# Third Quarter 2023 – Earnings Conference Call Prepared Remarks

**Chase Mulvehill** *Baker Hughes – VP of Investor Relations*

Good morning everyone, and welcome to the Baker Hughes Third Quarter 2023 Earnings Conference Call. Here with me are our Chairman and CEO, Lorenzo Simonelli, and our CFO, Nancy Buese. The earnings release we issued yesterday evening can be found on our website at bakerhughes.com. We will also be using a presentation with our prepared remarks during this webcast, which can also be found on our investor website.

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 the factors that could cause actual results to differ materially.

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, Chase. Good morning everyone and thanks for joining us.

We were pleased with our third quarter results and remain optimistic on the outlook. As you can see on slide 4, we maintained strong orders performance in both IET and SSPS, with large awards coming from Venture Global in LNG and Vår Energi in subsea. We also delivered strong operating results at the upper end of our EBITDA guidance range, booked almost $100 million of New Energy orders and generated $592 million of free cash flow. We continue to see positive momentum across our portfolio despite persisting global uncertainty.

Turning to the macro on slide 5, oil prices have rebounded as the combination of resilient oil demand and production cuts have tightened the market. As a result, the oil market is likely to see inventory draws through the rest of 2023. Continued discipline from the world's largest producers, the pace of oil demand growth in the face of economic uncertainty, and geopolitical risk will be important factors to monitor as we look into 2024.

While oil prices have strengthened during the second half of this year, upstream development plans are mostly set through year end; therefore, we remain confident in our 2023 outlook. We still expect international drilling & completion spending to be up year-over-year in the mid-teens and North America up by mid-to-high single-digits. As we have said previously, we expect this upstream spending cycle to be more durable and less sensitive to commodity price swings relative to prior cycles.

Higher hydrocarbon prices do provide positive momentum into operators' development plans for next year. While it is still early, and with the caveat there is growing geopolitical risk, we do see another year of solid upstream spending growth in 2024, led by international and offshore markets.

In the offshore market specifically, we were awarded 21 subsea trees during the quarter, which includes a significant equipment order from a sub-Saharan African operator. This award expands Baker Hughes' presence in offshore Angola, and consists of 11 deepwater horizontal trees, Aptara manifolds and subsea controls.

OFSE also saw continued growth in the North Sea, booking two major multi-year contracts from Vår Energi, one being a long-term contract for well intervention and exploration logging services and the other being an order to deliver 7 vertical tree systems for the Balder Field.

Turning to LNG. Despite a soft economy, the global LNG market remains fundamentally tight. This tightness is evidenced by the recent LNG price spikes that resulted from the current geopolitical situation and strikes in Australia by LNG workers, which temporarily interrupted operations at several LNG facilities.

In the third quarter, global LNG demand was up approximately 1.5% year-over-year. Year-to-date, global LNG demand has reached record levels at just over 300 MTPA. This is despite softer-than-anticipated gas demand and economic weakness persisting in key LNG consuming markets like Europe and China.

Globally, we expect 2023 LNG demand to approach 410 MTPA, or up about 2% compared to last year. With estimated global nameplate capacity of 490 MTPA this year, effective utilization is expected to be over 90%, which has historically represented a tight market.

Looking into 2024, we forecast LNG demand to increase by 3%, which should result in utilization rates remaining at elevated levels as we forecast just 15 MTPA of nameplate capacity coming online next year.

Looking out to 2025 and 2026, we see a similar trend of supply growth being balanced by demand growth, which should keep global LNG markets at relatively strong utilization levels.

LNG prices remain healthy, which has helped to sustain the strength in offtake contracting, a key driver of LNG FIDs. During the quarter, we received an order to provide additional liquefaction equipment and a power island to Venture Global as part of our upsized Master Equipment Supply Agreement of over 100 MTPA. As a reminder, we have provided LNG modules for both of Venture Global's 10 MTPA Calcasieu Pass and 20 MTPA Plaquemines projects.

Additionally, we were pleased to be recently awarded, by ADNOC Gas on behalf of ADNOC, two electric liquefaction systems for the 9.6 MTPA Ruwais LNG project in the United Arab Emirates. The award is expected to be booked in the fourth quarter of 2023 and was announced at this year's ADIPEC conference. The LNG trains will be driven by Baker Hughes' 75-megawatt BRUSH electric motor technology and will feature our state-of-the-art compressor technology, making Ruwais LNG one of the first all-electric LNG projects in the Middle East.

