

# **L'Air Liquide S.A. (AIQUF) Q1 2024 Sales/Trading Statement Call Transcript**

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**Body**

L'Air Liquide S.A. (AIQUF)

Q1 2024 Sales/ Trading Statement Conference Call

April 24, 2024 05:00 AM ET

Company Participants

Aude Rodriguez - Head, Investor Relations

François Jackow - Chief Executive Officer

Jérôme Pelletan - Chief Financial Officer

Pascal Vinet - Executive Vice President

Marcelo Fioranelli - Group Vice President & Chief Executive Officer, Airgas

Conference Call Participants

Alex Jones - Bank of America

Laurent Favre - BNP Paribas

Georgina Fraser - Goldman Sachs

Jean-Luc Romain - CIC Market Solutions

Geoff Haire - UBS

Andreas Heine - Stifel

Chetan Udeshi - JPMorgan

Jaideep Pandya - On Field Research

Presentation

Operator

Good morning, ladies and gentlemen, and welcome to the Air Liquide Q1 2024 Revenue Conference Call. All participants are currently in listen mode only until we conduct a question-and-answer session and instructions will be given at that time.

I will now hand over to the Air Liquide team. Please begin your meeting and I will be standing by.

Aude Rodriguez

Well thank you. Good morning everyone. This is Aude Rodriguez, Head of Investor Relations. Thank you very much for attending the call today. François Jackow and Jérôme Pelletan will present the first quarter revenue. For the Q&A session, they will be joined by Pascal Vinet Executive VP overseeing the Europe industries and the Africa Middle East hub, the Industrial Merchant activity and Group Safety. Marcelo Fioranelli Group VP CEO of Airgas is on the phone with us from the U.S.

In the agenda, our next announcement is on July 26 for our half year 2024 results. Let me now hand you over to François.

François Jackow

Thank you, Aude and good morning everyone. It is my pleasure to be with you today to share the highlights of the first quarter of 2024. In a few words, we delivered a strong operational performance, which puts us on the right track to deliver our 2024 guidance and 2025 objectives.

Market demand was globally a mixed bag. As you will see with Jérôme, no strong negatives, but no clear positive catalysts yet, in line with our anticipation. Our sales growth was resilient this quarter at plus 2%, which is a solid number given the context and the high comparison basis with plus 7% in Q1 last year.

The actions we are taking are bearing fruits. IM pricing kept increasing at plus 4% in Q1, coming on top of a plus 13% in Q1 2023 which is a clear strong performance in the context of energy cost sharp decrease and slowdown of inflation. The momentum on efficiencies is very positive with a plus 22% growth compared to Q1 last year. At €112 million, it marks a strong start of the year with a clear contribution to the margin.

Another sign of good momentum is the cash flow, growing at plus 6%, showing strong leverage when sales are increasing by plus 2%. And finally, the backlog which remains at a very high level above €4 billion. This is a great indicator of future growth when the projects currently under construction will start up.

So, again, a very solid quarter as expected in terms of top line and showing clear signs that we are on the right track to deliver our commitments in terms of performance for the year and beyond.

How did we manage it? I am now on Slide 4. We continued our steady commitment to take proactive actions as the current uncertainty leads markets to take a wait-and-see approach. No need for me to come back on the characteristic of the current economic or geopolitical context. That you know very well.

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Most importantly, we are on track because we follow a clear disciplined and structured action plan. First, we built on a resilient business model well-balanced by geographies and activities serving all economic sectors long-term contracts takeoff pace indexation. A good illustration of the role of our balanced portfolio is our Healthcare activity posting plus 8% growth this quarter in this macroeconomic context.

Second, pricing management and further value creation through innovation in IM in particular, but also across all business lines. Jérôme will detail our strong performance on pricing shortly.

Third, cost savings, looking systematically at ways to do things better and more effectively leveraging a new culture of continuous improvement, but also -- and this is the fourth point structural efficiencies.

One recent example is the launch of a single ERP in Europe replacing 10 systems. It's too early to see the full benefits of such a massive project which has been prepared for the last two years and handles more than 4.5 million invoices per year in 20 countries. We know that benefits for such projects will ramp up continuously in the next two to three years.

Fifth, portfolio management, and for example, you have seen our recent press release on the sales of our activities in 12 African countries but also, selected bolt-on acquisitions. This action plan gives us full confidence to deliver on our performance commitment. It also positions us very well for the future.

Looking ahead on Slide 5. We see that despite several unit start-ups, this quarter the backlog remains at a high-level above €4 billion. Let's note that this backlog is well diversified with more than 80 projects, which dilutes the overall risk. And it is also well balanced among activities, sectors and geographies. Regarding business development, our portfolio remains very active in all regions of the world.

To conclude, thanks to our agility, discipline and execution plan. We delivered a very solid first quarter, despite an uncertain environment. Q1 confirms that we are on the right track.

