

# **L'Air Liquide S.A. (AIQUF) H1 2024 Earnings Call Transcript**

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**Body**

L'Air Liquide S.A. (AIQUF)

H1 2024 Earnings Conference Call

July 26, 2024 4:30 AM ET

Company Participants

Aude Rodriguez - Head, Investor Relations

Francois Jackow - Chief Executive Officer

Jerome Pelletan - Chief Financial Officer

Pascal Vinet - Executive Vice President, Europe and AMEI, Industrial Merchant and Group Safety

Adam Peters - Group Vice President, CEO of Air Liquide, North America

Conference Call Participants

Martin Roediger - Kepler Cheuvreux

Chetan Udeshi - JPMorgan

Jean-Luc Romain - CIC Market Solutions

Peter Clark - Bernstein

Presentation

Operator

Good morning, ladies and gentlemen and welcome to the Air Liquide First Half 2024 Results Conference Call. All participants are currently in listen-only mode until we conduct a question-and-answer session, and instructions will be given at that time.

I would now like to hand over to the Air Liquide team. Please begin your meeting, and I'll be standing by.

Aude Rodriguez

Good morning, everyone. This is Aude Rodriguez, the Head of Investor Relations. Thank you very much for attending the call today. Francois Jackow; and Jerome Pelletan will present the first half 2024 performance.

For the Q&A session, they will be joined by Pascal Vinet, Executive VP overseeing the Europe industry and the Africa and Middle East hub, the Industrial Merchant activity and Group Safety; Adam Peters, Group VP, CEO of Air Liquide, North America is on the phone with us from the US. In the agenda, our next announcement is on October 23rd for our third quarter revenue.

Let me now hand you over to Francois.

Francois Jackow

Thank you very much, Aude, and good morning, everyone. It is my pleasure to be with you today to share the highlights of the first semester of 2024. In few words, we demonstrated great resilience, delivered a strong performance and will continue to build the future. The first half set of results demonstrate our capacity to be extremely resilient in soft markets, while we are gaining momentum on three fronts.

First, the improvement of our financial performance. Second, concrete major announcements confirming the strong investment potential looking forward, and there is clearly more to come. And third, we are gaining momentum in our commitment to perform, not only with stronger efficiencies this semester, plus 13% versus last year, but also several structural efficiency initiatives. I will come back to each of these points in the following slides.

Let's move to Slide 4. To start with, we demonstrated our ability to continue to grow in soft markets. A few comments here. First, the solid comparable sales growth of 3% needs to be qualified this semester due to Argentina's devaluation. Nonetheless, even excluding this effect, the sales growth is positive in soft markets.

So when I say soft markets. Since, as you can see from most of the macro indicators, there is no clear signs of strong pickup in volume. Clearly, what we see is slightly higher sales growth in Q2, around plus 1% globally versus Q1. This is in line with the sequential improvement we mentioned in the last calls. We are getting more and more of positive signals regarding low levels of inventory, advanced orders, but it is probably still too early to confirm the real pickup in demand. All-in-all, once again, very resilient top line, improving sequentially.

Regarding the profitability, we achieved a strong OIR margin improvement, plus 100 basis points and even plus 110 basis points for Gas & Services, excluding energy pass-through. This is an acceleration compared to our updated trajectory for 2024-2025. The fact that we are over-delivering shows our strong focus on execution in terms of efficiency, pricing and portfolio management regardless of the macroeconomic condition.

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Also, the recurring return on capital employed, ROCE, continues to improve at 10.7% and despite having higher investments under construction, not contributing yet to the results. As a reminder, ROCE remains the main financial KPI of our industry.

Again, this strong performance was achieved despite an adverse environment, once again demonstrating the resilience of our business model and the unwavering commitment of our teams, whom I would like to thank here very much. At the same time, we continue to build the future, as illustrated by the investment backlog exceeding EUR 4 billion.

Let's keep in mind, as Jerome will explain, that this backlog is conservative as we are, for example, only accounting for EUR 120 million out of the USD 850 million of the Baytown, ExxonMobil project. I also want to highlight that we are fully in line with our CO2 trajectory and more than 40% of our portfolio of project opportunities is directly linked to the energy transition.

