, as I mentioned, but also in a number of other areas, including steel in parts of the world where we continue to see some possible opportunities. We mentioned the U.S. is one. India is potentially another. We expect chemicals and refining in other parts of the world to also continue to see some level of activity. And last but not least, while we don't explicitly look at decarbonization projects separately, they still embedded within our end markets. Companies are still looking at their programs for decarbonization and that will continue to provide an opportunity pipeline that looks pretty good, certainly for projects that have strong economic basis on which to progress.

Operator: And our next question comes from the line of Vincent Andrews with Morgan Stanley.

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

Sanjiv Lamba: So generally, Vince, in Europe, Q3 tends to have a seasonal impact, and my expectation remains that Q4 will largely be flat. When I look at the broader European context today, unfortunately, as you know, we are seeing negative volumes there sequentially. That industrial market remains soft. I don't see a catalyst for change in the near term to kind of change that fundamentally. I'll talk about a couple of geographies that are looking like we might see movement. So I'll start with Germany to begin with. The economy is slow. You probably just saw data that came out yesterday and this morning, suggesting that maybe a slight uptick. There is an expectation. And again, we don't base our plans and strategy on hope. But generally, there is an expectation and hope in Germany that the spend on infrastructure, the \$500 billion that's been planned will provide an impetus or momentum for industrial activity to pick up. I don't see that happening before middle or maybe even Q3 of next year. But nonetheless, that is something that people are looking forward to. The U.K. economy, on the other hand, also large in the European context remains stagnant, and we aren't seeing much movement there. And I can't see really a catalyst there either for a fundamental change. There is a bright spot in Europe. I have to mention that, which is the Nordics. The Scandinavian businesses seem to be seeing growth. They seem to be seeing some momentum, and that's good news, but they aren't large enough to move the overall European context. So at CTU, for the rest of the year, I expect that declining trend that we have in volumes to remain consistent. Sequentially, you should expect that to be flattish. Nothing beyond that at this stage.

Operator: And our next question comes from the line of Patrick Cunningham with Citi.

Patrick Cunningham: One of the desired outcomes from the trade and tax policy is clearly an increase in U.S. manufacturing. And it seems like we've lapped some of the tariff concerns, you started to see some uptick here. How would you frame the market risk near term, which seems to be getting a bit better versus what maybe your customers are saying in terms of doing new projects, CapEx plans and level of certainty on sort of forward growth expectations?

Sanjiv Lamba: Patrick, that's a good question. Let me kind of give you a 2-part answer to that. I'll talk to you about our U.S. package business that reflects the near-term realities of what we're seeing and what we saw in Q3. We expect that to be consistent into Q4, and I'll give you a little bit of a sentiment view from what I'm hearing from customers as well. Let's start with the package business. So the package business, the U.S. package business grew mid-single digits organically. That's volume and price together. Gas volumes were down low single digit. They were impacted by Helium as well within that.

So the industrial demand underlying there was quite stable. Hard goods sales were up mid-single digits. Volumes are particularly up due to growth in automation and equipment sales. And that's usually a good sign because it shows that customers are preparing for order book pickups to happen and therefore, getting ready for that. So that's a good signal that we obviously track quite closely. So I'd say that growth in automation equipment suggesting that they're willing to make some of that upfront investment to be prepared for the orders as they come through. Now on larger projects, and I think to answer your question around customer sentiment now, I'd say that there remains a degree of caution. There is no question we've lapped the tariff concerns, but there still remains a degree of caution. And I think we see people progressing on looking at their major expansion projects or CapEx investment into the ground, but we still see a degree of caution around that. Broadly, I would say when I look at broader manufacturing, the volumes are resilient, which suggest that, that trend is likely to continue into Q4 with hopefully the pickup happening in the first half maybe middle of next year in terms of actual projects on the ground, ensuring that volumes have a pickup.

Operator: And our next question comes from the line of John Roberts with Mizuho Securities.

