Third Quarter 2021 – Earnings Conference Call Prepared Remarks

Jud Bailey *Baker Hughes – VP of Investor Relations*

Thank you.

Good morning everyone, and welcome to the Baker Hughes Third Quarter 2021 Earnings Conference Call. Here with me are our Chairman and CEO, Lorenzo Simonelli; and our CFO, Brian Worrell. The earnings release we issued earlier today can be found on our website at bakerhughes.com.

As a reminder, during the course of this conference call, we will provide forward-looking statements. These statements are not guarantees of future performance and involve a number of risks and assumptions. Please review our SEC filings and website for a discussion of some of the factors that could cause actual results to differ materially.

As you know, reconciliations of operating income and other GAAP to non-GAAP measures can be found in our earnings release.

With that I will turn the call over to Lorenzo.

Lorenzo Simonelli *Baker Hughes – Chairman & CEO*

Thank you, Jud. Good morning everyone and thanks for joining us.

We are pleased with the way the team has continued to execute on our strategy over the course of the third quarter. At the total company level, we had a strong orders quarter, grew adjusted EBITDA, and adjusted Operating Income margin rate sequentially and year-over-year, and had another solid quarter of free cash flow.

While we did experience some mixed results across our product companies, on the positive side, TPS generated strong orders, operating income, and margin rates, and OFE had a solid orders quarter. On the more challenging side, our OFS business was negatively impacted by Hurricane Ida, cost inflation in our chemicals business, and delivery issues stemming from supply chain constraints, while DS also faced supply chain delays that impacted product deliveries.

As we look at the macro environment, the global economy continues to recover. However, the pace of growth is being hampered by lingering effects from the COVID-19 Delta variant, global chip shortages, supply chain issues, and energy supply constraints in multiple parts of the world. Despite these headwinds, global growth appears to be on relatively solid footing, underpinning a favorable outlook for the oil market, aided by continued spending discipline by the world’s largest producers.

In the natural gas and LNG markets, fundamentals remain strong with a combination of solid demand growth and extremely tight supply in many parts of the world. In fact, we believe the positive case for structural demand growth in natural gas as part of the broader energy transition is becoming increasingly evident.

The current environment illustrates the need for policy makers to focus on the utilization of natural gas as a baseload fuel that can be combined with renewable energy sources to provide a cleaner, safer, more affordable, and more reliable source of energy to populations around the world.

A number of developed economies have had great success over the last 10 to 15 years lowering their carbon emissions by switching from coal to natural gas. However, some policy scenarios have seen a more rapid conversion straight to renewables, which limits the role of natural gas as a transition fuel and can lead to broader grid instability. We believe that there is a strong and logical combination of a secure, stable baseload of natural gas that is needed to complement renewable energy sources, and in turn offset intermittencies.

As we can see from recent events, the costs of moving too aggressively are beginning to surface, as multiple parts of the world are experiencing energy shortages, unprecedented increases in energy prices, and shutdowns and brownouts across multiple industries.

The increase in natural gas prices has been most acute due to a number of factors, including underinvestment in gas reserves, a decline in contribution from hydroelectric and renewable power, and continued increases in energy demand. Ironically, the fallout from higher prices has also led to an increase in coal consumption, leading to coal shortages and a spike in coal prices.

Natural gas has been a key contributor to lowering emissions in the United States over the last 15 years as power generation consumption switched from coal to natural gas. US power consumption of natural gas has increased from around 16% of total generation to roughly 40% over the past 20 years, while coal consumption has declined from over 50% of the energy supply mix to approximately 25% over the same period. By comparison, today roughly 60% of Asia Pacific's power generation comes from coal and about 10% from natural gas.

As more countries step-up their carbon reduction commitments, we believe that natural gas will play a critical role in displacing higher-emissions sources like coal, and by supporting the growth in renewable energy technologies with relatively cheaper and affordable baseload power. Natural gas and LNG are core to Baker Hughes' strategy, and we will continue to play a key role in providing natural gas as a safe, reliable resource to the world.

In addition to our focus on natural gas and LNG, Baker Hughes has spent considerable time over the last few years to move and accelerate our broader strategy forward. During the third quarter, we outlined how we are working to best position Baker Hughes for today and in the coming years.

We have given a lot of thought around how to service the oil and gas and energy markets today, while also investing for the future across the industrial space and various new energy initiatives. While we continue to execute our strategy through the three pillars of transform the core, invest for growth, and position for new frontiers, the way that we are thinking about the company and our broader long-term strategy is clearly evolving.