On Slide 5, our recent announcement of – on major projects have confirmed the investment potential. Starting with the ExxonMobil. As a reminder, this flagship project is a great illustration of how hydrogen can enable decarbonization of the industry. With that size of the hydrogen production by ExxonMobil acquired Air Liquide to develop the largest oxygen production platform in the Americas with the added benefit of being low-carbon oxygen, two-third less CO2 footprint than current production. This project of USD 850 million marks the largest industrial CapEx in the history of Air Liquide.

Also, with our Airgas footprint, we will leverage the number one position of our industrial merchant distribution network and marketing capabilities to sell significant volumes of argon and rare gases. Despite this size, let's be clear, we view this as a standard core business project with a long-term LI contract, [inaudible] and pick up equities and meeting our return on investment criteria.

Air Liquide will also get access to significant volume of low-carbon hydrogen, which will unlock opportunities to service customers through our extensive pipeline and storage facilities. Being selected for this project by a Tier 1 partner is a tremendous success and a key milestone for the Group.

Electronics is another key growth driver for the Group as illustrated by the Micron projects supported by the US Chips Act. It's a major signing with a long-term partner, leading artificial intelligence solutions. We will supply an ultra-pure carrier gases solution through a long-term contract, and we will invest more than USD 250 million. This is a very large scale plan for Electronic business.

Innovation, was a key element of differentiation, including a higher energy efficiency. Once again, we have also been able to develop synergies with Industrial Merchant through our Airgas platform. And a key focus was also to develop a sustainable solution with an optimized land footprint and 100% use of renewable electricity within the next five years. This is a major win for a mega project plant to develop electronic business in the US where we see continuous growth momentum.

Project development is also progressing well in Europe. In France, we are developing solutions to decarbonize hard-to-abate industries such as cement and lime production in the Dunkirk Basin. The D'Artagnan project I hope you like the name, has taken a major step forward, receiving a grant for more than EUR 160 million from the European Union. This marks an essential milestone towards the implementation of the capture and sequestration business supported by the infrastructure, needed to reduce CO2 emission in France and in Europe.

This being said, let's keep in mind, that the vast majority of our investment decision this semester were directed towards more traditional projects, allowing us to maintain a solid and balanced portfolio of growth. The ALbee's announcement that you have seen yesterday is an illustration of those. These three projects exemplify Air Liquide's leadership in energy transition and electronics. These new investments will drive accelerated growth beyond 2025, the next strategic period following our current ADVANCE plan.

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Moving to Slide 6. I would like to come back to the recently announced simplified organization of the Group as an illustration of our sustained commitment to performance. This new organization, by removing existing management layers, aims at fostering agility, improving efficiency, accelerating decision-making and leveraging the company's scale to deliver competitive advantage.

In addition, a single world group industrial direction will be created, replacing the metrics, industrial organization by business lines. The objective is to leverage our knowhow and optimize the Group industrial processes ensuring higher standards of safety, quality, reliability and efficiency for our customers.

Regarding global and corporate functions, such as IT and procurement, we are structuring the services to the operation by leveraging our scale and expertise and also by being more perspective engaging directly with operations through more efficient integration. This simplified organization should enable us to better serve our customers and patients, while boosting further the level of engagement of our teams to deliver enhanced value. The streamlining of our organization is one, of course, among several other initiatives to boost efficiencies.

On Slide 7, I would like to outline that the strong financial performance also reflects significant progress in our sustainable roadmap. We are making progress in the modernization and electrification of our assets in the deployment of carbon capture solutions, like, for example, to decarbonize the Air Liquide's largest hydrogen production unit in Europe, and we signed new long-term sourcing contract for renewable electricity.

In addition to reducing Air Liquide's emissions, our projects will enable the decrease of CO2 emissions of our customers with two recent examples mentioned here. And, as noted on the slide, Air Liquide also successfully issued a EUR 500 million green bond in very favorable conditions to finance energy transition efforts. All-in-all, impressive progress towards furthering our commitment to sustainability.

The Slide 8 outlines the key takeaways of this first semester, by actively deploying the ADVANCE strategic plan, we have been able to deliver resilient comparable sales growth, a significant 100 basis point OIR margin improvement, the signing of major projects in energy transition and electronics, two of our main growth drivers and the launch of structural efficiency projects.

To conclude, I am on Slide 9, while we are gaining momentum in this semester, we are demonstrating that we can deliver margin improvement at a faster pace than our initial 2024-2025 upgraded trajectory. With this, we have confidence in our ability to deliver on our commitments in terms of performance for 2024 as well as on our previously announced enhanced advanced objectives of doubling the initial margin improvement ambition by 2025.

