

LINDE PUBLIC LIMITED COMPANY (NYSE: LIN)

(as at May 31, 2020)



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Business Description:

Linde Public Limited Company operates as an industrial gas company in primarily North and South America, Europe, the Middle East, Africa and Asia Pacific. It manufactures and distributes atmospheric gases such as oxygen, nitrogen, argon and rare gases; and process gases including carbon dioxide, helium, hydrogen, carbon monoxide, electronic gases, specialty gases, and acetylene. The company also designs and manufactures equipment for air separation and other industrial gas applications, as well as gas production and processing services such as olefin plants, natural gas plants, air separation plants, hydrogen and synthesis gas plants, and other types of plants. It serves healthcare, petroleum refining, manufacturing, food, beverage carbonation, fiber-optics, steel making, aerospace, chemicals, electronics and water treatment industries. Linde was founded in 1917 and is based in Guildford, UK.

Investment Thesis:

- **Well Diversified & Resilient Portfolio:** Linde's products are sold to the manufacturing, healthcare, metals & glass, food & beverage, chemicals & energy and electronics sectors globally. The company strives to be one of the best performing global industrial gases and engineering companies in the world.
- **Capital Allocation:** Management prioritizes its capital allocation priorities as follows:
 - Maintain an A/A2 credit rating: this allows them to access lower cost of capital from global investors.
 - Consistently grow its dividend: Linde has a long track record of increasing its dividend to shareholders and is a major attraction for investors seeking capital growth.
 - Invest in the business: investing internally allows the company to generate high returns on invested capital while also spending cautiously on opportunistic mergers & acquisitions.
 - Maintain a healthy balance sheet: once the above priorities are satisfied, management returns surplus cash to shareholders in the form of share buybacks.
- **Leader in Sustainability:** Linde has been included in the Dow Jones Sustainability World Index for the past 17 consecutive years. Additionally, the company received Silver Class distinction in RobecoSAM's 2019 Sustainability Yearbook. Linde highlights that more than 50% of its sales bring sustainable benefits to its end-consumers and its societies.
- **Green Innovation for the Future:** Linde has set goals for 2028, highlighting its dedication to making the world more productive and greener. These goals are:
 - Investing at least \$1 billion in decarbonization projects across the globe.
 - Spending one third of its research & development budget toward decarbonization initiatives.
 - Continuing to invest in emerging technologies to reduce its carbon footprint.
 - Doubling its annual purchases of renewable power.

- Lowering its greenhouse gas emissions intensity by 35%.

Industry Drivers/Trends:

- **Attractive Industry Structure:** There are four major global industrial gases players allowing Linde to benefit from a high degree of pricing power. This allows it to maintain healthy margins and high returns on capital, and reward shareholders over the long term.
- **Merger with Praxair:** Linde purchased Praxair in 2018 creating one of the largest industrial gas companies in the world. Integration of the two companies was not able to start until late 2019 as the merger awaited approval from anti-trust regulators. Now that the deal has been granted approval, the two companies will be able to leverage synergies and build a more robust global footprint.
- **Defensive Qualities:** Demand for industrial gasses tends to be more defensive than the broader chemicals industry which is highly fragmented and more cyclical in nature. Linde leverages long-term contracts (up to 10-15 years in some cases) and project backlogs which reduce the cyclicality of end-user demand.
- **Secular Growth:** Demand for industrial gases is highly leveraged to global industrial production as gases are used to improve product quality, enhance energy efficiency and improve manufacturing productivity. While demand for industrial gases tends to be more defensive than traditional specialty chemicals, Linde's portfolio still has a good balance of secular drivers in areas such as energy applications, environmental solutions, electronics and emerging markets. After the merger with Praxair, Linde can leverage its world class engineering and technology capability where it has the full spectrum of plant, technology and engineering capabilities.

Major Competitors:

- Air Liquide SA
- Air Products and Chemicals, Inc.
- aiyo Nippon Sanso Corporation

Barriers to Entry:

The business itself has high capital barriers to entry, high costs of product distribution and strong customer relationships. Over the past decade, the industry has acted as an oligopoly exhibiting a strong level of pricing power and a rational competitive environment grounded on profitability (not market share gains) with an industry wide focus on generating attractive returns on capital. It would be difficult for a new entrant to capture the scale, relationships and experience that the top four industrial gas firms have amassed over their operating histories.

Officers & Directors:

Benoit Potier, Chairman and Chief Executive Officer; **Michael Graff**, Executive VP Americas and Asia Pacific; **Francis Jackow**, Executive VP Europe, Africa and Middle East; **Fabienne Lacorvaisier**, Chief Financial Officer; **Jean-Paul Agon**, Lead Director

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Financial Summary:

Income Statement (USD millions, years ended December 31st)

	2015	2016	2017	2018	2019
Revenue	10,776	10,534	11,358	14,836	28,228
COGS	5,960	5,855	6,382	9,020	9,020
Gross Profit	4,816	4,679	4,976	5,816	19,208
Net Profit	1,547	1,500	1,247	4,381	2,285
Earnings per Share	5.39	5.25	4.36	13.26	4.22

Balance Sheet

Total assets	18,319	19,332	20,436	93,386	86,612
Long-term debt	8,975	8,917	7,783	12,288	10,693
Total equity	4,389	5,021	6,018	51,596	49,074

Statement of Cash Flow

Cash from operations	2,695	2,789	3,041	3,702	6,188
Cash from investing	(1,303)	(1,770)	(1,314)	5,340	1,129
Cash from financing	(1,310)	(659)	(1,656)	(4,996)	(8,992)
Dividends paid	(819)	(856)	(901)	(1,166)	(1,891)

Key Ratios and Figures (%)

Gross profit margin	44.7%	44.4%	43.8%	39.2%	68.0%
Return on assets	8.4%	7.8%	6.1%	4.7%	2.6%
Long-term debt / equity	204.5%	177.6%	129.3%	23.8%	21.8%

Source: Linde 2019 Annual Report



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