We have confidence, confidence in our ability to deliver on our commitments, in terms of performance and growth for 2024 as well as on our enhanced ADVANCE objectives of doubling the initial margin improvement ambition by 2025.

Thank you very much for your attention. I will now ask Jérôme, to present the details of our financial performance in Q1.

Jérôme Pelletan

Thank you, François, and good morning everyone. So we will now review our key figures on Slide 8. So you see comparable sales have been resilient overall in Q1 and this was achieved despite the difficult environment that you know.

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So Gas & Services sales for the quarter showed a solid plus 2% increase versus last year, despite a high comparable basis in Q1 last year with sales that were up plus 7%.

Engineering & Construction third-party sales have increased by plus 6.5%, compared to an already strong base last year. Order intake is at €342 million year-to-date with group projects representing 80% of this.

Global Markets & Technology are up plus 4.7% with order intake reaching €172 million year-to-date. So overall group sales are up plus 2.1%, on a comparable basis while published sales are down at minus 7.3% impacted by negative energy effect at minus 5.5% and a negative ForEx effect at minus 3.9%. So, comparable sales were resilient, despite again, a very strong comparable base in Q1 last year at 6.2%.

I am now on Page 9. Our growth in Q1 for Gas & Services has been mainly driven by the Americas and to a lesser extent by Middle East and Africa. On a business line standpoint we can see that Healthcare drove growth in Q1, while Large Industries showed a mixed performance.

Merchant and Electronics must be put in perspective with a very strong comparable basis last year. This, again, highlights the value of our diversified global development strategy, capitalizing on the complementary and right balance among our different business lines and geographies.

Let us now review the activity for each of our main geography. I'm now on Page 10. After an already strong Q4, sales in the Americas have grown in all business lines to reach a plus 6% of our growth on a comparable basis, benefited from proactive price increase particularly in the United States and Argentina to counter hyperinflation.

Large industries volume has been soft over in hydrogen. Activity has been impacted by large customer turnaround during the quarter in the U.S. On the other hand, we benefited from start-up and ramp-up positive contribution and from a sequential improvement of base volume following the January three events.

In Merchant, sales have been driven by a strong pricing effect at plus 6.5% year-on-year, supported by active pricing management and campaign at Airgas -- sorry and in LatAm especially in Argentina to address local hyper inflation. Gas volumes at Airgas have been flat overall excluding hardgoods.

Growth in Healthcare has been strong, supported by high pricing in Proximity Care in the U.S. and home healthcare has been strong in LatAm with positive volume and very strong pricing. Finally Electronic sales have grown at plus 3.3%, supported by high sales in Carrier Gases and Equipment and Installation, while Materials have been low.

Now in Europe, sales are slightly down with strong healthcare and lower Merchant pricing as we anticipated. In Large Industries in Europe demand in hydrogen has slightly improved while air gases for steel and chemical customers were stable at low level. Note that the energy combined effect impacting negatively this quarter by minus 0.5% due to higher volume with lower energy price and sales were also impacted negatively by the sale of cogen unit.

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In Merchant, sales have been impacted by reduced price in bulk compared to a significant pricing effect last year. This decrease in pricing bulk was expected due to the partial energy indexation in our contract in the context of the sharp decline in energy prices. On the other hand, pricing in packaged gas has stayed positive and solid volumes were also impacted by one less working day.

Finally, healthcare growth was very solid at plus 4%. Sales have been supported by both strong home healthcare activities, notably in diabetes and sleep apnea and by strong growth in medical gases with good volumes and a sustained price effect in response to inflation.

In Q1, activity in Asia has been contrasted. In Large Industries first sales and volume remained affected by low demand and customer stoppage in China. On the positive side, activity benefited from a major start-up in China in March that will start to fully contribute next quarter.

Sales in merchant have been impacted by one less working day and softened pricing at plus 1.3% with plus 4% volume growth excluding Helium in China. Electronic sales have benefited from carrier gases start-up and ramp-ups and have been impacted sorry by low activity in specialty materials and equipment in installation. Advanced Materials showed a positive trend.

In Africa and Middle East, we have seen again strong growth in our business line in Large Industries the activity remains solid in air gases in South Africa and hydrogen volumes were strong in Saudi Arabia. Merchant growth is vigorous, thanks to strong pricing at plus 8% and robust volume in bulk and cylinder.

I will now comment on our Q1 activity by business lines. I am now on Page 12. In merchant, we continue to see solid pricing albeit moderating as we expected. Volumes overall have softened, pricing is moderating, especially in Europe, as I explained later, markets such as energy, food and beverage, research and automotive are driving growth.

In Large Industries, activity although still low has stabilized on a sequential basis. Activity has been impacting by turnaround on the sale of the cogen unit in Europe, as I said, and two startups have positively contributed in China and in the US. On a market standpoint, metals have grown in the US, while chemical is stable and oil and gas more contrasted.

