Good morning. It is great to be back for this year’s Barclays Energy conference. I would like to thank Barclays and Dave Anderson for the invitation to speak again this year.

Although, like others, we are working to navigate the many challenges created by the COVID-19 pandemic, it is an exciting time at Baker Hughes. We are focused on re-shaping the company and capitalizing on the changing energy landscape.

Last year at this conference we unveiled our strategy to become an energy technology company and evolve our portfolio towards higher value and differentiated opportunities along the energy value chain, as well as more industrial and chemical end markets. Today I will update you on our progress and how our strategy is accelerating in response to changes in the macro environment.
Before I begin, please note the disclosure around forward-looking statements that I may make today. As always, you can refer to our latest SEC filings for further details.

Now, let me address how we see the macro environment today, how we see it changing, and how we are positioning Baker Hughes to win as energy markets evolve.
The outlook for global oil and gas markets remains highly uncertain in the near-to-intermediate term due to factors impacting both supply and demand. On the demand side, we expect the economic impact, as well as potential behavioral changes stemming from the COVID-19 pandemic, to remain a drag on demand for the foreseeable future. On the supply side, excess capacity remains a material overhang as LNG cargo cancellations continue and the OPEC+ countries maintain their highest level of excess capacity in the last 20 years.

Given these dynamics, we are prepared for future volatility and remain cautious on the outlook for both global E&P spending and project FIDs in 2020 and likely 2021. In summary, the market and macro outlook we provided on our second quarter earnings call remains intact.

Looking beyond the current supply-demand imbalance, we believe the bigger story for the energy markets is the broader shift unfolding in energy investment and consumption patterns and its longer-term implications. Due to a combination of factors that include greater energy efficiency, slower economic growth, and higher demand for cleaner energy sources, the growth in capital investment for hydrocarbons has downshifted significantly from prior decades while growth in renewable sources of energy is accelerating.

More importantly, we believe that these trends are still in the relatively early stages and are poised to widen further as demand for lower carbon solutions helps the energy transition gain momentum. Around the world, a growing percentage of the population, as well as governments and policymakers, are committing to a reduction in future carbon emissions.

Despite the growing commitment to a lower carbon future, we continue to believe that both gas and oil will play a major role in meeting the world’s energy demand in the coming decades. As we have noted before, we are particularly constructive on natural gas and LNG as we see it as a transition fuel to and likely a destination fuel for a lower carbon future. As such, we expect natural gas demand to meaningfully outpace oil demand and expect gas to continue to take market share from coal.

Overall, while the industry’s mindset will need to change in terms of investment levels and capital allocation given the subdued growth outlook for oil, we still believe that investment will be required globally to maintain or modestly grow production levels in the decades to come.

Against this changing backdrop, we believe it is critical that industry participants and stakeholders recognize this long-term shift and develop plans to pivot along with the energy landscape. At Baker Hughes, we have been preparing for this transition and now I will share with you our vision on where we will take the company.
We remain committed to leading the energy transition and focus on areas that are highly differentiated in order to generate better returns while also providing more stable earnings and cash flow. As part of this strategy, we highlighted a planned shift in our portfolio over time to leverage our current technologies to grow further in the gas value chain, expand in the downstream segment, and increase our presence in industrial and chemical end markets.

Importantly, since last year’s conference, we have executed on our financial goals, generating over $1.4 billion in free cash flow over the last four quarters and driving margin improvement before the negative impacts of the pandemic took hold earlier this year. We have also made solid initial progress on our portfolio evolution, which I will elaborate on in a moment.

I am pleased with the solid progress over the last year, particularly given the disruption created by the pandemic. However, we believe that the changes currently facing the oil and gas markets and the rapid growth in demand for lower carbon solutions by our customers, warrant an acceleration of our strategy. These trends over the last few months have reinforced our view on the opportunity to build a unique energy technology company. A company that can provide outcome-based solutions to the broader energy markets, as well as utilize our core competencies in energy and apply them to the industrial and chemical markets. A company that can provide solutions and technology to de-carbonize existing infrastructure, as well as enable the growth of a new frontier of lower carbon solutions.

