

## Quality Convictions – Linde PLC

*Inclusion in the Global Equity Strategy*

### Key takeaways

- Industrial gases are mission-critical, hyper-local infrastructure serving numerous industries, reinforced by high barriers to entry, decades-long contracts, and near-monopolistic pipeline networks.
- Linde plc is the sector’s dominant operator, protected by scale, disciplined capital allocation, and resilient take-or-pay / cost pass-through pricing.
- Linde’s valuation premium is at a decade-low, creating a compelling potential entry point.

### Industrial Gases, the Quiet Infrastructure Behind the Modern Industrial Economy

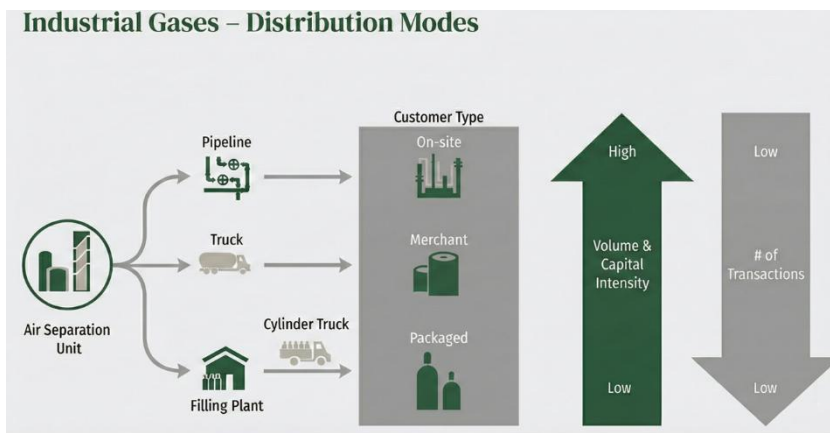
Industrial gases occupy a place in the economy similar to pipelines in energy or datacenters in AI: invisible, indispensable, and deeply embedded. Whether it’s life-saving oxygen for hospitals, food-grade carbon dioxide to carbonate drinks, high-purity and specialty gases for electronics and semiconductor manufacturing, or hydrogen for clean fuels, the industry underpins countless value chains. Remove these gases and entire sectors would stall instantly. And as global systems push toward decarbonization and electrification, these “boring” companies increasingly sit at the center of the most technically demanding transitions underway.

Production typically begins with separating the components of hydrocarbons (primarily natural gas) or ambient air—an abundant, effectively zero-cost input. This occurs inside local Air Separation Units (ASUs), positioned near major customers and serving as hubs for broader regional distribution via proprietary pipelines, specialized trucking, or cylinder-filling operations.

The sector’s appeal stems from a rare configuration of economic advantages.

First, the business is inherently local and infrastructure-bound. Because transportation becomes uneconomical after a few hundred miles, markets naturally form regional monopolies where a single supplier dominates through network density, embedded pipelines, and decades-long customer relationships.

Second, contracts for onsite gas supply, which drive the majority of capex investments, provide exceptional downside protection. Hence, as firms build ASUs, they mitigate capex and ROIC risks by entering decades-long take-or-pay agreements that obligate customers to pay regardless of volume fluctuations and absorb all variability in natural gas and electricity costs. In an inflationary world, this structure is highly valuable: suppliers maintain stable returns while customers carry the volatility. These dynamics—priced passthroughs, minimum returns, and captive demand—establish industrial gases as one of the most stable revenue ecosystems in the global industrial landscape.



Sources: PineStone Asset Management, Linde

Finally, the entire sector has consolidated dramatically. The top three players, including Linde with the largest share, now control over 75% of a market that was once fragmented and regionalized. This consolidation has sharpened capital discipline, curbed destructive pricing behavior, and lifted long-term returns across the industry. In such concentrated ecosystems, stability compounds.