We are pleased to see continued traction from BRUSH Power Generation, which we acquired in 2022 to enhance our industrial electric machinery portfolio and to support our strategic commitment to provide lower carbon solutions. Since then, we have secured several additional orders for our electric machinery portfolio, including a contract from Wison in the first quarter for four e-LNG compressor trains in sub-Saharan Africa. These recent successes of BRUSH further validate our strategy of investing in bolt-on M&A opportunities that can complement the current IET and OFSE portfolios, as well as our efforts in new energy.

Turning to slide 6. Through the third quarter, 53 MTPA of capacity has taken FID this year. For 2023, we expect to book LNG orders totaling approximately 80 MTPA, given we sometimes receive larger LNG orders before projects have taken FID.

The LNG project pipeline remains strong, both in the US and internationally. Therefore, we expect to see similar year-over-year levels of FID activity in 2024 and could see between 30 to 60 MTPA of LNG FIDs in both 2025 and 2026.

Based on existing capacity, projects under construction, and future FIDs in the pipeline, we have line of sight for global LNG installed capacity to reach 800 MTPA by the end of 2030. This represents an almost 70% increase in nameplate capacity from 2022, which provides significant near-term growth for Gas Tech Equipment, and further long-term structural growth for Gas Tech Services.

Importantly, since 2017, there have been 204 MTPA of LNG FIDs, and Baker Hughes has been selected for 201 MTPA of this new capacity. These projects are scheduled to come online over the coming years, representing an almost 50% increase in our global liquefaction installed base between now and 2028.

Turning to slide 7, we have long held the view that natural gas is an abundant, low-carbon and versatile energy source. It will play a critical role as both a transition and destination fuel. Accordingly, natural gas will be fundamental in satisfying the world's energy needs for many decades to come, while also improving air quality and reducing global emissions, displacing coal in the broader energy mix.

We forecast that primary energy demand will continue to grow beyond 2040 due to rising population and increasing consumption per capita in the developing world. However, it is essential to meet this growing demand with affordable and reliable energy to ensure a strong global economy.

Today's mix of primary energy demand is still heavily reliant upon coal, which accounted for 24% of global energy demand in 2022. In many Asian countries, like China and India, coal is a much higher share of the energy mix.

This is the opportunity for cleaner-burning natural gas to be paired with renewables and/or CCUS as a baseload energy source to displace coal in the energy mix over the coming decades. That being said, all energy sources will be needed to meet increasing energy demand, although with an increasing importance on minimizing global emissions.

Importantly, many of our customers' long-term spending plans are beginning to reflect this evolving energy mix. This presents significant customer synergies across our IET and OFSE portfolios, providing a unique opportunity to be an integrated solutions provider as the energy transition takes shape.

Turning to slide 8. As we take energy forward, making it safer, cleaner, and more efficient for people and the planet, we are focused on our strategic framework of transforming our core to strengthen our margin and returns profile, while also investing for growth and positioning for new frontiers in the energy transition. Through these key pillars, our company is building and executing a plan to deliver sustainable value for our shareholders and stakeholders.

As our strategy and the energy markets have evolved, we have been increasingly focused on the execution of our strategy across three time horizons.

Across the first time horizon, which spans through 2025, we are focused on driving enhanced margin accretion through organizational simplification and expanded efficiencies, operational discipline, and optimization of asset and people productivity. Importantly, these actions are well within our control.

During this period, Baker Hughes remains poised to benefit from the macro tailwinds that we see across our two business segments. Specifically, we remain well positioned to benefit from the continued strength in the natural gas and LNG growth cycle, as well as multi-year increases in upstream spending driven by international and offshore markets. We also remain focused on navigating short-term supply chain constraints, specifically in the aerospace sector, and broader macro-economic and political uncertainty.

Throughout Horizon 1, we will be focused on transforming our business and simplifying the way we work. Additionally, we remain committed to further developing and commercializing our new energy portfolio, while also evolving our digital offerings. All of this will underpin our goals to deliver 20% EBITDA margins in OFSE by 2025 and in IET by 2026.