Thank you very much for your attention. I will now ask Jerome to present the details of our financial performance in H1.

Jerome Pelletan

Thank you, Francois and good morning, everyone. We will now review our numbers in more detail. So coming back to the first half year. I'm now on Page 11. You can see that Group sales have been resilient overall on a comparable basis, meaning excluding energy, pass-through and FX. There are no significant scope effect in the first half.

Gas & Services sales for H1 achieved a plus 2.6% increase versus last year and turning to much more smaller segments. Engineering & Construction sales have increased by plus 10% in H1. Order intake has increased up to EUR 557 million year-to-date with third-party sales represented 20% of it.

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Global Markets & Technologies are down minus 2% due to the divestiture of our aerospace and defense activity, while order intake, which is a solid EUR 416 million. So overall, Group sales are up – plus 2.6% on a comparable basis for the first half, while published sales are down minus 4.3% as a consequence of the continued energy price decrease during the semester that translates into a minus 3.5% energy pass-through effect, which, as you know, has no impact on the operating income value.

We'll also take into account a negative FX effect at minus 3.4%, mainly due to Argentina devaluation over the period. For information, the contribution has said by Francois from Argentina on the plus 2.6% Group comparable sales is plus 2.1% in H1. And to be noted, Argentina has no impact on published valuation. Finally, specific to Q2 comparable growth is at plus 3.1%, sequentially improving after plus 2.1% in Q1.

So let's now review the activity for each of our main geographies. My comments will be mainly related to Q2. I'm now on Page 12. You can see that after an already strong Q1, sales in the Americas have grown in all business lines to reach plus 10% overall growth on a comp basis. That includes plus 6% from Argentina, mainly because the impact of hyperinflation is, of course, not offset by the devaluation when you exclude the currency impact.

Large Industry benefited from a major start-up as well as ramp-up contribution. Base volumes have been growing and were strong overall in North America, both in hydrogen and in air gases, while we faced some customer turnarounds in LATAM.

Ind Merchant, sales have been driven by strong pricing effect at plus 8.1% year-on-year, supported by active pricing management and campaign at Airgas, which is 50% pricing impact, and in Argentina, 40% of pricing impact to counter our local hyperinflation. Gas volume at Airgas have been already in overall excluding argon.

Growth in Healthcare has been sharp, supported by solid volumes in high pricing in Proximity care in the US with again strong pricing in LATAM, especially in Argentina. Finally, Electronic sales has been strong, supported by growing carrier gases and record equipment and installation activity, while materials remain low.

In Europe now, sales are slightly down, with continued strong growth in Healthcare. In Large Industry in Europe, demand from customers on Steel & Refining was overall stable, while hydrogen volume to chemical production slightly improved on a low basis. In addition, as we communicated in Q1, comparable sales were adversely affected by the sale of the Cogen unit in Germany in Q1.

Ind Merchant, sales have been impacted, as explained in Q1 by a decrease in price in bulk due to the energy indexation in our contract, in the context of the sharp decline in energy prices. On the other hand, excluding this energy component, pricing has stayed positive and strong, offsetting almost all of the indexation impact.

Volume remained soft, but improved sequentially as we anticipated. Finally, Healthcare growth was again very solid at plus 12%, sales have been supported by strong Home Healthcare activity, notably in diabetes and sleep apnea with an increased number of patients. Growth in medical gases remain solid with a sustained price effect in response to inflation.

In Q2, in Page 13, activity in Asia has been soft overall. The Large Industry sales and volume remained affected by customer turnaround, especially in China. On the positive side, the activity benefited from a major hydrogen start-up in China in March that fully contributed this quarter.

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Sales in Merchants have been slightly negative, impacted in China by helium. Activity, excluding helium has been soft in China, especially in bulk, but strong in packaged gases. The rest of Asia experienced improving volume with a positive pricing effect, but slowing down. Electronic sales are getting back to positive, with growing sales with carrier gases and in Advanced Materials.

Specialty Materials remained soft, but showing sequential improvement. In Africa and Middle East, we have seen, again, a strong growth in all business lines. In Large Industry, the activity was sustained with solid hydrogen volume in Saudi Arabia and air gases volume in Egypt. Merchant growth was solid, thanks to a strong pricing at plus 10% and robust volumes in bulk and packaged gases.