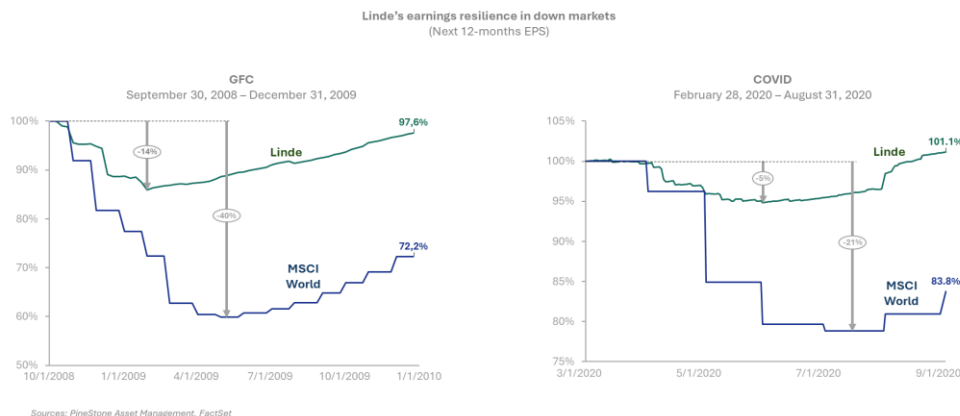
Taken together, these features make industrial gases an unusually high-integrity market: slow-growing yet dependable, capital intensive yet de-risked, essential yet low-profile. The sector’s appeal isn’t excitement—it’s endurance. And for long-term owners, endurance is often the most valuable trait of all.

### Linde – A Moat 140 Years in the Making

Linde is the central node for industrial gases, with origins stretching back more than 140 years. Carl Linde effectively invented cryogenic air separation in 1879, laying the technological foundation for the modern industry. That same core process remains the backbone of today’s Air Separation Units (ASUs).

Across the 20th century, Linde AG in Europe and Praxair in the United States each built extensive pipeline networks connecting ASUs to dense clusters of industrial customers. These networks—capital-intensive, geographically entrenched, and nearly impossible to replicate—form a central pillar of the industry’s competitive moat.

Both firms have high predictability on their return on invested capital by structuring +90% of their capex-heavy on-site revenues in take-or-pay contracts and energy cost pass-throughs. Hence, they removed nearly all volume and input-cost risk from on-site production. Returns are practically locked in before the first dollar of capex is deployed. This resilience of earnings was clearly demonstrated during both the Global Financial Crisis (GFC) and the COVID-19 market downturns.



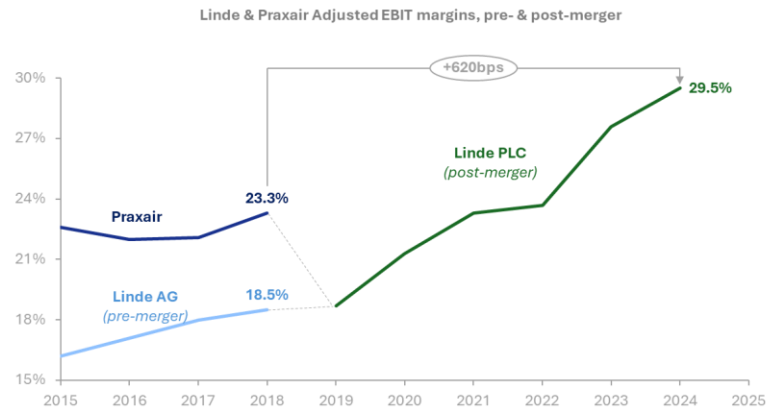
In 2018, Praxair and Linde AG announced their intention to merge. While many mergers end in failure due to culture clash, unachievable synergies or spiraling integration costs, the Praxair–Linde combination is a great counterexample.

The backstory matters. Praxair had long operated with a returns-centric philosophy, disciplined pricing, and a refusal to pursue scale for its own sake. Linde AG, despite technological prowess and global reach, trailed its counterpart in margin discipline. The merger allowed Praxair’s operating philosophy to diffuse across Linde’s

global platform, strengthening pricing discipline, streamlining cost structures, and knitting regional networks into a more coherent whole.