Page 13. Electronics should be put in perspective against a very high comparable basis last year. Sales of material are still impacting by the slowdown in memory market. Carrier Gases sales remained very solid at plus 6%, supported by start-up and ramp-up contribution. Given this contrasted performance by segment of activity, the semiconductor market context and the high comparable base last year were very resilient Electronic sales in Q1. In addition, we can say that we continue to see strong momentum in project development.

Finally in healthcare, we had strong and well-balanced growth in all segments, with high pricing and volume increase. Home healthcare was again very robust, all therapies growing, especially diabetes and sleep apnea. In Med gas activity sales growth was solid with pricing under seen inflation in America – in Americas including Airgas and in Europe with solid volume and pricing.

I am now on Page 14. As you can see we got about €53 million of sales contribution in Q1 2024 coming mainly from three major start-ups in Q1. For full year 2024, we expect the contribution to be in the range €270 million to €290 million, as the quarterly contribution is expected to increase over the year.

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As highlighted by Francois, we are on track to deliver our commitments in terms of performance. On pricing first, we have been delivering plus 3.7% increase on top of a very high plus 13% in Q1 2023. I will comment more on this on the next page. We have also significantly accelerated our efficiencies to reach €112 million in Q1 2023. That is during 2024 that is plus 22% versus last year. And finally, we continue to deliver on our active portfolio management strategy. We performed three acquisitions and executed two divestitures to which, we can add the sale of a Cogen asset in Europe. We also announced the divestiture of our operations in 12 countries in Africa, that should close later in 2024.

Pricing, efficiencies and portfolio management contributed to a strong cash flow again this quarter, growing at plus 6% year-to-date excluding FX, a strong leverage compared to sales growth.

As I said and we said earlier, we keep a very strong focus on margin and performance improvement, working on all possible levers. Those Q1 results, give a good indication for performance and margin improvement at the start of the year.

On the left -- so next slide, on the left, you see the contribution of each region to the plus 3.7% IM pricing this quarter. Active management of pricing is supported in all our operations by value-added offers, and service quality focus to our customers.

Americas is the region that contributes the most to the price effect, with plus 6.5% mainly, thanks to proactive campaigns in particular in the United States. Airgas accounts for plus 3%. And of course in Argentina, to counter hyperinflation for another plus 3%.

Focusing now on Europe, where the price effect turned slightly negative this quarter. This is due to the partial indexation to energy price evolution in the bulk business. Indeed, keep in mind that the typical European Energy index used in our bulk contract, decreased on average versus Q1 2023 by around minus 50%. We estimate this energy impact on bulk pricing to weight by about -- around minus 8%, while overall pricing excluding that specific energy effect, reached around plus 6% notably, with a strong contribution from packaged gases activities. This is a remarkable performance by the teams.

Importantly, this minus 2% net pricing doesn't trigger the dilutive impact on margin. We manage carefully, the pace of decrease of the energy cost and the alignment of our pricing and our costs. So all in all, we are confident that active management of IM pricing will continue to deliver, an accretive margin contribution this year.

And now on Page 17. On the left, efficiencies have been growing over the last few years and stands now at €112 million, up plus 22% versus last year. This is a key contributor to our margin improvement. We have indeed more than 800 ongoing industrial efficiencies projects, they deal with production, supply chain, energy optimization and leverage on data and digital when it makes sense to do so. 40,000 employees have now been onboarded on continuous improvement projects, and we organized recognition awards for good practice replication.

Then procurement efficiency also contributes in the context of still high inflation. More importantly, we're accelerating structural efficiency. We have a few recent examples, the enlarged scope of shared service center, the ongoing home healthcare transformation in France, and as Francois said, the launch of one single European ERP.

We have many projects ongoing, and we have recently launched new initiatives that will contribute in the next quarter. We are again, very confident, that efficiency will be also a key contributor to our margin improvement ambition.

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Page 18, our 12 months portfolio of opportunities is stable at a very high level, amounting to €3.4 billion supported mainly by energy transition project, which is about 40% of the portfolio and electronics. In addition, our portfolio of opportunities beyond 12 months remains very solid and strong. Our Industrial and Financial decision are at €0.9 billion, three main projects have been decided in our main business line.

Finally, as highlighted earlier by Francois, our investment backlog is high at € 4.1 billion. It is a very diversified and well balanced among activities, sectors and geographies. It is a good indicator again of future growth, when the project currently under construction will start up.

And with that summary of our strong positioning for the future, I have reached the end of my presentation. Thank you very much for your attention, and we'll now open the Q&A session.

Question-and-Answer Session

Operator

Thank you. [Operator Instructions] We will take our first question comes from the line of Alex Jones from Bank of America. Please go ahead. Your line is open.