I will now comment on our Q2 activity by business line, I'm now on Page 14. In Merchant, we continue to see solid pricing albeit on top of plus 8.6% versus last year. Volumes overall are still soft. Pricing is strong, especially in the Americas, while slightly decreased – decreasing, sorry, in Europe for the reason I explained earlier. Markets such as Aeronautics in the US, Automotive & Fabrication in Europe and Asia are posting volume growth.

In Large Industry, activity also still low, has stabilized on a sequential basis. Activity has been impacted by turnaround and also, as I mentioned, the sale of Cogen unit in Europe. Two start-ups have positively contributed in China and in the US. From a market standpoint, chemicals have improved in the US and in Europe, while Steel has been soft and Refining more contrasted.

Page 15, Electronic is back to positive with solid contribution from start-up and ramp-up. Advanced Materials have improved. Equipment & Installation have been at a record level in the US, while overall Specialty Materials have been low.

Finally, in Healthcare, we still had strong and well-balanced growth in all segments with high pricing and volume decrease. Home Healthcare sorry, was again very robust with whole therapies growing, especially diabetes and sleep apnea. In Med Gas activity, sales growth was solid with pricing addressing inflation in Americas and in Europe with solid volume and pricing.

On Page 16, the success of our performance improvement has been again demonstrated by our operating margin being up by a significant plus 100 basis points, excluding the impact of the energy pass-through effect only for Gas & Services, the only is plus 100 basis points. You can see getting to the detail that purchase have decreased following the decline of energy prices, mainly in Europe, while personnel expenses and other costs have increased lower than inflation.

Depreciation is well contained. This again has reduced in the Group operating margin of 19.4% with Gas & Services at 21.2%, again, a significant plus 100 basis point increase, excluding the impact of the energy pass-through. To be clear, there is no impact from Argentina here. This margin improvement demonstrates, again, our commitment to deliver an acceleration in performance.

On Page 17, this margin improvement is supported, as said by Francois, by our structural margin improvement plan, that continues to deliver based on three pillars. First, IM pricing is still solid, despite, as you see, a high comparable basis. We have also significantly ramped up our efficiencies in H1 to reach EUR 233 million, up plus 13% versus last year.

We are ahead of our annual target with an acceleration of transformation program as said by Francois, while procurement and industrial efficiencies continue to deliver. Portfolio management has been further pursued. We closed nine bolt-on acquisitions over the period and executed three divestitures with a continued focus on strategy, profitable and margin accretive opportunity, as Francois highlighted, we remain deeply focused on margin improvement, working on all possible levels.

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As you can see on Page 18, our pricing actions continued to deliver as pricing remains strong in Americas and in Africa and Middle East to reach plus 4.7% overall in Q2. As I said previously, the decline in pricing of our bulk activity in Europe was expected because it's very much linked to the energy cost decrease due to the indexation. However, we experienced continued accretive margin contribution. And in Asia, pricing would be slightly positive, excluding helium.

Let us now review quickly the bottom line of the P&L on Page 19. Non-recurring operating expenses, which corresponds mainly to restructuring costs stand at minus EUR 87 million in 2024 versus plus EUR 33 million last year, which as you know, in 2023, including a plus EUR 173 million capital gain before tax on the Hydrogenics stake sales. Net financial costs are stable despite the high interest rate environment due to a reduction of net debt given some cash flow and also thanks to our efficient financial policy with this high share of fixed rate funding with a cost of debt of around 3%.

On an effective tax rate standpoint, our ratio is quite flat, around 23.6%, thanks to non-recurring item in H1 '24. As you can see, net profit growth is minus 2%, which is a very good performance considering the very high comparable basis last year following the divestiture of Hydrogenics, which is taking to go – going to plus EUR 157 million post-tax capital gain.

Recurring net profit, excluding FX is significantly up at plus 5% if we exclude Argentina. As you see, I have highlighted the main impacts of Argentina, and for sake of the transparency you can refer to the appendix of the presentation and a separate Management report, where we have disclosed the summary of the impacts of Argentina.

On Page 29, as I mentioned before, cash flow has been strong, 24% of sales. Net debt is down by EUR 0.4 billion versus June last year after our CapEx and dividend payment and our gearing is now at 35% adjusted for the dividend payment seasonality effect. As you can see, recurring ROCE continues to ramp up, illustrating the success of our strategy. ROCE as you know, very significant KPI in our industry. And to make it clear, again, there is no impact from Argentina on these metrics.