We are in the very early stages of capitalizing on our potential in these areas, and are having a number of constructive conversations with large integrated oil and gas companies to help them reduce their carbon footprint. As you know, many companies are committing to aggressive carbon reduction goals and Baker Hughes has multiple technologies that can offer immediate help. For example, we can offer upgrades on existing turbines to reduce carbon emissions as well as a range of products that can detect, monitor, and reduce methane emissions. We are also scaling up our remote operations technology for multiple applications, which can be utilized to reduce fuel consumption by significantly lowering travel requirements. These solutions can all be installed quickly and help lower carbon emissions in the near term. For longer term projects, we have multiple product lines that are utilized in carbon capture and storage operations and key technologies that can be deployed in the hydrogen value chain. We intend to build upon these capabilities so that we can offer a broader suite of carbon reduction solutions to multiple industries.

In order to accelerate our transition to an energy technology company, we have developed a three-pronged approach focused on transforming our core, investing for growth, and positioning for new frontiers in the energy space.
Transform the core: portfolio & cost actions

The first of these strategic pillars is “transform the core”. This includes multiple workstreams we have been working on over the last year as well as new initiatives that are geared towards transforming the core of our business to drive higher profitability and returns. The most visible aspects of this transformation so far are the recent restructuring and cost-out initiatives announced earlier this year and some of the recent portfolio actions.

On the cost side, we are currently executing a rigorous cost reduction program across our product companies, targeting $700 million in annualized savings by year end. We are utilizing this program to simplify our operations and planning to make all of these savings structural in nature.

In terms of portfolio actions, we have recently agreed to sell non-core businesses like rod lift and specialty polymers and will continue to evaluate the portfolio. In addition to divestitures, we have shut down low-return and non-core product lines in the US like full-service onshore drilling and completion fluids, cased hole wireline, and frac plug operations.

Given the pace of commoditization across some product lines, in order to achieve our return requirements, we intend to make additional rationalization efforts going forward. These actions will be primarily focused on our OFS and OFE product companies and will consist of divesting or exiting non-core product lines or operations in certain geographies where the market structure may not allow for adequate returns.

As we make these changes and target ways to meet our margin and return objectives, we are also evaluating new business models and intend to change the way we go to market in many cases. For example, we are exploring more direct sales and channel partner models in a number of products and geographies where this type of relationship makes sense for both us and our customers.

We see the opportunity to develop these models for several product lines in North America as well as in other countries around the world. For certain product lines in some geographic regions, we believe it will be more cost effective and efficient to sell our technology directly to select partners who will be responsible for sales and on-site service to the end-customer.

For some product lines that have become somewhat commoditized, we are also evaluating the use of alliances and partnerships to improve our returns and capital efficiency.
The other major component of our “transform the core” initiative will be the expanding use of digital technology and remote operations. As we have noted on recent earnings calls, we view the proliferation of remote operations for drilling and completions as a potential step-change in cost productivity and performance for the oilfield services industry.

We see the possibility for more than a 60% reduction in personnel at the rig site through digital enablement and automation, and greater use of multi-skilled field technicians to provide customer support at the rig.

As customer adoption and acceptance increases, so does the willingness to de-man the wellsite. This allows Baker Hughes to reduce costs by scaling productivity and centralizing key personnel in fewer locations, helping customers to reduce site costs and to minimize HSE risks.

It also presents the opportunity to dramatically improve our own operating efficiency and resource allocation with less travel and a more efficient well planning and execution process.