Alex Jones

Great. Thanks. Good morning. Thank you for taking my questions. Two if I can. First on the backlog. I think it's the first time it's moved down quarter-on-quarter for two years. As you mentioned, there are some major start-ups in there. But could you help us understand if there's anything else happening there this quarter and through the rest of the year what you see the outlook is for backlog progression, especially with regards to energy transition projects coming through?

And then the second question just a follow-up Jérôme on your comments on profits. I think cash flow if you include FX it looks like it was perhaps plus 2% or so in Q1. Is there any phasing we should bear in mind on the margin improvement this year whether it's weighted first half second half? And if so any causes behind that? Thank you.

François Jackow

Good morning. Alex, thank you very much for your question. I will ask Jérôme to take actually the two questions. First on the backlog and then on the cash flow and the margin. Backlog first.

Jérôme Pelletan

Yes. Thank you very much. So you're right the backlog has still decreased a bit versus last quarter, but that was expected, because the way it works in the backlog we have basically start-up that are declining that make the backlog declining and then you add up the investment decision. So the very good news is that we have start-up that contributed positively €53 million for the Q1. So this is aligned with what we're expecting.

We expect basically also to have a growing contribution in the next three quarters, especially one of the bigger contribution in China has started in March and will have full effect in Q2. All the more you have to bear into account that we have also significant investment decision at -- very close to €900 million, which is also an increase versus last year that will also feed to backlog.

So, all-in-all the backlog is at the level which is historically high. You have to bear in mind that can change a bit and vary from quarter-to-quarter. But I would say, we are still very confident. And the level that we see as well not only in the backlog, but of portfolio of opportunity, including as well steel energy transition project is also very, very good.

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Now to come back on the cash flow, I can say that we are very pleased with the cash flow. Clearly, we are at basically plus 2% in comparable sales, and we are at plus 6% excluding FX. So, this is clearly a strong leverage from sales to cash flow. We are basically having -- it's a good proxy right from the operating margin improvement. We do not as you know, I would say, mention the operating margin improvement in Q1. But I can say it's totally aligned and it's very much aligned with the good work which has been done on pricing to maintain very strong pricing, which still to be accretive despite also what we see in Europe, but that was expected I will come back maybe later and also a very strong level of efficiency. So, again, we are pretty pleased with the cash flow and that's a good proxy again for a good start of margin improvement in Q1.

Alex Jones

Thank you.

François Jackow

Thank you very much. Next question, please.

Operator

Thank you. We will take our next question. Your next question comes from the line of Laurent Favre from BNP Paribas. Please go ahead. Your line is open.

Laurent Favre

Yes. Good morning. I've got two questions please. The first one is on Large Industries in Europe. We've heard of several chemical -- or commodity chemical producers reporting increased levels of activities and I guess we haven't seen that in yourselves. Is it because you have businesses below take or pay levels and you need further improvement in utilization rates to see high sales? And is this something that you're expecting in the coming months?

And the second question is on helium. It sounds like the activity has been getting worse sequentially into Q1, I think, you mentioned ethane as a drag in fact especially in Asia. Can you talk about the magnitude of the decline on both volumes and prices? And do you expect this to get worse? Or do you think we are around the button? Thank you.

François Jackow

Thank you very much Laurent. I will ask Pascal to comment on the Large Industries in Europe and I will come back to the helium part.

Pascal Vinet

Yes. Good morning and thank you for your question. Actually the main impact in Europe on our sales is the sale of that cogen unit at the end of the contract. That's the main impact. Its portfolio management, we didn't see the perspective, and we didn't like the CO2 emission of that unit. Otherwise, if I look at the underlying aspects, Hydrogen volumes are up especially in Benelux and air gases are basically flat. Your question on take-or-pay is a good one. We have seen the number of customers at take-or-pay level decreasing a lot. It's only a very small number of customers now, very marginal. So, on the signals from the chemical industry, yes, we have seen those positive signals. We have seen again a lot of customers going from take-or-pay level to above take-or-pay level. Those signals, we'll see in the coming quarters if they turn into a definitive trend, but Q1 was yes confirming those signals.

François Jackow

Okay. Thank you very much, Pascal. On the helium overall, so first I mean keep in mind that Helium was last year around 3% of the group sales, so just to put things in perspective. What we have seen in Q1 is still a positive contribution with around 3% of increase in the sales. That's a mix of pricing and volume. Volume has been slightly negative overall in the range of minus 3% to 4%. And pricing has been positive, high single digit overall. But what you have to keep in mind, to understand the situation is that, it's quite contrasted by geographies. Clearly, we see in the Americas and especially in North America that the volumes are strongly up and the pricing is also quite positive, I mean double digit for the pricing.

