

Why We Own Linde

A cement kiln does not emit carbon only because it burns fuel. Carbon dioxide is also released by the chemistry that turns limestone into clinker, so renewable electricity alone cannot solve the problem. At Heidelberg Materials' plant in Lengfurt, Linde has helped build a system intended to separate, purify and liquefy part of that process CO₂. It is a useful doorway into Linde: the opportunity is not to make heavy industry disappear, but to make necessary industrial processes cleaner and more productive.

That distinction matters. Society still needs steel, cement, semiconductors, medicines, food and energy infrastructure. The investment question is whether a company can help those systems improve while earning durable returns on the capital required. Linde's answer begins with industrial gases: oxygen, nitrogen, hydrogen and specialist gases delivered through pipelines, on-site plants, merchant distribution and cylinders. These products are often a small part of a customer's total cost, but a failure of supply can stop an entire process.

Structural demand meets embedded advantage

Climate Action is Linde's primary Delta theme because decarbonising industry requires more than buying renewable power. Cement and steel have process emissions, chemical production needs cleaner feedstocks, and many new energy systems require oxygen, hydrogen, carbon-dioxide handling or specialist engineering. The European Union's Carbon Border Adjustment Mechanism entered its definitive phase in 2026 and covers sectors including cement, steel, aluminium, fertilisers, electricity and hydrogen. It strengthens the economic signal to measure and reduce embedded emissions, even though policy alone does not guarantee a viable project.

Linde's advantage is the combination of engineering knowledge and physical infrastructure close to the customer. An on-site plant can be designed around a customer's process and linked to a local pipeline network. Once installed, reliability, safety and switching costs matter more than the label on the molecule. Linde's latest quarterly filing says on-site arrangements generally require the customer to buy its industrial-gas needs from Linde, often include minimum-purchase requirements and can run for up to 30 years.

This contract structure does not remove risk, but it changes its shape. Linde still has to build safely, control capital costs, source energy and maintain customer relationships. Yet a well-chosen project can turn structural industrial demand into long-duration cash flows. Engineering and application expertise can then help the customer use gases more efficiently or alter a production process, reinforcing the relationship.

How the advantage reaches earnings

In the second quarter of 2026, Linde reported sales of \$9.289 billion, 9% above the prior year. Underlying sales grew 4%, split evenly between price and volume. Adjusted operating profit rose 7% to \$2.744 billion and the adjusted operating margin was 29.5%. Operating cash flow was \$2.271 billion, while capital expenditure was \$1.438 billion and free cash flow was \$833 million. Management guided to full-year adjusted earnings per share of \$17.70 to \$17.90.

The figures show both sides of the case. Pricing, volume and productivity are translating demand into profit, but capital intensity is real. First-half capital expenditure reached \$2.780 billion, \$253 million more than a year earlier, mainly because of backlog growth. The earnings mechanism therefore depends on disciplined project selection and conversion: contract a suitable customer, build the plant on budget, operate reliably, collect minimum purchases, improve productivity and earn an adequate return over a long asset life.

Definitions matter. Linde described an \$11 billion total project backlog with its quarterly results, while the filing identified an \$8.1 billion sale-of-gas backlog. It separately disclosed roughly \$64 billion of remaining minimum-purchase and engineering consideration, about half expected within six years. These are not additive measures. They describe different parts of future work and contractual consideration, and none should be treated as guaranteed profit.

Recent semiconductor investments illustrate the model. In July, Linde announced a long-term agreement and approximately \$1 billion of investment for two new air-separation units supporting a major manufacturing expansion in Phoenix. It also described roughly \$800 million of planned investment through a Taiwan joint venture. Semiconductor fabrication needs extraordinarily reliable supplies of high-purity gases. The opportunity is attractive if long contracts, utilisation and customer economics compensate Linde for the capital and concentration risk. Announced investment, however, is not yet a realised return.

A financially strong business, not just a good story

A structural decarbonisation story is only worth funding if the company converting it into earnings can actually deliver, year after year. So before we get carried away with the case above, we ask a simpler question: is this a genuinely well-run, profitable business? On the numbers, yes - with one near-term wrinkle worth stating plainly rather than smoothing over.