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

Sanjiv Lamba: John, I think the Chinese cost curve on electrolyzers, alkaline in particular, has been declining for some time. This isn't necessarily new. They've had a couple of hiccups around the scale-up technology being reliable and working through. But notwithstanding that, I fully expect Chinese electrolyzers to provide a very -- a good option in the market as people evaluate the economics of green hydrogen or renewable hydrogen. What I would say to you, though, is that the issues with renewable hydrogen are slightly more fundamental, and they come with 3 parts, and I know you know this, John, but I'm going to repeat this anyway. The first issue is around scalability of that technology because we are still talking in terms of 5-megawatt stacks, 20-megawatt stacks that isn't scale at which we can really operate. So you have hundreds of modules to come together in case you want to build a 200 or 500-megawatt facility, which again, in the larger scheme of things, when you compare that to a large steam retail reformer is a fraction of what the steam methane reformers deliver. So I think from that scalability point of view, there is a challenge for electrolyzers as is the challenge around reliability in terms of being able to operate clearly not 24/7 because of the availability of renewable energy. But even from the grid, I think the ability to give that 24/7 consistently over the course of the year is still fairly challenged around electrolyzer technology. So that's the first piece. The second piece is what you referred to, which is capital efficiency or the lack thereof. And I think that's being addressed in part certainly by the Chinese more rapidly than anyone else. I've said this before, so at the risk of repeating myself, that's probably the cost curve on the capital side needs to probably get a reduction of between 60% to 70% before you start seeing an inflection point which makes renewable or green hydrogen more competitive. And last but not least, in all of this we shouldn't forget the fact that we need availability of [renewed] electrons generally, but renewable energy, in particular, because that's what the preferred option for green or renewable hydrogen is. And as you know well, today, any electron gets taken out very quickly. And all of this build out on data centers and AI-led data center development means that renewable energy is going to get scarcer, if you will, from a renewable hydrogen perspective. So that's something also that is structural for now that needs to get addressed before we get to a point where you see that scale-up happen.

Operator: And our next question comes from the line of Jeff Zekauskas with JPMorgan.

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

Sanjiv Lamba: So I'm sure you've done the math. I'll let Matt kind of respond back to that. I'll just give you my flavor on what is happening to APAC pricing to just reconfirm that APAC pricing excluded

helium and rare gases. So I would urge you to not forget that. So APAC pricing, excluding helium and rare gases, is positive. Now you have to remember in APAC also that China is going through deflation. So we do see that reflected the Chinese pricing more broadly. But Matt, what do you say to the math that Jeff just put.

Matthew White: Yes. I think on a high level, Jeff, I would agree with the basics of your math. When you think about full year, we'll stick with full year basis rather than quarter. But on a full year basis, between helium and rare gas, if you take both the volume impact because you did see some curtailment of volume, whether it's for balloon or whether it's for MRI, coupled with some of the pricing impact you could argue on a year-on-year basis, that's probably a 1% to 2% impact, probably in the lower end of that range, but on the EPS year-on-year. And APAC, unfortunately, is impacted the most. Given that's where the larger percentage of demand for those products are. But that is how I would summarize. I mean when you think about helium and rare gas, it is low single-digit percent of our global sales. And just given some of the volume and pricing impacts, you have seen an impact year-on-year related to that. So I would say pretty much flows close to those numbers, but we hopefully have seen some stabilization definitely on the pricing of rare gases. And helium, I think it still remains to be seen on some of the Russian supply.

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

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

Sanjiv Lamba: So Mike, that's a good observation. I think the chemical industry, as I said in my remarks, is probably the most impacted at this point in time. And therefore, every view on the industry or all perspectives on the industry tend to be quite negative. The reality is, and you know this well, Mike, we've seen the chemical industry go through these cycles before. There are some elements that are structural. There is nothing that we have to accept that, particularly Europe, right? And we have seen the rationalization of capacity in Europe, supporting capacities elsewhere in the world. The one market where chemicals is still doing reasonably including in the last quarter was China. Now obviously, a lot of capacity put in China on chemicals, which doesn't help the global supply-demand situation. But nonetheless, we have seen chemicals continue to have reasonable growth in China in the quarter and the expectation remains that, that will be the case. I do expect that with the rationalization in Europe, you will see the broader chemical asset base, start looking at the recovery or rebound over time. I'm not suggesting it's happening tomorrow anytime soon but I do expect that cycle to turn. And based on the feedback we have from many of our customers now, the expectation remains that once the rationalization actions have been taken into account, there will be a fundamental shift back to a point where you will see that chemical industry come back a little.