In Europe, overall, it's flat, both in terms of volume and pricing. And in Asia and more specifically in China, we see a drastic decrease in the volume and also a decrease in the pricing. This is probably due from some helium coming from third parties sourcing in new parts of the world especially from Russia. But at this stage, this is really very much contained to China. So when we look forward, as I mentioned, the helium volumes and pricing is going to be highly dependent on the speed of the recovery in the different geographies and of course of the different business lines, Electronics and IM especially. We do expect I mean the trend to continue, so positive in the Americas. Europe being flat at least for the first part of the year and still some pressure on China. Of course, highly dependent on the IM activity and Electronics, especially in Asia. All in all, we do expect Helium to have positive contribution, both in terms of volume and margin to the group of course.

Laurent Favre

Thank you. And so just to clarify so far, you're not seeing the impact from this cheaper material from China or from Russia I guess by China spilling over into developed market into Europe and US?

François Jackow

Laurent, I did not understand the first part of your question. Can you repeat it please?

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Laurent Favre

Sorry. I mean, so far you're not seeing the impact that we're seeing in China from the Russian material, you're not seeing this going into Europe or into the US given sanctions?

François Jackow

And this is maybe a new trend that we see in the global helium market is that, we see more regional differences due to I mean local supply and local demand. So as I mentioned, the market dynamics today is different from one region to another one. We don't see any impact today of sourcing from Russia in North America or in Europe for example.

Laurent Favre

Thank you, very much.

François Jackow

Next question please?

Operator

Thank you. We will take our next question. Your next question comes from the line of Georgina Fraser from Goldman Sachs. Please go ahead. Your line is open.

Georgina Fraser

Hi. Good morning, François, Jérôme and the IR team. I wondered if we could dig a little bit into Electronics this morning. So my first question is, is there any way or is it the wrong way to think about splitting Electronics growth into price and volume? And should we be thinking about the future growth a bit more differently in terms of should it be more CapEx driven than production given the transition more towards Advanced Materials and Carrier Gases if we look at your the split of your backlog?

And then any comments that you can make about the kind of average profitability for electronics compared to the rest of the group would be helpful too. Thank you.

François Jackow

Thank you very much, Georgina, and good morning. So electronics overall we have talked a lot about electronics last year. We know very well that the market demand has been decreasing sequentially in 2023. We do expect this to reverse and we do expect to see a pickup in the second half of the year.

Overall clearly the contribution of electronics in terms of sales and margin should be positive for 2024. And we do expect this also to continue further in 2025, 2026. And what is making us quite confident is what we see in terms of level of investment, which is extremely active especially in the memory segment, which has been quite impacted this year. We see significant CapEx being allocated both for construction and for equipment.

So clearly I mean that's a very good trend for the electronics. All in all, the trend remains positive. You have in mind that the semiconductor segment is going to probably double by 2030.

So those are significant opportunities for Air Liquide. This translates into major opportunities in Carrier Gases, which are performing even in the current context very well today with start-up being planned also. And this is true in all the regions of the world, Asia, China being one of them but also the US with new investment coming online.

Regarding your question, in terms of mix of the business, I think we want to maintain the mix of the business that we see with a strong solid based in the Carrier Gases where we have clearly an advantage and we want to continue to do so. But also develop I mean advanced molecule and advanced solutions. You have seen investment in the past few months capacity especially in Asia, in Korea, in Singapore, in Japan also. And there is more to come, which responds to market demand and customer contracts also for those molecules.

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So all this is quite positive. Again even if we do expect I mean the recovery to come gradually during the year, the signals that we are getting from our customers are quite positive. But there again it's probably a little bit too early to confirm exactly when the pickup is going to come, but we do expect that in the next few months.

Regarding the profitability of Electronics overall, it's well in line with the profitability of the group above the average of the group and a strong contributor again in terms of profitability and growth.

Georgina Fraser

Thank you very much.

François Jackow

Next question please. Thank you, Georgina.

Operator

Thank you. We would take our next question. Your next question comes from the line of Jean-Luc Romain from CIC Market Solutions. Please go ahead. Your line is open.

Jean-Luc Romain

Good morning. My question relates to some projects that were still pending FID in the previous quarters like Lhoist for instance. Did you see some progress towards FID that it can enter in your order book?

François Jackow

Good morning, Jean-Luc. I will ask Pascal to comment on this European project in northern part of France.

Pascal Vinet

Yeah. Thank you for your question, Jean-Luc. I'd be I started globally. We still see a strong momentum continuing. We keep adding projects especially in recent months in the with the cement customers for example they want to decarbonize.

Lhoist as you the one you mentioned is a lime producer. This project is continuing. This project has a very good momentum. Now let's be clear this is medium-term project. It takes time to organize things. It takes time to prepare for such a project. You have to align quite a few elements. It's the capture at the site. It's the pipeline to take the CO2. It's a CO2 terminal in Dakar. All those species are going along. They are being worked on. Be patient. It takes time.