Page 22 – sorry, the 12-months portfolio of opportunities with one year as disclosed is at a record level of EUR 4 billion including the initial impact of the major like some of the ExxonMobil projects in Texas, as Francois said earlier. This portfolio is very well balanced between Energy Transition, Electronics and Traditional business.

Our industrial and financial decision for the semester reached a solid level of EUR 1.6 billion, including EUR 120 million for the Exxon project disclosed a few weeks ago. Finally, our investment backlog remains very strong at EUR 4.1 billion, well balanced by geography and by project.

I am now on Page 23. As you can see, we achieved – nearly EUR 10 million and EUR 108 million exactly sales contribution from start-up and ramp-up during the first half, and we expect to reach a full year of start-up and ramp-up contribution to sales of about between EUR 230 million and EUR 250 million this year.

This is a bit lower than our initial expectation, mainly due to the slower ramp-up of project in a subdued environment, and few projects started being delayed to 2025. There is, however, no cancellation as the impact is only on delay in the contribution, in it for 2025, we are confident that this contribution of project will deliver more than EUR 250 million.

On Page 24, as Francois mentioned in his introduction, we confirm our guidance set in February, we are very much – thank you for your – very much for your attention, and we'll now open the Q&A session. Thank you.

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Francois Jackow

Thank you very much, Jerome.

Question-and-Answer Session

Operator

Thank you. [Operator Instructions] Thank you. We are going to proceed with our first question. The question come from the line of Martin Roediger from Kepler Cheuvreux. Please ask your question.

Martin Roediger

Yes. Good morning and thanks for taking my three questions. Regarding the performance in Asia. EBIT margin in Asia was down by 40 basis points reported and minus 50 basis points, excluding energy pass-through effects. What is the reason for this margin decline? Secondly, in your press release, you say that the sales in Large Industries benefited, among other reasons, from the stronger demand from chemical customers in Europe and the US in the second quarter. I understand this is driven by hydrogen volumes in both regions.

And here, I have a clarification question. Is the reason for that just lower comps? Or do you see any improving momentum at your chemical customers despite the fact that there is no broad-based economic recovery? And the third question is related to your decarbonization projects. You mentioned the EUR 160 million grant from the European Union for the D'Artagnan project. I have a more general question. When you receive any subsidies either from the European Union or from other governments, will you book them as other operating income in your P&L? Or would you treat them as a cash item without effect on your P&L? Thank you.

Francois Jackow

Thank you very much, Martin. And good morning. So you have three questions. I will ask Jerome to talk about the margin in Asia. And then your question on Large Industry, both in Europe and US. I think Pascal and Adam will comment on that. And finally, Jerome will come back on the accounting treatment of the subsidies. So Jerome, do you want to speak about margin in Asia?

Jerome Pelletan

Okay. Your point is right. Martin, good to hear you. Basically, you know we have a negative impact in comparison to last year, but this is very much due to a one-off effect that we accounted for in March last year of customer indemnity payment as we disclosed last year. So that is very much a one-off effect, a non-recurring effect.

And basically, when you look, you recruit this specific one-off, the efficiencies and the margin is still very strong in Asia also this year. And I think that's important to notice that the underlying business in Asia is doing well overall. So, one-off effect in Asia. Regarding Large Industry, maybe Pascal, do you want to comment on what we see and the kind of signals we are seeing the different segments in Europe?

Pascal Vinet

Okay, thank you. So Martin, on the Large Industries in Europe, again, if we exclude the Cogen effect that Jerome mentioned, sales are up, and that's due and you said it well, to an improved chemical market. For us, we see improved hydrogen volumes in the chemical market, both in Benelux and in Germany, where we have significant volumes. So that's the reason why our LI or Large Industries business is performing better. On the other fronts, the Refining market that we see in Europe is flat, but at solid levels. And the Steel market remains quite soft, pretty flattish as well.

Francois Jackow

Thank you very much, Pascal. Adam, can you give us some color on what we see in the US in Large Industry?

Adam Peters

Yes. Absolutely, Francois. Thank you, Martin, for the question. So if we look at US Large Industries, what we see is a nice improvement in terms of overall sales growth and overall volumes in Large Industries in hydrogen as well as in oxygen. Some of this is a lower turnaround effect from our customers, and some of it is just overall recovery, some of it affected from the start that mentioned earlier by Francois and Jerome.

Francois Jackow

Thank you very much. Do you have any sign looking forward? Or what do you expect, Adam?