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

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

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

John McNulty: Maybe a follow-up around some of the European capacity closures. So it looks like there have been a lot announced at this point. And so far, you all seem like you've avoided being tied to too many of them, likely a lot of good partnerships that you've kind of picked over the years. I guess can you help us to think about at least given the announcements that have come out in the last quarter or so if there's any speed bumps that we should be aware of as we look out over the next year or 2 where

assets are getting shut down, maybe you get a big onetime payout and then the business disappears. I guess how should we be thinking about that?

Sanjiv Lamba: John, I'd say to you that the rationalization has been something that we have looked at. And to some extent, we internally had kind of mapped out what we thought the pace of that would be. All of that's playing to exactly how we thought it would be. So I'm not seeing any surprises in there. I would also say to you that there are a few customers that are below mTOP at the moment in Europe, largely around steel and chemicals. And I think we still are being paid. The thing that I look at when I look at these large customers is whether we're getting paid the fixed fee, and that's what contractually protects us from any exposure. So we see that happen. I do not expect any significant rationalization impact of the order and kind of the way you defined it where things stand down with large one-off payments. We are just seeing -- again, it's the pedigree of the customers we have, the cost positions that they have, which ensure that these Tier 1 customers in the chemical sector that we serve will remain. They will be much, much the last man standing, if you will. And I feel good about that portfolio.

Operator: And our next question comes from the line of Josh Spector with UBS.

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

Sanjiv Lamba: Yes. So I think as I explained there, Josh, the manufacturing piece more broadly is seeing, 2 things are happening, right? We're lapping the tariff concerns or the trade concerns that were there, and I think that's resulted in manufacturing coming back and rebasing. So the uptick in manufacturing that I referenced earlier on is driven by that. And then obviously, we are seeing some of the clarity that is now coming into the market, allowing people to plan and progress with their activity and potentially expansion in that space as well. I won't point out any specific elements. I'll give you a couple of examples. So the U.S. manufacturing, clearly, I've given you the example of the U.S. packaged gas business, that is a great proxy for U.S. manufacturing has done well, mid-single-digit organic growth. That is, of course, both price and volume. But I'll also give you examples in China, as an example, which we've been struggling with manufacturing being in steady decline. We have seen particularly around selective subparts of the manufacturing end market. We've seen EVs and batteries show some growth, so we are seeing a bit of mix back around the world. The U.S. leaves that in terms of the manufacturing activity and the growth we see in there. We're seeing, obviously, India, I gave you the example of China, where we see manufacturing broadly remain struggling is Europe. And I think it should come as a surprise to you. We've been kind of looking at that, and it is exactly as we had expected, unfortunately. Now the expectation there is that the \$500 billion spend in Germany is going to spur some of that manufacturing activity. I'd love to tell you that it's going to happen on the first of January 2026, but you and I both know that by the time the German system puts its whole process around that, it's going to be a few quarters before we get the benefit of that. And you will see that play out. I think there's a certainty around that. But again, we'd love to watch for that to happen before we can really kind of comment on that.

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

Sanjiv Lamba: Matt, I don't know how I forgot that because I think the space is an end market by itself. I think -- it's about time we grew that enough to be able to show that as an end market. But yes, very healthy double-digit growth, feeling really good about aerospace broadly and commercial space specifically, Josh. And I'll just give a bit more color there just to say, look, the reason we're excited is not only are we seen as a reliable partner for -- by almost all the space launch companies. But as the companies are ramping up their activity and accelerating their manufacturing process around both the production of engines, testing of engines and obviously launch, we see this significant opportunity for growth, and we are putting a lot of capacity on the ground today, particularly in the U.S., to serve that

additional oxygen, nitrogen, hydrogen demand and, of course, rare gases for propulsion systems for satellites as well. So yes, that certainly sits in manufacturing, and Matt was absolutely right in just pointing that out.