Within a remarkably short window, the combined company expanded margins by several hundred basis points, ultimately surpassing even Praxair’s standalone profitability. Synergies materialized faster and at greater magnitude than originally projected. Synergies were realized faster and exceeded original expectations, driven by headcount rationalization, denser networks, and the global adoption of Praxair’s more assertive pricing systems.

Integration excellence is often overlooked by markets, but here it is a defining part of the investment case. The ability to integrate a century-old multinational at this scale reflects a level of managerial discipline that compounds into the future.



Sources: PineStone Asset Management, company filings. As of December 31 of each calendar year, with the exception of 2018. The data points used for the 2018 merger year represent the performance for the first three quarters (9 months) of the year for the separate firms, up to the last filing before the merger closing on 31/10/2018.

Despite the strength of the model, several key risks warrant consideration:

- Cultural drift away from Praxair’s rigor as long-tenured executives and operators retire. Board composition, leadership transitions, and incentive structures will be critical indicators.
- Extreme weather events that could disrupt key pipeline corridors, such as the U.S. Gulf Coast. Linde’s global footprint mitigates the materiality of any single regional event.
- Hydrogen market disappointment, which could dampen long-term growth narratives. Today’s relatively compressed valuation premium offers partial downside protection.
- A strong U.S. dollar, as Linde reports in USD while generating the majority of revenues abroad.

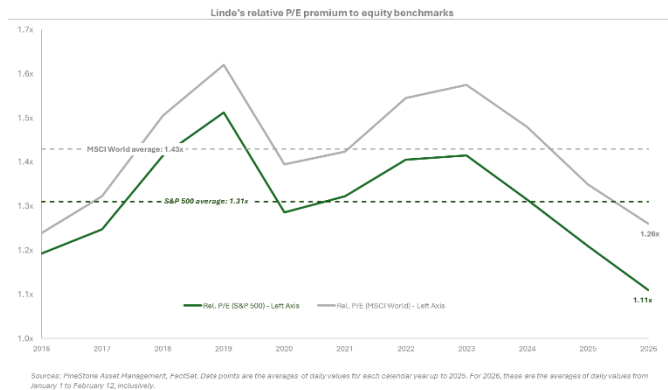
### Resilience at a reasonable price

Looking ahead, the industrial gas oligopoly seems poised to maintain its structural advantages. The world is moving toward more energy-intensive materials processing, deeper electrification, and new forms of clean hydrogen production—all of which rely on the same engineering capabilities that Linde and its peers have spent a century refining. With consolidation cemented, valuation normalized, and Praxair’s discipline now embedded into the largest global footprint in the sector, the long-term investment case for Linde rests on the same foundation that carried the industry through the last century: predictable demand, downside protection, and unrivaled barriers to entry.

In equity markets defined by technological churn and thematic volatility, industrial gases remain one of the few places where quiet compounding endures. Investors have long assigned the industry a valuation premium precisely because predictability commands a higher multiple. The top players are viewed as among the most defensive, economically secure businesses in the public markets. Yet even within such stable industries, relative valuation cycles emerge—driven not only by earnings but by shifting sentiment around growth optionality.

Presently, the market’s relative premium on Linde sits at the bottom of 10-year range - neither discounted nor speculative but aligned with normalized expectations for mid-single-digit organic growth and high-20s margins.

The shift from elevated multiples toward long-term equilibrium suggests that the asset’s defensiveness is available today at a lower relative premium than has characterized much of the last cycle. In an environment where investors increasingly prize durability, this equilibrium may represent an attractive point.



Linde’s investment case is not built on surprise catalysts or thematic excitement, but on continuity. The continuity of cash flows, competitive advantage, contract structure, and managerial discipline. Few companies compound value at scale for over a century; even fewer do so with a moat that strengthens over time. As global industry becomes more complex, not less, Linde’s role becomes more central, not peripheral. For long-term investors, Linde offers the rare combination of resilience and compounding power at a moment when both have become undervalued.

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