Jean-Luc Romain

Thank you very much.

François Jackow

Thank you very much, Pascal. This gives me the opportunity to comment on the portfolio of projects in the energy transition because we have questions being asked to us regarding I mean the momentum in the portfolio. Given I mean the economic context given I mean all the elections and uncertainties. What we see clearly is that there are still many requests from customers.

Pascal mentioned I mean the cement in the past six months we have seen numerous requests from customers who wants to decarbonize. We continue to see high interest in low carbon hydrogen supply in different parts of the world. This is true that in the US with the discussion regarding the Inflation Reduction Act there has been a little bit of slowdown in terms of announcement.

This being said, the most serious solid projects are proceeding. We have received in the past few months several orders to proceeds in terms of engineering studies and preparation of the project. So I do expect that some of those projects will be officially announced when the horizon is a little bit more clear in terms of regulation and political context. So I think this is very positive. And again strong momentum on the portfolio which will of course fill the backlog as mentioned by Jérôme earlier. Next question, please.

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Operator

Of course. Please stand by. Your next question comes from the line of Geoff Haire from UBS. Please go ahead. Your line is open.

Geoff Haire

Hi. Good morning. Actually I was just going to ask about the political landscape and clear energy projects. You just answered the question. So I don't have another one. Thank you.

François Jackow

Okay. Thank you very much. I'm sorry to have preempted your question. So maybe we can move to the next question.

Operator

Of course. Please stand by. Your next question comes from the line of Peter Clark [ph] from Bernstein. Please go ahead. Your line is open.

Unidentified Analyst

Yes. Good morning, everyone. Firstly on the activity. I get the impression you think Q1 is the lowest part of the year for the activity like Q3 was last year. Obviously with the comps getting easier as well I guess. And then drilling down into that the industrial merchant volumes in Europe I know you had one less working day, but you have to go back to 2020 when the volume effect was as weak as that.

Just the underlying volumes because you made the point when you look at the underlying cylinders actually the underlying volumes in the Airgas et cetera has been pretty solid. So just if you could drill into that. And then jumping across the pond to America and the pricing situation, obviously, very positive on the pricing. You still got some local inflation, but you're pushing Airgas pricing the medical gases again seems to have gone up another leg. Just the outlook for that as you move forward from here. Thank you.

François Jackow

Thank you very much, Peter and good morning. I will ask Pascal to comment on the underlying trends and the pricing in Europe and we'll reach out to Marcelo to comment on Airgas after that in the U.S.

Pascal Vinet

Okay. Thank you, Peter. Good morning. So on IM in Europe, I would comment on three things. One you mentioned we have a negative impact of the delta in the working days. Of course, it will go the other way in Q2, but that has been a negative impact. We have that pricing effect that Jérôme mentioned and went into detail with. It's due to the energy indexes in our bulk contract as Jérôme mentioned this has no negative impact on our margins. But on the opposite we have that underlying 6% positive pricing that is a continuing trend when we look at the previous quarters and we want that trend to continue in the next ones and we expect that trend to continue in the next quarters.

And third point on the volumes directly, we do have bulk volumes that are slightly down on a daily basis. But our industrial packaged gas volumes are flat on a daily basis. So, a very strong resilience of our business overall in Europe in a somewhat difficult economic environment.

François Jackow

Thank you very much Pascal. Marcelo can you comment a little bit on what you see in terms of activity momentum and different segments in the North America market?

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Marcelo Fioranelli

Yes. Sure François and thank you Peter for your question. I think for Airgas in general I would say if you look to the context in the U.S. in terms of inflation, of course, prices are moderating following the slowdown in inflation, but it's still extremely resilient the inflation in the U.S. and its core, which means we will continue to have a strong discipline in managing pricing as we've done in the first quarter.

And you saw Peter plus 3% in industrial merchant. And if you had to isolate on health care the price impact was even higher by 5.5%. The positive note I would say is that we've been successfully managing through this process it's not something new to us. And I think this will remain for the coming quarters with a lot of solid campaigns and pricing strategy in a way that we continue to see a positive impact in terms of pass-through of pricing to the market.

In terms of activity, again, we had a Q1 that was pretty resilient overall in terms of volumes for industrial gases and a bit more softer in terms of hard goods. I think as soon as the situation improves in the U.S. in terms of reduction of interest rates for the future I think this is going to unlock again a positive cycle in terms of investment in production capacity expansion in many industries and we should profit from that.

We also see some positive tailwinds coming in a few segments like government and defense. That is also giving us a positive expectations I would say mainly for the second part of 2024.

François Jackow

Thank you very much Marcelo. Thank you, Peter. Next question please.

Operator

Thank you. We will take our next question. Your next question comes from the line of Andreas Heine from Stifel. Please go ahead, your line is open.