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

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

Sanjiv Lamba: Sure, Kevin. That's a great question. So as I said in the prepared remarks and also in the response to a question earlier, we still see a very robust pipeline for growth over the years to come over there. I think when you think about semiconductors broadly, the expectation remains that over the next 5 years or so, you should see semiconductor industry grow to \$1 trillion. I think the expectation of growth between 9% to 11%, I think depends on which study you pick up. Within that, clearly, as you're aware, logic is the steady growth element in there. And of course, memory more recently driven by HBM really is seeing a significant pickup as well, and that's where a lot of the capacities today, both in terms of logic for the GPUs as well as HBM and memory are really finding the investments play out. I would say to you that I expect that the 9% to 11% growth range is a good number to begin with. You will see, as it always happens once fabs come on the ground, in terms of actual consumption from an industrial gas perspective, we tend to start the plants up and obviously, you see a bit of a momentum there and then evens out and gives you that 9% to 11% longer term. So I feel good about how we will see that reflected both coming from logic as well as HBM, particularly, but memory more broadly as well. The second part of your question was around the intensity of gases. And the answer is absolutely yes. The more advanced nodes we see the intensity of gases goes up and has continued to go up. The tools that we now see with the OEMs who are putting the tools together or even looking at the next generation of tools and our R&D; engagement with them suggest that, that gas intensity increased continues to be the case. And that's what gets us excited, right, that there is significant growth happening, but not just that you're actually seeing a higher intensity of gas application in that process as well. I know for a fact that Juan has done some really good work around that gas intensity analysis. If you want you can reach out to him, he can share some more information with you.

Operator: And our next question comes from the line of James Hooper with Bernstein.

James Hooper: My question is more on the margins in EMEA. I mean 36% is very, very impressive, and you've done over kind of 200 basis points year-on-year, excluding pass-through. But are we starting to reach terminal velocity on margins here? Without kind of volumes coming back, how much further can we go? And what levers you're looking to pull to keep growing here?

Matthew White: James, this is Matt. I think starting with -- yes, as you look at EMEA right now, clearly, you have negative volumes and positive price. And that combination is creating a very strong margin contribution result year-on-year. And as we mentioned on the volume side, the industrial on-site customers are primarily driving a portion of that, so we are still getting paid, but they are, in some cases, noticeably below the mTOP levels. So you will get a little bit of a boost on that. When you see some recovery in those on-site customers, I don't expect any margin expansion, if anything, you might have a minor margin dilution simply as you start to bring up some of the power costs, which essentially flows through. So that component would have an impact on the recovery. As far as base merchant and package recovery, that would be margin accretive, right? That would be, as you would expect, as that volume flows back through. So we've always tend to found in our history that in more difficult times, our margin expansion tends to be greater and that's simply because of the earnings algorithm that we talked about earlier, that you tend to have more contribution from management actions, which can be highly margin accretive. When we get recovery periods, we still get margin expansion but not at the same clip, simply because then you shift more of your growth towards volume. And you just get a little bit of a mix change effect there. So that's how I think of EMEA, but they are doing what you would

expect this model should do in the environment they're in, which is they're getting price to inflation, their fixed contracts are maintaining, as you would expect, and they're managing their cost back given the environment they're in.

Operator: And our next question comes from the line of Laurence Alexander with Jefferies.

Laurence Alexander: Would you mind updating specifically on packaged gases, 2 issues. One is what you're seeing in terms of demand trends there, particularly in sort of the welding applications. But also where we are on the regional consolidation in Europe versus the U.S. And how much further you think you can go in terms of consolidating the U.S. market? Like where do you think your market share might top out.

