Third Quarter 2022 – 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 2022 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 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 were generally pleased with our third quarter results with strong performance in OFS, while TPS successfully managed multiple challenges. We also saw strong orders performance, with continued momentum in OFE as well as TPS.

As I mentioned during our second quarter earnings call, the macro outlook has grown increasingly uncertain. The global economy is dealing with the strongest inflationary pressures since the 1970s, a rising interest rate environment, and sizeable fluctuations in global currencies.

Despite these economic challenges, we remain constructive on the outlook for oil and gas and believe that underlying fundamentals remain supportive of a multi-year upturn in global upstream spending. Operators around the world have shown a great deal of financial discipline, which we expect to translate into a more durable upstream spending cycle, even in the face of an unpredictable commodity price environment.

In the oil market, we expect continued price volatility as demand growth likely softens under the weight of higher interest rates and inflationary pressures. However, we expect supply constraints and production discipline to largely offset any demand weakness. This should support price levels that are conducive to driving double-digit upstream spending growth in 2023.

In the natural gas and LNG markets, prices remain elevated, as a multitude of factors increase tensions on an already stressed global gas market. Europe's surging demand for LNG has redirected cargos from other regions and created an exceptionally tight global market that could get even tighter in 2023. This situation has resulted in record high LNG prices but has also slowed down switching from coal-to-gas in some developing countries.

We believe that significant investment is still required over the next five to ten years to ensure natural gas' position as a key part of the energy transition. However, while the current price environment is attractive for new projects, this is also a pivotal time for the industry, with price-related demand destruction occurring in some markets and LNG developers facing inflationary pressures and a higher cost of capital for new projects.

As a result, we believe the landscape may be shifting in favor of established LNG players with the scale, diversity, and financial strength to navigate the risks and uncertainties. Those with brownfield projects and projects that utilize faster-to-market modular designs may be particularly advantaged in the coming years.

On the new energy front, recent policy movements in Europe and the United States are likely to help support a significant increase in clean energy development. In the US, the Inflation Reduction Act should be particularly impactful in accelerating the development of green hydrogen, CCUS, and Direct Air Capture. While we have not changed our expectations for the ultimate addressable market sizes in these areas, the attractive tax incentives could accelerate development ahead of previously expected forecasts. We also believe that the bill will create favorable economic conditions for our portfolio of new energy investments.

Given the dynamic macro backdrop, Baker Hughes is focused on preparing for a range of scenarios and executing on what is within our control. Last month, we announced a restructuring and re-segmentation of the company into two reporting segments, OFSE and IET. This re-segmentation will simplify and streamline our organizational structure with at least $150 million of cost out and a 25% reduction in the executive management team.

These changes will sharpen our focus, improve operational execution, and better position Baker Hughes to capitalize on the quickly changing energy markets. This new structure will elevate new leadership, while also creating better flexibility and economies of scale across the two business segments. Importantly, we expect these changes to increase shareholder value and improve the long-term optionality and growth opportunities for Baker Hughes as our markets and customers continue to evolve.

In parallel, we continue to invest in Baker Hughes' portfolio through early-stage new energy investments and tuck-in M&A. In addition to investments in early-stage technologies like Mosaic, Net Power, and HIF Global earlier this year, we announced several strategic acquisitions in the third quarter that will complement our current portfolio and enhance our strategic position.

Perhaps the most notable is the recent acquisition of the Power Generation division of BRUSH Group, which positions us well to participate more directly in electrification. Other transactions also include the acquisitions of Quest Integrity and AccessESP, which enhance our inspection capabilities and broadens our ESP technology portfolio.

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

In **Oilfield Services**, we remain optimistic on the outlook for the sector with growth trends now clearly shifting more in favor of the international markets. The team continues to execute well as they capture net pricing increases and supply chain pressures gradually moderate.

Internationally, growth continues to be led by Latin America, West Africa, and the Middle East. In all of these markets, offshore activity is noticeably strengthening, where our drilling services and completions businesses are well positioned to win. In Latin America, Brazil offers the best combination of visibility and growth in the region while Mexico and Guyana are also improving. Similarly in West Africa, we are seeing offshore projects move forward in multiple countries in the region. In the Middle East, Saudi Arabia and UAE are exhibiting the best near-term growth that is expected to continue into 2023 and beyond. Looking ahead, we expect continued growth through the end of this year and double-digit international growth in 2023.