While over 70% of our drilling operations are now utilizing remote capabilities in over 30 countries, there is still quite a bit of room for margin improvement. Recognizing the full benefit of remote operations will take some time, as we run these initial jobs with some redundancies. As our remote offerings mature, market activity improves, and as customers increase their comfort with fewer people on the rig, we expect to see a notable impact to our margin profile over time.
Outside of OFS, we also see digital and remote operations as a key enabler to further differentiate our TPS Services business. During the pandemic, we have utilized digital and remote technology to run virtual string and gas turbine tests and have the capability to extend its impact further, particularly in our Services business. Our iCenters in Florence, Houston and Kuala Lumpur currently monitor more than 900 machines and have accumulated more than 15 million hours of equipment data. This enables us to deliver a wide range of remote support for field activities, including during installation, outage and upgrade activities, and remote combustion system optimization.

Through the use of currently available technology and more that is under development, we can reduce the number of field engineers required to maintain and operate customer facilities, as well as the number of site visits per year, driving meaningful cost savings and better productivity.

TPS Services is also uniquely positioned to offer upgrades and technology services to our installed base of over 5,000 gas turbines and 8,000 compressors globally. These initiatives can lead to crew optimization, enhanced equipment performance, and contribute to further emissions reductions and controls.

Overall, we believe that remote operations opportunities will positively impact the margin profile for our TPS Services business in the coming years.
The second of these strategic pillars is to continue investing for growth. Given the subdued upstream outlook, the primary growth opportunities we see within our existing product footprint are the broader industrial sector, chemicals, and non-metallic materials.

On the industrial side, we see the opportunity to develop a solid industrial platform by leveraging the strongest core competencies within our TPS and Digital Solutions segments. This platform will be focused on delivering energy efficiency and process solutions, targeting adjacent non-energy industrial sectors.

We have the capability to build on our portfolio of turbines, compressors, and valves within TPS and combine it with our condition monitoring and other leading technologies within Digital Solutions. We intend to deliver outcome-based solutions to a range of industries including power, mining, food and beverage, and pulp and paper.

Although most people are aware of the strength of our rotating equipment products, Bently Nevada condition monitoring maintains a strong presence in upstream as well as the downstream and chemical sectors. Bently Nevada has over 60 years of condition monitoring experience, with over 6 million sensors installed on mission-critical machinery worldwide. We see the opportunity to further capitalize on synergies between these two businesses to offer unique solutions in a range of non-energy markets.
In addition to industrials, we remain focused on driving growth in the non-metallic and chemicals sectors.  

In 2018, we acquired Polyflow, expanding our capabilities in onshore flexible composite pipe and non-metallic technologies. We also recently signed a JV agreement with Saudi Aramco to develop non-metallic materials for both the oil and gas, and broader industrial sectors. Due to the lower carbon footprint associated with non-metallics, we believe this segment provides significant opportunity for expansion, as well as synergies with our upstream and chemicals businesses.  

In chemicals, we see opportunities to grow internationally, in the downstream segment, and potentially into other adjacent specialty chemicals markets to complement our current capability.  

With our investment in new plants in Singapore and Saudi Arabia, we are positioning our chemicals business for further growth across the Middle East and South East Asia. We see further opportunities by leveraging our strengths in artificial lift and production chemicals with our growing competencies in remote operations and AI to provide a comprehensive production solution.  

Importantly, we plan to execute on these growth initiatives with a stringent focus on returns and a continued emphasis on free cash flow generation.
The third pillar of our strategy focuses on positioning for new frontiers. As the energy landscape continues to change, we have spent considerable time evaluating the key growth areas associated with energy transition and analyzed where Baker Hughes can capitalize on these opportunities.

Overall, we see a range of options for our technology but see the greatest potential in carbon capture, hydrogen, and energy storage. Importantly, we are committed to taking a disciplined approach and focusing on areas and business models that can provide strong financial returns.

Baker Hughes is uniquely positioned to benefit from opportunities in carbon capture. CCUS is a critical solution to help meet the Paris Climate Agreement goals and to achieve decarbonization of the oil and gas sector. While we are still evaluating multiple concepts and business models, we have exposure in several areas within the CCUS value chain. These include post-combustion capture, compression, subsurface storage, and long-term integrity and monitoring.