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Adam Peters

Yes. So overall, we expect that the second half of the year will continue improvement. If you look at the past couple of quarters and what we see in Q2, Q2 is actually a nice rebound in the US in terms of overall growth in Large Industries. We saw a nice above mid-single-digit growth in sales in Large Industries in the US in Q2, and I would expect that to continue in the second half of the year.

Francois Jackow

Thank you very much. Jerome, can you clarify how we treat the grants, for example, from the European Union?

Jerome Pelletan

Yeah, of course, that's a very good question, Martin. So, the accounting methodology is the same, and it's quite, I would say, parent. We are not treating them at the cash item in the P&L, of course. We are basically, I would say, making that with CapEx and we did like it in CapEx. So there is an impact in balance sheet, but not as an immediate cash gain in the P&L. That's all.

Francois Jackow

All right. Thank you very much, Jerome. Next question, please?

Operator

Sure. We are now going to proceed with our next question. And the questions come from the line of Chetan Udeshi from JPMorgan. Please ask your question.

Chetan Udeshi

Yeah, hi. Thank you. I have two questions. First, thanks for breaking out the impact from Argentina price changes in your numbers, it's quite useful. I'm just curious why see earnings impact from Argentina on EBIT you know 4%, which is almost double the impact on revenue, which is 2%. Just can you maybe help us understand that?

The second question I had was on the start-up contribution. I understand you know there has been some delays, but I'm just curious why for 2025, you're still seeing more than EUR 250 million, because if I look at your start-up contribution over the last four years, is essentially just stayed at these levels of EUR 250 million plus/minus despite the backlog having gone up over that four-year period by almost EUR 1 billion to EUR 1.5 billion.

So why is the backlog conversion taking so long? I know you know things are dependent on subsidies, et cetera, but it just feels like it's taking much longer. I mean, next year, in theory, should have been much bigger in start-up, but it doesn't seem like that's necessarily going to happen? So just curious. Thank you.

Francois Jackow

Thank you very much. I will ask Jerome to speak about Argentina. But maybe just one comment I think clearly, the Argentina business is a small business overall, which is managed well. We wanted to have a full transparency and the impact so that you understand. And you understand also, of course, that the underlying business is performing very well. So to clarify that one more time, Jerome.

Jerome Pelletan

Thank you, Chetan. Thank you for your comment. We try to be – but you're right, totally transparent on that. So Francois mentioned the – I would say, the marginal impact for the Group in terms of size of Argentina, it's quite well managed. We manage well, I would say, to pass-through the devaluation and manage hyperinflation.

Just to remind a thing, which is quite clear, we, as published figures, the hyperinflation, which is having a plus 280% roughly impact during the first half, is roughly compensated by the similar effect from the valuation 250%, which is, of course, Chetan, neutralizing the impact on Group figures.

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But if you exclude the FX [inaudible] because you get the full impact of hyperinflation with no offset from devaluation. So that's why we're basically excluding FX, the impact of Argentina on half year is amplified 4 times bigger than established figures in H1. So as we mentioned, we are provided with all the figures excluding Argentina.

I just want to highlight again, there is no impact on the strong 100 basis point operating income recurring margin improvement in H1, which again demonstrates our continued focus on performance and execution. And just to come back on difference between sales and EBIT is very much the fact that you know is – EBIT in fact effect which impact of the FX, which is very much explaining the difference. And the fact that, again, the Argentina is having a 4 times impact on both items. That basically how we stand.

Francois Jackow

Thank you, Jerome. I will comment on your point on the start-up. So you have seen that we do expect a little less start-up for this year compared to what we initially had in mind. It's minor at the scale of the Group, of course. And as mentioned by Jerome, it's mostly delayed either in the start-up date or in the ramp-up rate, which in the current market, I think we can understand. We do expect that as the demand will ramp-up for our customer that will accelerate, of course, the ramp-up of those plants.

Regarding what we see looking forward, as mentioned, since this is mostly a delay of existing facilities, which are being built and that we have a pipeline also of projects coming online with all of them having a take-or-pay for example. We are quite confident that the start-up contribution for next year is going to be above EUR 250 million. You had also a comment about, I mean, the size of the backlog and the contribution of the backlog.

I think you have to keep in mind, what we have in the backlog, we have been putting larger projects, as we mentioned, energy transition projects, which typically take a little bit more time than the traditional project to be completed. We talked about that before with engineering phase and then construction. So it's normal that this backlog is taking a little bit more time to precipitate. And also depending on how you – I mean, the type of projects between the Electronics, between the air gases project and the hydrogen project, the sales contribution is different.