Profitability. Linde's returns on capital have been consistently strong and improving. Return on shareholders' equity - essentially, how much profit it generates for every dollar shareholders have invested - has risen every year for the past three years, from around 15% in 2023 to over 17% in 2025, and analyst forecasts see it climbing further, toward 21% by 2027. Return on invested capital, a broader measure of how efficiently the whole business uses the capital tied up in plants, pipelines and equipment, has run in the low-to-mid 20% range throughout - comfortably above Linde's roughly 7% cost of capital and above every one of its

direct industrial-gas peers. The underlying operating margin improved from around 28% in 2023 to 29.5% in 2025, alongside a broader profitability measure that reached almost 40% over the same period. The qualification: Linde's most recent quarter showed margins compress by 60 basis points year-on-year, almost entirely because of cost inflation in its U.S. home healthcare business, Lincare - a business management is now actively reviewing for its strategic fit within the group. Analysts expect this drag to ease through the second half of 2026 and see the operating margin resuming its climb toward the low 30s by 2028, but it is a real, current cost, not a hypothetical one, and we say so.

Earnings growth. Profit has been growing meaningfully faster than sales, which is the marker of quality worth calling out explicitly. Revenue grew by less than 1% in 2023 and only 3% in 2025, yet adjusted earnings per share grew 9% and 6% in those same two years, and analyst forecasts see EPS growth reaccelerating to between 8% and 12% a year out to 2030 - roughly double the pace of forecast revenue growth over the same period. In plain terms, the business isn't just getting bigger; pricing discipline and productivity gains are making it more profitable as it grows, not merely riding volume.

Shareholder returns. Ultimately, none of this matters to an investor unless it shows up in the share price, and here the picture is genuinely strong but not perfectly smooth - and we think it is more useful to say so than to round it up. Over the five years from 2021 to 2025, Linde's shares delivered a total return - share price growth plus dividends - that compounded at a little over 11% a year. That average masks real variation: a strong 33% in 2021 and 27% in 2023, but a much softer 3% in both 2024 and 2025, before reaccelerating to almost 13% in the first seven months of 2026. Underneath that share-price path, the underlying cash returns have been unbroken: Linde has raised its dividend every year for 33 consecutive years, and returned more than \$3 billion to shareholders through buybacks and dividends in the first half of 2026 alone. Independent sell-side analyst consensus currently sees further room to run, with average price targets sitting comfortably above the recent share price and ratings skewed constructive.

None of this is guaranteed to continue - we come back to that below - but the combination of consistently high and improving returns on capital, profit compounding faster than revenue, and a credible external view that today's price does not yet reflect that quality gives us real confidence that Linde has both the profitability and the financial discipline to keep funding the industrial infrastructure its impact case depends on.

Leadership we can trust

A good business also needs to be well led, because performance means little if it cannot be trusted to continue honestly. Linde's board is heavily independent - eight of its nine directors, or 89%, meet Delta Outcomes' independence standard - and its Audit, Human Capital (remuneration) and Nomination and Governance committees are each staffed entirely by independent directors. All nine directors stand for re-election every year, giving shareholders a

regular say over who governs the company, and there is only one class of share, so no shareholder carries outsized voting power over the rest. The one structural point we would push back on: in January 2026, Linde combined the roles of Chief Executive and Chairman in a single individual, having previously kept them separate. The board's stated rationale is that this allows the Chief Executive to apply operational knowledge of the company and industry directly to board-level strategy, and it has appointed a Lead Independent Director - an independent director on the board since 2018 - with an enhanced mandate, including chairing sessions of the independent directors without management present. That mitigates, but does not remove, the concentration of authority the combined role creates, and it is a structure we intend to keep testing rather than accept at face value. We would also like to see more public disclosure of the substance and findings of the board's own annual self-assessment, which is conducted but not meaningfully reported.

This is matched by a strong record of turning capital into returns and cash back to shareholders. Return on invested capital has run in the low-to-mid 20% range every year since 2023 - roughly three times Linde's cost of capital - a sustained, well-managed balance sheet, and consistent margin improvement since the 2018 Praxair merger has been recognised favourably by independent analyst coverage. Executive pay is substantively tied to long-term performance: the majority of long-term incentive value vests against return on capital and relative total shareholder return over three years, rather than paying out regardless of results, and roughly three-quarters of annual variable pay is linked to financial performance. Linde has raised its dividend every year for 33 consecutive years and is running an active \$15 billion share buyback programme alongside it. Taken together, this gives us reasonable confidence that Linde is overseen by disciplined, largely accountable leadership - tempered by the genuine governance question the combined Chair/CEO role raises, which we treat as a live engagement point rather than a settled matter.