Andreas Heine

Yes, only two left Peter has asked actually what I wanted to ask. On Healthcare, growth in Americas is standing 20%. Does that include also a dollarization from the Argentine peso because I think you have quite a decent Latin American business in Americas?

And secondly could you elaborate a little bit more on the price increase you mentioned in your introductory remark, especially in the package business. So, is most of the price increase is dedicated to that part of the IM in Europe? These were my two questions.

François Jackow

Thank you very much Andreas. So, yes, indeed for the med gas what we have seen in the Americas includes I mean the contribution of Argentina, but I will probably make a comment overall on the healthcare activity, which has been strong this quarter.

What we have seen is sales as mentioned close to 8%. A little higher actually in Med gas and a little lower in the home healthcare part of the business. But still I mean both very strong.

The main difference is that for the med gas overall it's mostly driven by pricing in all the regions of the world. So, you mentioned North America but this is true also in Europe and that's positive and that's clearly a change.

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For the home healthcare, you see that half of basically the growth is coming from pricing and half of the growth is coming from volume, which there again is good because we understand I mean that the fundamental underlying trends is positive in most of the regions of the world. Maybe the last question was that on the last part of your question was that on the Americas?

Andreas Heine

Yes, the growth of plus 20%. That was quite strong. And I want to know whether there is a portion of that explained by the dollarization of the Latin American Home Care business.

François Jackow

I said is yes part of it.

Andreas Heine

Could you say, as you said, how much it is in the IM business, how much it was of the 20%? Is it sizable or a small part?

François Jackow

No. I think overall -- I don't think we have this. But again, it's -- the main trend is pricing effective being both in North and South America. You have a little bit of distortion due to the local situation in LatAm. But again, as mentioned by Marcelo strong pricing in the North American market.

Andreas Heine

And the second question was the packaged business in Europe.

François Jackow

Next question please.

Operator

We will take our next question. Your next question comes from the line of Chetan Udeshi from JPMorgan. Please go ahead. Your line is open.

Chetan Udeshi

Yeah. Hi. Good morning. I had some weird question this time. I was just going through the numbers over the last few years for the Large Industries, and if I take out the contribution that you usually have from the start-up of new projects, which can be say around 2% on average on that business, it seems the underlying base volumes just haven't really grown. I think they were down last year they were down in 2022, maybe a little bit up in 2021, 2020 down 2019 down. I'm just wondering how that dynamic of no growth in the base volumes actually matter for the Large Industries business in terms of both the operational gearing, but just structural earnings growth in that business?

Maybe my calculation might be wrong but I'm just curious if the base volumes just don't grow how should we think about the dynamics in the Large Industries in general from a value creation perspective? Is it all driven by just the new projects? But I thought there was that as we call it you should have some sort of a compounding effect from your existing asset base which doesn't seem to be the case when I look at the base volumes. Thank you.

François Jackow

Okay. Thank you very much, Chetan. So maybe a few comments on this. I think the activity in Large Industries and the volume is highly related to the overall demand in the manufacturing sector being the steel the chemical and the refining. As we have already commented largely, I mean in the past a few years, I mean overall manufacturing capacity has not been running at its full potential from I would say the customer's point of view. We have discussed already I mean the situation in Europe for chemical, for steel related to the economy, related also to the price of energy. But even if you are looking at the US Gulf Coast, which traditionally has been a very strong exporter also of product.

The operating rate overall of the chemical industry is probably in the range of 80%, probably a little bit less than that. So it's not at its full potential. And China, also I mean you know very well the situation. So I think the macro trend explain probably the lower volume growth that what we expect. Taking into account that and then you need to go to the fundamental of the business. The growth in large industry is highly related indeed to the new projects because for once you have signed a project, basically you have the assumptions of the consumption from the customer between the take-or-pay and the maximum capacity of the project.

So what does that mean for us in terms of lower demand overall in the past couple of years for Large Industries customers? We had indeed to adapt our operating mode to make sure that we are the most efficient in terms of energy consumption and also continue to be reliable for our customers. So that's one area where we try to find efficiencies and synergies between the different assets that we have. On the commercial point of view, the business model of Large Industries is extremely resilient, because we have the monthly fee and the take or pays, meaning that when the load is coming below the take-or-pay basically the customer has to pay a minimum fee for us. So the impact is very well mitigated from the business point of view.

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Now looking ahead, because that's your question what's the potential and what's the impact for the Large Industries overall? We are extremely positive for the potential of Large Industries. In the current context post the COVID with the lack of growth with the uncertainty in the different parts of the world about decarbonization it's clear that we have seen less overall investment for new production that's what we have seen in the past.