During the second horizon, which extends out to 2027, the focus shifts towards investing for the next phase of growth, where our strategy is to solidify our presence in the new energy and industrial sectors while leveraging Gas Tech Service growth across our expanding installed equipment base. At the same time, we see upstream and natural gas spending continuing to grow at a lower rate.

We also expect an increasing customer focus on efficiency gains and emissions reductions, offering meaningful opportunities for our IET and OFSE digital businesses as we further deploy our Leucipa, Cordant and flare reduction solutions during this horizon. To illustrate, the IEA estimates that improving efficiencies by just 10% across oil and gas operations would save almost half a gigaton of CO2 per year, which is equivalent to achieving 5% of the Paris Agreement goals.

Also in Horizon 2, we expect to exceed our ROIC targets of 15% and 20% in OFSE and IET, respectively, and drive further margin expansion across both business segments above our stated 20% EBITDA margin targets.

Lastly, Horizon 3 looks to 2030 and beyond, where our execution over the coming years will position Baker Hughes to compete across many new industrial and energy frontiers, including CCUS, hydrogen, clean power and geothermal.

By this time, we expect decarbonization solutions to be a fundamental component, and in most cases, a pre-requisite for energy projects, regardless of the end market. The need for smarter, more efficient energy solutions and emissions management will have firmly extended into the industrial sector. Considering this backdrop, we expect our new energy orders to reach $6 to $7 billion in 2030, and across a much broader customer base.

Before turning over to Nancy, I would like to speak to the positive momentum that Baker Hughes has built during 2023, and where we have experienced strengthening tailwinds in both OFSE and IET. International and offshore markets are set to drive the strongest year of OFSE growth in more than five years, while continued robust LNG activity is set to push IET orders to yet another record year in 2023. And most importantly, our improved operational execution and cost structure, and continued commitment to our customers, are helping us to deliver on our commitments to our shareholders.

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

**Nancy Buese** *Baker Hughes – CFO*

Thanks, Lorenzo. I will begin on slide 10 with an overview of our consolidated results and then briefly talk to segment details before outlining our fourth quarter and full year 2023 outlook.

We were very pleased with our third quarter results, as both segments continue to execute well and benefit from market tailwinds.

Adjusted EBITDA of $983 million came in at the high end of our guidance range, mostly due to better-than-expected IET performance, driven by strong backlog conversion in Gas Tech Equipment and continued improving execution in Industrial Tech.

GAAP operating income was $714 million during the quarter. Adjusted operating income was $716 million.

GAAP earnings per share were $0.51 cents. Excluding adjusting items, earnings per share were $0.42 cents.

Orders for both business segments maintained strong momentum, highlighted by another record quarter for IET and the third consecutive quarter of at least $1 billion of Subsea & Surface Pressure Systems orders, the first time this has happened since 2014. New Energy orders totaled almost $100 million this quarter, which brings year-to-date orders to just under $540 million and puts us on track to hit our $600 to $700 million target range.

Due to the sustained strength in orders, IET RPO is at record levels and SSPS RPO is now at the highest levels since 2015, which provide strong volume and earnings visibility over the coming years.

Free cash flow was strong again this quarter, coming in at $592 million and resulting in free cash flow conversion from adjusted EBITDA of 60%. We continue to target free cash flow conversion of 45% to 50% this year.

Turning to slide 11, our balance sheet remains strong, as we ended the third quarter with cash of $3.2 billion and a net debt to trailing twelve-month adjusted EBITDA ratio of 1x.

Turning to capital allocation on slide 12, we continue to return excess free cash flow to shareholders. We recently increased our dividend by a penny to $0.20 per quarter. We remain committed to growing our dividend over time, with growth ultimately tied to the structural earnings power and growth of the company. Additionally, we repurchased $119 million of stock during the quarter, which brings total repurchases at the end of the third quarter to $219 million. Including our dividend and buybacks through the end of third quarter, we have returned $805 million to shareholders. We remain committed to returning 60% to 80% of free cash flow to investors.

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

Starting with **Oilfield Services and Equipment** on slide 13. The segment performed above expectations in the quarter, driven by better-than-expected revenue and margin in SSPS and a resilient Oilfield Services performance in North America.

SSPS orders of $1 billion maintained strong momentum as offshore project awards continue at robust levels. Accordingly, SSPS book-to-bill of 1.3x was above 1 for the seventh consecutive quarter and SSPS RPO now sits at $3.6 billion, which is up 52% vs the same quarter last year.