From enabling technology to measurable outcome

Lengfurt makes the climate mechanism tangible. Heidelberg Materials says construction of the capture plant was completed in 2025 and that operation was scheduled for the first half of 2026. It is designed to capture and purify about 70,000 tonnes of CO₂ a year, roughly 10% of the cement plant's emissions, for use by customers. Linde's sustainability report uses language that suggests operations began, but also refers to a 2026 start. We have not found current primary evidence of realised throughput, utilisation or commercial sales. We therefore count it as built or commissioning capacity, not a verified annual outcome.

The same discipline applies to Linde's group climate claims. The company estimates that its products helped customers and end users avoid 98 million tonnes of CO₂ equivalent in 2025, compared with 35.8 million tonnes emitted across its own value chain. That comparison is encouraging, but it is a company calculation built on counterfactual assumptions. It is evidence to investigate, not proof of net impact. The stronger measures will be operating data:

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tonnes actually captured or avoided, the energy required, the customer's economics, project utilisation and independent assurance.

Climate Action is the central theme, but the other Delta themes are present. Reliable medical oxygen, gases used in food preservation and the supply chains behind digital infrastructure support Human Advancement. Technologies that reduce process emissions, waste or resource intensity can also contribute to Nature Innovation. Those benefits should remain secondary to the primary thesis rather than becoming a catalogue of everything Linde touches.

Value, decision, and tension

We own Linde because three things line up: a structural, long-duration source of demand in decarbonising heavy industry and clean-energy infrastructure; a genuinely high-return, improving business behind it, with returns on capital comfortably above its cost of capital and profit growing faster than sales; and a board and management team that is largely, though not completely, structured to act in shareholders' and stakeholders' long-term interests.

We do not own it on the assumption that every capture project will operate as designed, that today's margins are unaffected by cost pressure, or that combining the Chair and CEO roles is costless. The central tension is that the same durable competitive position and defensive contract structure that make Linde attractive also invite a valuation that already prices in a good deal of that quality - and a company this reliant on multi-decade contracts is exposed if project economics, energy costs or customer concentration disappoint. Linde currently trades at close to an 11% discount to external fair-value estimates - a genuine, if moderate, margin of safety, not a guarantee that the market has it wrong.

What could break the chain

A number of things could weaken this thesis, and we watch for all of them:

- Demand and execution risk: cement, steel and semiconductor investment could slow if industrial production weakens, subsidies for hydrogen or carbon-capture infrastructure are delayed or withdrawn, or customers overbuild capacity; the \$8–11 billion project backlog can be delayed or cancelled rather than converted into revenue.
- Margin and capital-allocation risk: the current Lincare-driven margin drag could persist longer than management expects, or its ongoing strategic review could prove disruptive; capital expenditure of \$5.5–\$6.0 billion planned for 2026 needs to earn an adequate return over long asset lives, not simply expand the backlog.
- Financial-quality durability risk: the returns and margin trajectory described above are a track record, not a guarantee - return on invested capital and margins would need to hold

up through a weaker industrial cycle or an energy-price shock for the thesis to remain intact.

- Governance risk: authority is now more concentrated at the top than it was before January 2026; if the Lead Independent Director's oversight proves insufficient in practice, or the board's self-assessment process remains undisclosed, that would weaken confidence in leadership accountability.
- Impact-case risk: Lengfurt and comparable carbon-capture projects remain unproven at commercial scale on current evidence, and Linde's own avoided-emissions estimates rely on counterfactual assumptions rather than independently verified operating data.

The thesis would weaken materially if backlog growth failed to convert into cash and margin recovery, if the combined Chair/CEO structure showed signs of reducing board accountability in practice, or if Lengfurt and comparable projects failed to produce verified operating data. It would also weaken if the current valuation discount disappeared without a corresponding improvement in the underlying business.

Linde is compelling because it sits at the physical centre of a decarbonisation problem that renewable power alone cannot solve, because it is - by the numbers - one of the more consistently profitable industrial businesses we cover, and because its board and management are largely, though not yet completely, structured to be held accountable for the capital they deploy. The investment case rests on Linde continuing to convert industrial necessity and decarbonisation demand into long-duration cash flows, funded by real financial strength and tested against leadership we trust only as far as the evidence allows - not on a theme, a backlog number, or a fair-value gap alone.

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