However, we have a wave of projects that is unprecedented. And our portfolio remains extremely strong portfolio of opportunities even stronger and continues to grow in all the parts of the world. It's going to be highly related to ways to produce with a lower carbon footprint and to make sure that the energy cost is fully embedded in the location and in the process being used by the customer. So there is strong reservoir of growth of the existing assets as mentioned. And there is a huge potential in terms of new investment. That's what we see in the backlog. That's what we see in the portfolio. And that's I would say assurance of growth for the years to come in Large Industries.

Chetan Udeshi

Thanks François for this comprehensive response.

François Jackow

It's clear. Thank you, Chetan.

Operator

Thank you. [Operator Instructions] We will take our next question. And the question comes from the line of Jaideep Pandya from On Field Research. Please go ahead. Your line is open.

Jaideep Pandya

Thank you. Actually on the lines of what just Chetan asked. If I look from a forward point of view two of your key industries steel and refining are in heavy decarbonization mode at least in Europe. And a lot of the green or blue hydrogen projects have been announced by both these industries. And on top of that there are capacity shutdowns. So how do you see the longer-term dynamic of at least a hydrogen world where potentially your customers could become also sort of your competitors if they have spare capacity on the green or the blue hydrogen? That's my first question.

And then the second question a little bit more short-term. It seems like the cost you have still momentum on packaged gas pricing in a falling sort of energy environment you should have margin expansion. But on the flip side, we have seen quite a lot of inflation in the labor market in Europe. So how do you tie those two cost elements? Should we see therefore stable margins this year at least on the more package or industrial merchant side? Or should we still see margin expansion, because the tailwind you have on the gas is significantly bigger than inflation on the labor side? Thanks a lot.

François Jackow

Thank you very much Jaideep for your question. I will ask Pascal to start with the second part of your question on the pricing versus inflation in Europe. Pascal?

Pascal Vinet

Yes. Thank you for the questions. So on the PG pricing and focusing specifically on Europe, I think, we expect the trend that we have to continue along the next quarters for many, many reasons. Some because we have ongoing contracts with strong indexation. Some because we have renewed those contracts with new pricing clauses.

Now you mentioned inflation in the labor market. We will pass that through to our customers, through our pricing either, again through renegotiations, or through indexes in our contracts, which have formulas to support this. So I am pretty sure that the trend will continue and we will have a positive effect on the margins. And we'll have also, I think, a tendency to go down to inflation level. I mean at the end of the day, it will be tangent to inflation level. That's what we expect.

François Jackow

Thank you very much, Pascal. So, to come back to your point about the mid-term perspective on hydrogen -- green, blue hydrogen, we remain extremely positive about the potential for us. Where we see opportunities today are clearly in some of our key markets, maybe not in the order that you mentioned. Clearly what we see today is first in refining, especially around the biofuels and this is true in Europe, but not only in Europe, we see projects popping up in the Americas but also in Asia right now. And that's the need for low carbon hydrogen. That's one.

The second is clearly the chemical industry with significant potential to decarbonize. I mean the basic chemical value chain. And third, the steel industry. We talked a lot about the steel industry and the shift from the blast furnace integrated steel mills to the DRI type of units. Those will take more time. There is really a challenge in terms of technical solution to achieve at the best cost the decarbonization. It is probably the most demanding and today were the premium for the low carbon hydrogen is the less easy, I would say to justify.

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So, those projects may take some time, maybe starting first with natural gas and then moving to hydrogen in the DRI unit, which could also be based on carbon capture. And that's another element in what we see in the market, where we see a growing demand for carbon capture on existing processes, which could involve, I mean the CO2 capture piece the infrastructure, of course, but also as mentioned by Pascal, in the cement, the supply of a very large quantity of oxygen, the cement transformation. I think all in all, I mean this is a combination of a very valuable and significant opportunities.

You're asking the question. I mean do we have a role to play? And are we going to be in competition with some of our customers? It could be the case. But overall, I do believe that we are recognized by our customers thanks to our technologies, our solutions, but also the assets that we have today and how we can leverage and facilitate this transition. That's what we are demonstrating today by already signing long-term commitment with customers to help them to decarbonize their process.

There is another consideration also to take and to have in mind is the fact that, this energy transition will require a significant amount of CapEx from our customer's viewpoint. And many of them have already told us that they want to focus on their core business and they are looking forward to having specialized companies, professionals to invest in what they consider not being their core business. Taking into account that, we don't want to be in the energy business and we want to focus on where we bring value the supply of low carbon, hydrogen, oxygen, capturing of CO2. So, all that in terms of midterm perspective is very positive.

François Jackow

I will stop here. I think we have reached the end of this session. So, thank you very much for all your questions.

To summarize, the very solid first quarter performance shows that we remain fully focused on execution and delivery of our ADVANCE program. We are on track to deliver our commitments for this year and beyond, thus creating value for our shareholders. Next week, we have our General Assembly in Paris. I may see some of you there. In the meantime, I wish all of you a very good day. Thank you very much.

Operator

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

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