All-in-all, we are very confident that this backlog will continue to deliver sales contribution. Let's be careful, and that's also the learning of the past few years. I mean, the energy impact has – is quite – could be quite significant on the sales number. So what is important to look at is the EBITDA contribution and the OIR contribution of those projects. And all those projects are good projects contributing a good return to the portfolio of Air Liquide.

Next question, please?

Operator

We are now going to proceed with our next question. And the questions come from the line of Jean-Luc Romain from CIC Market Solutions. Please ask your question.

Jean-Luc Romain

Good morning. In the reorganization of that you announced of the – sorry, what's the implication of the organization, what's the cost associated with that? And what's the benefit you expect by, say, 2025 or 2026?

Francois Jackow

Very good morning and thank you very much for the question. I will ask Jerome to talk about the cost, and I will talk about the benefits. Jerome, if you could share now?

Jerome Pelletan

Yes, of course. But you know for the reorganization, we have made this announcement that we can come maybe later in the detail. But what basically we consider as one of the lever to continue to deliver on the margin improvement, I would say, roadmap. So we will not disclose a specific KPI for this. It's one of the KPI or it's one of the tool of the action that we are basically setting up in order to deliver the margin improvement. So that's basically the way we can comment on that.

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Jean-Luc Romain

Is there a specific cost?

Jerome Pelletan

There will be cost, but you know again we need – I would be a little bit evasive on that, Jean-Luc, because we cannot communicate on the cost because you know I would say, obviously, that needs to go through a social process as we go, so I will confirm.

Jean-Luc Romain

Understood.

Francois Jackow

All right. And regarding the benefit, I think it's absolutely clear. This simplification of the organization will serve the performance of Air Liquide, first with our customers to make sure that we are agile, easy to interact, and we are providing the best of abilities to any customer. So that's, of course, a key driver.

This simplification will also help us to be more efficient in a way we are delivering our services to our customers and our patients. So, I think it's quite important, and it will contribute to the performance of the Group, but also, I would say, to the satisfaction of our employees, because by putting together and leveraging the scale of Air Liquide, we will do things better in a more efficient way.

So, all-in-all, it's fully aligned with the ADVANCE objective. It's clear that there are several initiatives, which will contribute, which are structural initiatives. We mentioned that we are decreasing the level of management layer. So that should, for example, speed up the decision-making and reinforce the empowerment of our team. We are also creating one single industrial direction for the Group as opposed to having one actual direction in every business line as we have today. We will be able to leverage the scale, of course, and leverage the expertise.

And also, we are centralizing and managing globally some functions that we have been managing locally until now, like IT and procurement. And you see clearly, I mean, the type of benefit we can drive by doing that. So this is fully aligned. Again, we contribute to the objective of ADVANCE for 2024-2025. But based on what I just mentioned, you should expect contribution after 2025, because again, those are structural improvement initiatives.

Jean-Luc Romain

Thank you.

Francois Jackow

Next question, please?

Operator

Thank you. [Operator Instructions] Thank you. We are now going to take our next question. And the questions come from the line of Peter Clark from Bernstein. Please ask your question.

Peter Clark

Yes, good morning, everyone. I've got three actually. Price efficiencies in volume. On the pricing, obviously, Airgas, it's still accelerating up 4% again 3% in the first quarter. You're flat underlying 6%. And I presume you're going to say that you're pretty confident with the local inflation that you've still got the momentum on price. So I was going to ask that one.

On the efficiencies, just trying to get a feel now for how much of the gross is actually hitting the bottom line? I'm assuming it's starting to go up as you take a stronger look at the efficiencies, the inflation environment does get a little bit better.

So I'm just wondering on the efficiency, particularly with taking out things like matrix formed there. And then finally, on the volumes, the Industrial Merchant volumes were down 2% in the second quarter, very similar to the first quarter. You have got softer comps in the second half, but I'm assuming you're not really seeing a great deal on the ground for volume improvement. So the second half Industrial Merchant volumes might still be slightly down year-on-year, but maybe I'm wrong on that, so maybe you could answer. Thank you.

Francois Jackow

Good morning, Peter. Thank you very much for your three questions. I will ask Pascal to talk about the price and, of course, for Europe, but since you have the IM global view, you will explain also on what we see in other geographies. Jerome, you will comment on the efficiency, please. And Pascal, maybe you come back on the volume on IM after. So, pricing, Pascal, what do we see?