Sanjiv Lamba: Thanks, Laurence. So I described the U.S. package business earlier on. And I think within that, the comment I made was we're seeing certainly on the hard goods side, in the last quarter, in fact, we saw mid-single-digit growth from an organic sales perspective. Volumes were up, particularly driven around growth in automation and equipment. And that's a good sign because that shows that the building end of the manufacturing cycle is looking stronger. Obviously, some of that is going into large construction projects, including data center, something we don't normally talk about. But -- and obviously, LNG projects in the U.S., et cetera, which are driving some of that growth. And I think the growth still looks pretty robust. And as manufacturing laps all these concerns around tariffs, et cetera, we have an opportunity to see a good growth pattern there as we look ahead into the future. On consolidation, I'll give you a global view and then I'll focus a bit on the U.S. because that's where the action is. So there was consolidation and there are opportunities for consolidation on tuck-in acquisitions in the packaged gas space. And we've seen that now taking the model that we've got in the U.S., and we've applied that in elsewhere in the world, including in Asia and increasingly now looking at opportunities in Europe as well. So there are opportunities for consolidation globally. But the biggest opportunity lies in the U.S. There is no question around that. And while I may not comment on the market share piece, I can only say this to you, I still believe we have a number of opportunities for tuck-in acquisitions in the U.S., and we have the balance sheet strength and the appetite to go about doing that. From memory, I'm just trying to think back. I think we closed 18 deals last year globally. This year, we're saying about 1% of our sales are going to come from acquisitions. Much of that is going to be tuck-in acquisitions coming out of the packaged gas space. So we feel really good about that space. We expect significant opportunities still in that space for us to continue to do that.

Laurence Alexander: And just if I may, on the cylinder rental price increases over the last 5, 7 years, given how soft the end markets have been, have you seen any material pushback or pricing fatigue where you may need to -- where you feel you need to walk back the cylinder rentals to help the market? Or just describe what's going on there?

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

Operator: And our next question comes from the line of Arun Viswanathan with RBC Capital Markets.

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

Sanjiv Lamba: Sure, Arun. So let me give you a quick -- I give a walk around the world, so you've got a sense of what the different end markets are doing. I'll now maybe channel that into the opportunity pipeline that we're looking at. So it's fair to say that most of our opportunity pipeline today comes from the Americas and Asia. That's where the opportunity pipeline today is providing projects that we're currently working on. And if those projects meet our investment criteria, then obviously, these are projects that then go into the backlog and get developed. Now, the U.S. opportunity remains robust. We see opportunities across a spectrum of end markets. I gave examples of electronics earlier on. We talked a little bit about steel. Clearly, even in other end markets, we are seeing opportunities for growth in the U.S. market. So it's a robust pipeline of projects that we see in that space. On Europe, I'm not

sure I quite got your comment on disinvestment. What I would say to you is that the number -- the opportunity pipeline for Europe or EMEA, in our case, looks a little bit lighter when compared to either Americas or APAC, not surprising, as you would expect, just given the industrial weakness that is currently there in Europe, but we still do have a number of projects in Europe that are progressing, some of them are latest decarbonization, whereas others are related to growth in other different end markets. So we still see opportunity pipeline in Europe that over time as we develop that, we'll convert into projects that we will take into the backlog or into base growth.

Operator: And our final question comes from the line of Mike Harrison with Seaport Research Partners.

Michael Harrison: You have highlighted in the past some opportunities for AI to help you improve operational efficiency and productivity. I was wondering if you could speak about any new use cases that you've found for AI that you may be implementing as we get into next year?

Sanjiv Lamba: So Mike, I don't know how much time you have, but I could carry on the use cases for AI. Obviously, it's very topical. No discussion today is complete unless we've talked about AI. In our case, of course, we've been doing a lot of work with data, which we've been capturing for about 30 years plus and a lot of machine learning work that's been done over the last 4 or 5 years. So much of that is in deployment today. Off the top of my head, I'd say to you, we have about 300 use cases or above that. And they range across the entire spectrum of operations, some at the front end on the sales process and some in our engineering and design process as well. So a healthy number of use cases, very robust deployment process. We have an AI council that ensures that, that deployment works well with the overall strategy that the company has laid out for ourselves. And we're excited about that. And the one change I would say to you is rather than just look at stand-alone use cases for AI, we are now looking at different domains and trying to understand how we can introduce AI tools across the domain, so that we can harvest some value. We track AI projects just like we track all our productivity projects. It's on our internal platform in which they get reviewed and validated. And the AI team, I can tell you has a very stretching goal in terms of what it needs to deliver as a benefit. So we will use that -- look at every use case and look at the business case underpinning that. And those benefits are looking interesting and exciting as we speak. But again, all of that scales up over the next 2 to 3 years to have some major impact on the business.

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

Juan Pelaez: Abi, thank you, and thanks, everyone, for participating in today's call. Have a great day.

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