As we recently highlighted at an investor conference at the beginning of September, we are starting to view our company in two broad business areas: Oilfield Services & Equipment and Industrial Energy Technology.

On the OFSE side of the company, we have a technology-leading global enterprise with core strengths in drilling services, high-end completion tools, flexible pipe, artificial lift, and production and downstream chemicals.

We strongly believe that these businesses can generate top-tier returns and free cash flow conversion. OFSE is poised to benefit from cyclical growth in the coming years as we believe that we are in the early stages of a broad based, multi-year recovery that will be characterized by longer term investments into the core OPEC+ countries.

The way to think about Industrial Energy Technology, or IET, is essentially our TPS and DS businesses. Both product companies have compelling portfolios that are beginning to see significant secular growth opportunities, particularly in areas like hydrogen and CCUS.

With core competencies across a number of offerings like power generation, compression, and condition monitoring, as well as a growing presence in flow control, industrial asset management and digital, we have a strong foundation on which to build an even more comprehensive presence in the broad industrial energy technology markets.

We believe that focusing on two major business areas with close alignment will enhance our flexibility, improve execution, increase shareholder returns, and provide long-term optionality as the energy markets evolve.

Now, I will give you an update on each of our segments.

In **Oilfield Services**, activity levels continued to increase during the third quarter with North America outpacing the international markets broadly. As I just mentioned, we believe the OFS market is in the early stages of a broad based, multi-year recovery.

Internationally, we saw the strongest rig count growth during the third quarter in Southeast Asia, followed by more modest growth in the North Sea and Latin America. The return to growth in Russia and the Middle East has been slower as OPEC+ is taking a measured approach to increasing production. However, based on discussions with our customers, the pipeline of opportunities in these regions continues to grow, and will likely be a major driver of international growth in 2022.

In North America, offshore activity was disrupted by hurricanes during the month of August, while US land continues to steadily move higher. The underlying trends in North America remain the same, with public E&Ps and IOCs remaining disciplined in deploying capital, while private E&Ps remain more active. Based on conversations with our customers, we expect firm activity during the fourth quarter and continued strong growth in 2022.

While activity levels and pricing discussions are both moving in the right direction, our OFS business has also had to navigate multiple challenges during the third quarter. These include Hurricane Ida, COVID-related impacts, supply chain constraints, and higher input costs in our production chemicals business.

Despite these challenges, we remain focused on growing our margin rates through a combination of cost reductions and efficiency initiatives, as well as pricing increases to offset higher costs. As a result, we remain committed to driving OFS EBITDA margins to the 20% level over the medium term.

Moving to **TPS**, the outlook continues to improve, driven by opportunities in LNG, onshore/offshore production, pumps and valves, and new energy initiatives. We still expect the order outlook for TPS in 2021 to be roughly consistent with 2020. Importantly, the case for a multi-year growth opportunity beginning next year continues to improve. While we expect the majority of the order growth in TPS to be driven by LNG over the next couple of years, we anticipate that we will start to book more meaningful equipment orders related to hydrogen and CCUS in 2022.

In LNG, while we did not book any awards during the third quarter, we still expect to book one or two additional awards by the end of 2021. Based on the pace of discussions with multiple customers and the positive fundamentals in the global gas markets, we still see the opportunity for an additional 100 to 150 MTPA of awards over the next two to three years, with a bias towards the upper end of that range.

For the non-LNG segments of our TPS portfolio, we see multiple opportunities for continued growth. Most notably, our onshore/offshore production segment is poised to benefit from a strong project pipeline for FPSO awards, driven by a number of opportunities in Latin America.

In the third quarter, we were pleased to book two large FPSO awards in Brazil for power generation and compression equipment, building on our recent success earlier in 2021 and in 2020. We have now booked eight FPSO and offshore topside equipment awards so far in 2021, which follows five awards in 2020.

We also continue to see success in the industrial market, where TPS recently secured wins for our NovaLT industrial gas turbine technology in India and China. We are deploying our NovaLT turbines for power generation across several industrial segments, including electronics, ammonia production and pharmaceutical manufacturing.

In carbon capture, TPS was selected to supply booster and export centrifugal pumps to the Northern Lights CO2 transport and storage project in Norway. This order highlights our CO2 pump injection capabilities and is the first CCUS award for our pumps product line.