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Pascal Vinet

So on pricing, I think, Peter, you got it perfectly right. We see higher pricing in the Americas driven by Airgas. Why? Because Airgas had a successful pricing campaign last March that is – that has been bringing benefits in Q2. So that's why we have this a sequential improvement between Q1 and Q2.

The second big piece is the strong underlying pricing in Europe that we have seen again in Q2 and that we had already in Q1. I think reading the pricing in Europe from Q1 to Q2, the difference going from minus 1.9% to minus 0.5% is due to the lower impact of the energy indexes in our bulk business. But the most important piece is that, the underlying pricing globally on our IM business in Europe stays at plus 6%. And that's a very, very good achievement from our teams, focusing on value creation and smart pricing.

For the rest of the world, I would say it's more neutral. We have very positive pricing in Africa, Middle East, India. We have a neutral pricing in Asia, positive underlying pricing, but a bit of pricing decrease in China on the helium business that is contributing the wrong way, I would say. But overall, very good in the Americas, especially in Airgas, strong underlying in the EU, which makes a big difference and neutral in Asia due to pluses and minuses that are small in overall value.

Francois Jackow

Thank you very much, Pascal –

Pascal Vinet

Maybe the world on the outlook –

Francois Jackow

Of course.

Pascal Vinet

Because there was another question, I would say, outlook remains quite positive on the pricing for IM worldwide. We don't see things changing radically. It may moderate a little bit with inflation moderating, but we see things continuing for Airgas and for Europe, the way it's going with. Again, lower impact of energy indexes in the coming months because of the comparison to energy prices a year ago.

Francois Jackow

So all-in-all, we do expect a positive contribution of pricing for the full year of 2024 globally. Jerome –

Jerome Pelletan

Yes.

Francois Jackow

Efficiencies?

Jerome Pelletan

Yes. Thank you, Peter. So basically, you mentioned on the efficiency was a very good number, plus 13% in H1 versus last year, EUR 233 million, ahead of our, I would say, annual target, which is EUR 400 million. So that's good news. In terms of metrics, I would say that you know we are basically increasing affecting a higher part of the cost base, 2.3% on H1 2023 versus 1.9% last year. So it's basically one metric that we discussed.

But overall, what we can say is that, all our lever is in efficiencies are basically delivering. Industrial efficiencies are accelerating. Procurement, you know one of the decision that has been made you know into, I would say, the program that Francois mentioned, is to get very much verticalize the procurement function in order to tackle the bigger contract with the suppliers at a global level. So it's very much contributing as well, and it's only the beginning.

And we have also, as we said, transformation program, you know them. You know we have also accelerated our business service center program in low-cost countries. And we are also, of course, having more to come in terms of restructuring and transformation. So that's basically – but you know I would say that the value of the cost base is higher than what we tackled last year. That's basically the metrics we can have.

Francois Jackow

Thank you very much Jerome. Pascal for the IM volume globally, comments, please?

Pascal Vinet

Yeah. Outlook is, it's slightly positive, I would say. We expect Europe at this stage to be reasonably stable compared to what we have seen in the past quarters. In China, if we exclude helium, we see positive volumes. We have seen in the last quarter, plus 12% on our packaged gas volumes. So that's very good news for us and is a positive thing for the months to come.

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Now in the US, since Airgas this year, the very big part we have in our Industrial Merchant business, we see potentially positive news. If interest rates are coming down, immediately, there will be an impact on our hardgoods business but coming from there on our global business as well. So, let's see what happens with the interest rates in the US that can be good news.

Francois Jackow

Thank you very much, Pascal. I think we have one last question. No? Okay. The last question has disappeared. All right. Well, so this mean that, this will now conclude this session. Thank you very much all for your questions. To summarize, we delivered again a strong performance in the first half, while being able to prepare future growth through successful development of major projects. This clearly demonstrates the resilience of our business model and also our ability to create value for our customers.

In the months to come, we will remain focused on execution, including implementation of our simplified organization and structural efficiency projects to deliver our advanced mid-term objectives, of course, in terms of growth, return on capital employed and CO2 emissions reduction, and overall, create value for our shareholders. With this, I wish all of you an enjoyable summer break and great Olympics game for all of you. Thank you very much.

Operator

This concludes today's conference call. Thank you all for participating. You may now disconnect your lines. Thank you.

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