OFSE revenue in the quarter was $4 billion, up 2% sequentially and up 16% year-over-year.

Excluding SSPS, international revenue was up 1% sequentially, as declines in Latin America offset increases in other regions. Excluding SSPS, North America revenue was up 4% sequentially, with strength in North America Offshore partially offset by North America Land revenues down 2%, which outperformed the US land rig count that fell 10%.

OFSE EBITDA in the quarter was $670 million, up 5% sequentially and up 27% year-over-year, while also slightly above our guidance mid-point of $665 million.

OFSE EBITDA margin rate was 17%, with margins increasing 60 basis points sequentially and 140 basis points year-over-year as SSPS margins outperformed expectations.

Now turning to **Industrial and Energy Technology** on slide 14, this segment also performed above expectations again during the quarter. The stronger performance was primarily due to higher volume in Gas Tech Equipment and Industrial Tech, slightly offset by lower-than-expected volume in Gas Tech Services due to delivery timing for upgrades and supply chain challenges for aeroderivative components. IET also had record orders this quarter driven by robust LNG awards.

IET orders were $4.3 billion, up 32% sequentially and up 84% on a year-over-year basis and included almost $2.5 billion of LNG equipment orders.

Major awards during the quarter included liquefaction equipment for an FLNG project in the Eastern Hemisphere and a major award to provide additional liquefaction equipment and a power island to Venture Global.

IET RPO ended the quarter at $28.8 billion, up 5% sequentially. Gas Tech Equipment RPO was $12.8 billion and Gas Tech Services RPO was $13.8 billion. Gas Tech Equipment book-to-bill was 2.2x, the ninth consecutive quarter above 1.

Turning to slide 15, IET revenue for the quarter was $2.7 billion, up 37% versus the prior year, led by Gas Tech Equipment growth that was up over 100% year-over-year driven by execution of project backlog.

IET EBITDA was $403 million, up 23% year-over-year and coming in above our guidance mid-point of $385 million.

EBITDA margin was 15%, down 160 basis points year-over-year, driven by higher equipment mix and higher R&D spend related to our new energy investments.

This increased R&D spending balances our broader margin improvement objectives with the demands to drive technology growth in our Climate Technology Solutions portfolio.

In September, we announced a re-alignment of our IET product lines across five key value vectors, simplifying our organizational structure to focus operations and decision-making and drive margin and returns improvement.

Through this re-alignment, which was effective on October 1st and shown on slide 16, we are also providing increased transparency for our CTS business, a key growth engine for Baker Hughes, as well as integrating our Asset Performance Management capabilities under Industrial Solutions.

Before turning to our outlook, I would like to quickly speak to a part of our growth story that we think is a key differentiator for Baker Hughes, which, as highlighted on slide 17, is the visibility we have around structural IET growth into the latter part of this decade. We believe this growth will drive meaningful free cash flow expansion for the company, which we can attribute to four areas.

The first is LNG equipment orders. Based on our expectations, we will book almost $9 billion of LNG equipment orders across 2022 and 2023. As a result, our Gas Tech Equipment RPO is at a record level, giving IET strong equipment backlog coverage over the next few years.

The second is Gas Tech Services. As Lorenzo mentioned, we see the global LNG installed base growing by 70% from today through the end of this decade. Also, the 172 MTPA of capacity additions during the 2016 to 2022 timeframe will begin to earn increasing service revenue over the medium term. Given that Baker Hughes' equipment is installed on the majority of these projects, we have significant earnings and returns visibility through 2030 and beyond from our Gas Tech Services franchise, as LNG accounts for almost 80% of our $13.8 billion RPO in Gas Tech Services.

The third growth area that we see is across Industrial Solutions and Industrial Products. We believe that these businesses can be so much more than the collection of technologies that they are today.

For Industrial Solutions, the focus of this platform is to provide an integrated suite of solutions supporting industrial asset performance management and process optimization. There is a significant opportunity to advance solutions that can provide recurring revenues streams at accretive margin rates. The starting point for this is the Cordant platform, which we launched in January this year.

In Industrial Products, we have been focused on driving further simplification and unifying the industrial hardware capabilities that we have in our portfolio today, as we focus on industry verticals that allow for stronger growth opportunities and improved profitability into the future.