For TPS Services, we saw continued signs of recovery during the quarter, with strong growth across transactional and contractual services as well as our upgrades business, and we remain optimistic about the outlook for 2022.

Next, on **Oilfield Equipment**, we remain focused on right-sizing the business, improving profitability, and optimizing the portfolio in the face of what remains an unclear long-term offshore outlook.

Trends in our OFE business remain somewhat mixed despite Brent prices around $80. We continue to see a strong pipeline of flexibles order opportunities, as well as improving market conditions in our international wellhead and services businesses. For industry-wide subsea trees, we continue to expect modest improvement in 2021 followed by some additional growth in 2022.

During the third quarter, we were pleased to be awarded a contract from Chevron Australia to deliver subsea compression manifold technology for the Jansz-Io Compression project in offshore Western Australia. This important win builds on our previous successes for subsea equipment orders for Chevron's Gorgon natural gas facility.

We recently completed the merger of our Subsea Drilling Systems business with MHWirth. We own 50% of the new, fully independent company, now called HMH. The merger is an excellent example of how we are transforming the core to ensure that we are making the right strategic decisions for Baker Hughes. By combining the two businesses, HMH will have more capability and a more integrated offering. Customers are incredibly complimentary about this enhanced model and we look forward to seeing HMH succeed in future.

Finally, in **Digital Solutions**, we saw multiple challenges during the quarter. Electrical component shortages, largely around semiconductors, boards and displays, led to lower revenue conversion, as well as broader supply chain constraints, that drove pressure in the quarter.

We recognize that we have work to do in Digital Solutions to drive operating margins back to an acceptable level. We are implementing changes across the business to drive operational improvements and ensure that we have the right team in place to take this business back to where it needs to be.

Core to our strategy in DS is building out our industrial asset management platform. This area of focus encompasses a range of digital services and products around asset performance, asset inspection, and emissions management. As the world strives towards a net zero target in the coming decades, enterprise level industrial asset management capabilities will be a key driver by enabling better operating efficiency, lowering energy consumption, and reducing emissions across multiple industries.

Today, we have a strong position in monitoring critical industrial assets across a range of different facilities. The next steps in our strategy will be expanding our presence to non-critical assets and developing software capabilities to allow us to cover the entire balance of plant.

During the quarter, DS continued to expand its industrial asset management presence with a number of wins across multiple end-markets. We were pleased to announce a strategic framework alliance agreement with SABIC for integrated Asset Performance Management services. This five-year alliance includes the delivery of Bently Nevada's plant-wide condition monitoring and machine asset protection services across over 1,200 assets at over 16 SABIC sites in Saudi Arabia.

The partnership with SABIC will deliver localized maintenance, support, and access to Bently Nevada's growing suite of sensors, hardware, software, and engineering services, including the expansive, now cloud-enabled System 1 platform.

In Latin America, the Bently Nevada team secured a contract with a major energy company to apply System 1 and condition monitoring solutions to two hydroelectric plants and a wind farm. System 1 will deliver proactive asset management to more than 600 megawatts of power between the three power generation facilities, enabling safer and more reliable renewable energy.

Despite a more challenging quarter in parts of our portfolio, we believe that Baker Hughes is uniquely positioned in the coming years to deliver sector leading free cash flow conversion while also building one of the most compelling energy transition growth stories.

We are committed to evolving our company with the energy markets, while maintaining our prioritization on free cash flow, returns above our cost of capital, and returning capital to our shareholders.

With that, I will turn the call over to Brian.

Brian Worrell *Baker Hughes – CFO*

Thanks, Lorenzo. I will begin with the total company results and then move into the segment details.

Orders for the quarter were $5.4 billion, up 6% sequentially driven by TPS, OFS, and OFE, partially offset by a decrease in Digital Solutions. Year-over-year, orders were up 5%, driven by increases in OFE, OFS, and DS, partially offset by a decrease in TPS.

Remaining Performance Obligation was $23.5 billion, down 1% sequentially. Equipment RPO ended at $7.6 billion, down 1% sequentially and services RPO ended at $15.9 billion, down 2% sequentially. The reduction in RPO in the quarter was primarily driven by foreign exchange movements.

Our total company book-to-bill ratio in the quarter was 1.1 and our equipment book-to-bill in the quarter was 1.1.

Revenue for the quarter was $5.1 billion, down 1% sequentially, driven by declines in TPS, OFE, and DS, partially offset by an increase in OFS. Year-over-year, revenue was up 1%, driven by increases in OFS, TPS, and DS, partially offset by a decrease in OFE.