In hydrogen, it is very early days and technology is evolving, but many believe that the opportunity to use hydrogen as a zero-emissions fuel source has significant growth potential in the coming decades. Similar to CCUS, we believe that Baker Hughes has the potential to participate in multiple areas along the hydrogen value chain. For example, we are active in generation, where we have reconfigured our NovaLT turbines so they can run on 100% hydrogen. We recently completed testing with SNAM for the world's first "hybrid" hydrogen turbine designed for natural gas transportation infrastructure. In addition to generation, we believe our compression technology will have applications in hydrogen production in addition to storage, liquefaction, and transportation.

Finally, as renewable energy continues to grow, energy storage will play an increasingly large role in energy systems. Our initial focus is on liquid air storage and compressed air storage, which leverage our core turbomachinery technology.

Underpinning these new frontiers will be an increasing reliance on monitoring and digital technology. Our goal is to utilize these capabilities to enable our products and services in these emerging areas.

In addition to our partnership with C3.ai, we will focus on core digital technologies that will be critical to delivering high-efficiency and productivity solutions in areas such as remote operations and de-manning, edge computing, and additive manufacturing.
Our commitment through this downturn is to maintain a strong balance sheet and deliver free cash flow. In the last two years we have demonstrated our ability to generate strong free cash flow and return capital to shareholders. We will maintain this commitment going forward as we look to transition our portfolio, evaluate growth opportunities, and explore new energy frontiers.

We have also remained disciplined in our capital spend, limiting net capex to 3.5% of revenue since the merger in 2017. This cash generation ability and capital discipline has helped to support our investment grade rating.

We are taking action to maintain the financial strength of Baker Hughes. We are investing in restructuring to deliver $700 million in annualized cost savings, reducing our capital spend by over 20%, and exiting underperforming product lines.

Our balance sheet is of the utmost importance. During the second quarter we executed an opportunistic $500 million debt issuance and drew on a UK short-dated commercial paper facility. These actions supported our already strong liquidity position, and at the end of the second quarter we had over $4 billion in cash, a $3 billion undrawn revolving credit facility, as well as access to commercial paper and other uncommitted lines of credit.

We continue to view our financial strength and liquidity as a key differentiator.
Now I would like to spend a few moments on social responsibility.

Baker Hughes is one of the ESG leaders in our sector, holding a AAA rating by MSCI, the leading ratings agency.

We have made great progress on our carbon emissions reduction commitment, reducing carbon emissions by 31% compared to our 2012 baseline. We remain committed to achieve net zero carbon emissions from operations by 2050.

At Baker Hughes we are committed to inclusion and diversity. While statistically our workforce is more diverse and more global than our industry's average, we recognize that we have more work to do.

Now more than ever, HSE is of the utmost importance. We made significant improvements in HSE performance and engagement during 2019. We increased our number of perfect HSE days to 161, reduced our total recordable incident rate by 12.5%, and conducted more than 1 million HSE observations and leadership engagements globally.

Lastly, ethics, compliance and transparency are core to the way we work. This year we expanded our data reporting and set multi-year sustainability targets to help us manage and track progress. Our corporate responsibility report is prepared in accordance with the GRI-Core standards and the UN Sustainable Development Goals.

We view ESG as a key lever to transform the performance of our company and our industry.
In conclusion, I would like to leave you with a few thoughts.

Baker Hughes is committed to creating an energy technology company that will evolve with and help enable the energy transition. We will do this by transforming our core, investing for growth opportunities, and positioning for new frontiers.

We are committed to making this transition in a disciplined manner that prioritizes free cash flow, returns above our cost of capital, paying our dividend, and maintaining our investment grade rating. Our priorities are aligned with our shareholders.

Finally, we are building our company with a commitment to our sustainability framework that prioritizes people, planet, and principles. We are strong believers of diversity and inclusion in the workplace, reducing greenhouse gas emissions, and maintaining a culture of ethics and compliance.

Thank you very much for your time today and thank you again to Barclays and Dave Anderson for the invitation. I look forward to seeing you all again soon.