The fourth growth area is new energy. We remain excited about new energy opportunities, where we will focus on differentiated technologies that add value for our customers in CCUS, hydrogen, clean power, geothermal, and emissions management.

Accordingly, we see a path to growing new energy orders from our $600 to $700 million target this year towards $6 to $7 billion in 2030.

Next, I would like to update you on our outlook for the two business segments, which is detailed on slide 18.

Overall, we remain optimistic on the outlook for both OFSE and IET given strong growth tailwinds across each business, as well as continued operational enhancements to drive backlog execution and margin improvement.

For Baker Hughes, we expect fourth quarter revenue to be between $6.7 and $7.1 billion and EBITDA between $1.05 and $1.11 billion, implying an EBITDA mid-point of $1.08 billion.

For the full year, we are increasing and narrowing our guidance ranges as we flow through third quarter results and fourth quarter guidance. Accordingly, we now expect 2023 Baker Hughes revenue to be between $25.4 and $25.8 billion and EBITDA between $3.7 and $3.8 billion.

For IET, we expect fourth quarter results to reflect sequential and year-over-year revenue growth for both Gas Tech and Industrial Tech. Therefore, we expect fourth quarter IET revenue between $2.8 and $3.1 billion and EBITDA between $430 and $490 million.

The major factors driving this range will be the pace of backlog conversion in Gas Tech Equipment and the impact of any aeroderivative supply chain tightness in Gas Tech.

Our full year outlook for IET remains constructive for orders, revenue and EBITDA.

For orders, we have increased our 2023 expectations from $11.5 to $12.5 billion to a new range of $14 to $14.5 billion.

Flowing through the third quarter upside and fourth quarter guide, we now expect full year IET revenue between $10.05 and $10.35 billion and EBITDA between $1.5 and $1.55 billion.

For OFSE, we expect fourth quarter results to reflect the typical year-end growth in international revenue, and a decline in North America. We therefore expect fourth quarter OFSE revenue between $3.85 and $4.05 billion and EBITDA between $675 and $735 million.

Factors driving this range include the pacing of some international projects, level of year-end product sales, SSPS backlog conversion and the pace of our cost-out initiatives.

After including the third quarter results and fourth quarter guidance, we now forecast full year OFSE revenue between $15.3 and $15.5 billion and EBITDA between $2.55 and $2.65 billion.

We will provide detailed 2024 guidance alongside our fourth quarter results in January. Looking out to next year, we remain optimistic for continued growth across both OFSE and IET, as well as further operational enhancements to drive increasing margins and returns. We also remain focused on navigating aeroderivative supply chain challenges, and broader macro-economic and geo-political uncertainty as we head into 2024.

More broadly, our transformation journey continues, and we are pleased with the progress we are making in identifying areas to drive efficiencies, structurally removing costs, and modernizing how the business operates. We are continuing to see the cost-out performance come through our operating results, and we see further opportunities to enhance our operating performance through continued business transformation efforts.

In summary, we remain relentlessly focused on achieving the targets we have set for 20% EBITDA margins in OFSE in 2025 and IET in 2026, and we remain committed to delivering our ROIC targets of 15% for OFSE and 20% for IET. Importantly, we are continuing to take actions today to help us achieve and exceed these targets. Overall, we remain excited about the future of Baker Hughes.

I'll turn the call back over to Lorenzo.

**Lorenzo Simonelli** *Baker Hughes – Chairman & CEO*

Thank you, Nancy. As we enhance our position as a leading energy technology company, we remain encouraged about the continued growth that we see for our organization across our three time horizons.

While there is a growing consensus that the energy transition will likely take longer than many expected, our unique portfolio is set to benefit irrespective of how quickly the energy transition develops. For example, a faster energy transition drives quicker growth across our Climate Technology Solutions business, while a slower energy transition would extend the cycle for our traditional oil and gas businesses. Accordingly, we have set out a strategy to grow irrespective of the pace that the energy transition unfolds.

Considering this balanced portfolio, Baker Hughes is becoming less cyclical in nature and therefore set to experience solid growth irrespective of the energy transition pace.

Importantly, we are laying the foundation today for a more durable earnings and free cash flow growth profile, which will enable us, in parallel, to deliver best-in-class performance and structurally increasing shareholder returns.

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

**Chase Mulvehill** *Baker Hughes – VP of Investor Relations*

Thanks, Lorenzo.

Operator, let's open the call for questions.