Operating income for the quarter was $378 million.

Adjusted operating income was $402 million, which excludes $24 million of restructuring, separation, and other charges.

Adjusted operating income was up 21% sequentially and 72% year-over-year. Our adjusted operating income rate for the quarter was 7.9%, up 140 basis points sequentially. Year-over-year, our adjusted operating income rate was up 330 basis points.

Adjusted EBITDA in the quarter was $664 million, which excludes $24 million of restructuring, separation, and other charges. Adjusted EBITDA was up 9% sequentially and up 21% year-over-year.

Corporate costs were $105 million in the quarter. For the fourth quarter, we expect corporate costs to be flat compared to third quarter levels.

Depreciation and amortization expense was $262 million in the quarter. For the fourth quarter, we expect D&A to be roughly flat sequentially.

Net interest expense was $67 million.

Income tax expense in the quarter was $193 million.

GAAP earnings per share was $0.01 cent. Included in GAAP earnings per share are losses from the net change in fair value of our investment in C3.ai. These charges are recorded in other non-operating income.

Adjusted earnings per share were $0.16 cents.

Turning to the cash flow statement, free cash flow in the quarter was $305 million. Free cash flow for the third quarter includes $40 million of cash payments related to restructuring and separation activities.

We are again particularly pleased with our free cash flow performance in the third quarter following the strength we saw in the first half of 2021. We have now generated almost $1.2 billion of free cash flow in the first three quarters of this year, which includes $210 million of cash restructuring and separation related payments.

For the total year 2021, we now believe that our free cash conversion from adjusted EBITDA will exceed 50%.

We are pleased to see the performance this year, as we have worked hard to improve our working capital and cash processes. Our diverse portfolio of capital-light businesses and strong free cash flow performance provides the company with flexibility and optionality when it comes to our broader capital allocation strategy. Last year, this flexibility allowed us to be the only company in our core peer group to maintain its dividend during the COVID crisis.

This year, a recovery from the industry downturn coupled with our strong cash performance enabled us to authorize a $2 billion share repurchase in July, which we began to execute on in early September. In the third quarter we repurchased 4.4 million Baker Hughes Class A shares for $106 million, at an average price of just over $24 per share.

Going forward, our strong balance sheet and strong free cash flow capability provide us with attractive optionality to continue to return cash to shareholders and also invest in offerings related to energy transition. More specifically, in addition to paying our dividend, we intend to repurchase shares on a consistent basis and deploy capital into tuck-in M&A and technology investments on an opportunistic basis.

Now I will walk you through the segment results in more detail and give you our thoughts on the outlook going forward.

Starting with **Oilfield Services**, revenue in the quarter was $2.4 billion, up 3% sequentially. International revenue was up 2% sequentially led by increases in Latin America and the Middle East, offset by declines in Asia Pacific and the North Sea. North American revenue increased 3% with solid growth in North America land, offset by declines in North America offshore, due to Hurricane Ida disruptions.

Operating income was $190 million, up 11% sequentially. OFS operating margin rates expanded 60 basis points to 7.9%, due to higher volume and lower depreciation and amortization.

Overall, OFS results were below our expectations in the third quarter due to several factors, but most notably Hurricane Ida and supply chain related issues that impacted both revenues and margins. Our Chemicals business was the most heavily affected from these issues, with some pricing increases offset by escalating input, freight, and logistics costs.

As we look ahead to the fourth quarter, we expect to see solid sequential improvement in international activity and continued improvement in North America. As a result, we expect sequential revenue growth for OFS in the fourth quarter in the mid-single digits.

On the margin side, we expect stronger sequential margin improvement in the fourth quarter as some of the supply chain related headwinds abate and expected product sales lead to a more favorable mix. As a result, we believe that operating margin rates could approach double digits in the fourth quarter.

Although it is still early, I would like to give you some initial thoughts on how we see the OFS market in 2022.

In the international market, we expect the continuation of a broad-based recovery with double digit growth a likely scenario across all geographic markets.

In North America, we have limited visibility next year due to the short-cycle nature of the market. We believe that the region could experience strong double-digit growth if commodity prices remain at current levels.

With this type of macro backdrop, we would expect to generate double digit revenue growth in OFS in 2022. Margin rates should also see strong improvements as some of the recent supply chain and cost escalation headwinds normalize.

Moving to **Oilfield Equipment**, orders in the quarter were $724 million, up 68% year-over-year, and up 6% sequentially. Strong year-over-year growth was driven by Subsea Production Systems, and Subsea Services. As Lorenzo mentioned, orders this quarter were supported by a large contract from Chevron Australia for subsea compression manifold technology. The sequential improvement was driven by an increase in orders in Subsea Drilling Systems and Subsea Services, partially offset by lower activity in SPS.

Revenue was $603 million, down 17% year-over-year, primarily driven by declines in SPS, SPC Projects, and the disposition of SPC Flow, partially offset by growth in Subsea Services and Flexibles.

Operating income was $14 million, down 27% year-over-year, driven by lower volumes.

For the fourth quarter, we expect revenue to decrease sequentially driven by the removal of SDS from consolidated OFE operations. We expect operating margin rate to remain in the low single digits.

Looking ahead to 2022, we expect a modest recovery in offshore activity driven by higher oil prices and capital deployment into low-cost basins and projects. We expect OFE revenue to be down, primarily driven by the deconsolidation of SDS, but we expect OFE margins to be in the low to mid-single digit range, driven by business mix and benefits from the recent cost out actions taken.

Next, I will cover **Turbomachinery**. Rod and the team delivered another strong quarter with solid execution and we are very pleased with the performance the TPS team has delivered this year.

Orders in the quarter were $1.7 billion, down 9% year-over-year. Equipment orders were down 33% year-over-year. As Lorenzo mentioned, orders this quarter were supported by two large FPSO awards in Brazil for power generation and compression equipment. The year-over-year decrease was primarily driven by a large LNG order we received in the third quarter of 2020 from Qatar Petroleum.

Service orders in the quarter were up 31% year-over-year, driven by increases in transactional services, contractual services, and upgrades.

Revenue for the quarter was $1.6 billion, up 3% versus the prior year. Equipment revenue was up 2%. Services revenue was up 4% versus the prior year.

Operating income for TPS was $278 million, up 46% year-over-year, driven by higher volume and continued execution on cost productivity. Operating margin was 17.8%, up 520 basis points year-over-year.

For the fourth quarter, we expect strong sequential revenue growth due to the continued execution of our LNG and Onshore/Offshore Production backlog, as well as typical fourth quarter seasonality.

As a result, TPS operating income should increase on a sequential basis, with operating margin rates likely flat due to equipment project timing.

Looking into 2022, we expect double digit orders growth in TPS led by LNG opportunities. We also see a solid pipeline of opportunities in our onshore/offshore production segment along with growth opportunities in pumps, valves, hydrogen, and CCUS.

Although we expect to see a strong increase in TPS orders in this environment, we expect revenue to be roughly flat or modestly up in 2022. This will depend on the growth of services, the pacing of equipment project execution, and order intake early in the year.

On the margin side, we expect operating income margin rates to be roughly flat to modestly down, depending on the mix between equipment and service.

Finally, in **Digital Solutions**, orders for the quarter were $523 million, up 6% year-over-year. We saw growth in orders in industrial and transportation. Sequentially, orders were down 3% driven by declines in oil & gas and power.

Revenue for the quarter was $510 million, up 1% year-over-year primarily driven by higher volumes in Process & Pipeline Services and Waygate Technologies, partially offset by lower volume in Nexus Controls and Bently Nevada. Sequentially, revenue was down 2% driven by lower volume in Bently Nevada, partially offset by PPS.

As Lorenzo noted earlier, electrical component shortages and supply chain constraints led to lower revenue conversion during the quarter. DS also saw some COVID-19 mobility restrictions in Asia Pacific and the Middle East, and delays in plant outages as a result of Hurricane Ida.

Operating income for the quarter was $26 million, down 44% year-over-year, largely driven by headwinds from mix of volume, supply chain challenges, and higher R&D costs. Sequentially, operating income was up 3%.

For the fourth quarter, we expect to see strong sequential revenue and margin rate growth in line with the traditional year-end seasonality.

Looking into 2022, we expect solid growth in revenue as supply chain constraints begin to ease and orders pick up across Digital Solutions. With higher volumes, we expect strong improvements in DS margins.

Overall, I am pleased with our continued strong free cash flow execution and TPS business performance. While we faced short-term challenges in our DS and OFS businesses, we are confident in our ability to execute in the fourth quarter and into 2022.

With that, I will turn the call back over to Jud.

Jud Bailey *Baker Hughes – VP of Investor Relations*

Thanks, Brian. Operator, let’s open the call for questions.