In North America, pricing across our portfolio remains firm, while drilling and completion activity are beginning to level off after significant growth over the last two years. Although the US market will be more dynamic and dependent on oil prices, we generally expect solid activity levels through the end of this year with an opportunity for modest growth in 2023 driven by public operators.

Operationally, our OFS business is executing well and remains on track to achieve our target of 20% EBITDA in the fourth quarter of 2022. Over the course of the year, we have generated solid margin improvement across multiple product lines, including drilling services, completions, artificial lift, and wireline.

Importantly, a key driver of margin enhancement has been the continued improvement in our production chemicals business. After several difficult quarters impacted by supply chain and inflation, chemicals has now generated sequential margin rate improvement for two consecutive quarters. Although margin rates are not yet back to prior levels, we have a line of sight to further increases and expect to be at more normalized levels in 2023.

Moving to **TPS**, the third quarter represented another solid performance in orders; we remain on track to generate $8 to $9 billion in orders in 2022 and in 2023. Operationally, TPS navigated several challenges and delivered solid results, despite further pressure on the Euro and continued market pressure on TPS Services.

The primary growth driver for TPS continues to be LNG, where multiple projects are expected to move forward for FID in 2022 and 2023. Although inflationary pressures and rising interest costs have slowed progress on some projects, we remain comfortable with our expectation of 100 to 150 MTPA reaching FID by the end of 2023, including the 31 MTPA that has reached FID year-to-date.

During the quarter, we were pleased to be awarded another order by New Fortress Energy to support their "Fast LNG" facilities project. NFE will deploy Baker Hughes' technology for various offshore projects across the globe. This represents the third order we have booked with New Fortress since the second quarter of 2021, and we have now received 7 MTPA of Fast LNG orders.

Additionally, we were awarded an order to deliver power generation equipment for a major LNG project in North America.

During the quarter, we were also pleased to announce a new service contract for the maintenance and monitoring of turbomachinery equipment operations at ENI-led Coral FLNG, which is the first deep-water floating LNG facility operating off the coast of Mozambique.

This new service agreement builds on an existing Coral FLNG contract awarded to Baker Hughes in 2017. As part of the scope, Baker Hughes will fully leverage its growing digital capabilities by providing remote monitoring and diagnostics services, as well as a suite of other services based on Bently Nevada's System 1 technology.

Outside of LNG, TPS received an additional award to supply 12 electric motor-driven compressors to support gas processing for Saudi Aramco's Jafurah unconventional gas project. This order follows a similar award last quarter, bringing the total to 26 compressor trains supplied to the Jafurah project.

We also continued to grow our collaboration with Air Products, securing contracts to supply advanced High Pressure Ratio Compressor technology for the net-zero hydrogen energy complex in Edmonton, Alberta, and a steam turbine generator for the green ammonia process at the NEOM Green Hydrogen project in Saudi Arabia. With these awards from Air Products, our New Energy orders so far this year total over $170 million. We still expect New Energy orders for 2022 to be around $200 million.

Next, on **Oilfield Equipment**, growth in the subsea and offshore markets continues to trend positively and should maintain solid order momentum over the next couple of years. OFE saw another record orders quarter in the Flexibles business, with over $1 billion in orders year-to-date. The Flexibles team continued winning in Brazil, as well as in China, retaining incumbency with key customers.

Despite these positive order trends, we remain disappointed with the underlying profitability for OFE. As we highlighted in our strategy update last month, we have announced several actions to rectify these issues, including an initial $60 million in costs savings from removing management layers and integrating multiple functions and capabilities with OFS.

Beyond the cost out program, we expect to drive further margin improvement by right sizing OFE's facilities footprint, addressing supply chain deficiencies, and leveraging the shared engineering resources across the broader OFSE organization. As a part of this process, we are well into the wholesale re-assessment of the subsea equipment business, which will drive out costs and determine the appropriate size and scale for this business. We have already identified multiple facility rationalization opportunities and feel increasingly confident about the ability to improve profitability in this business. We expect to provide an update on the strategic review of SPS in the first half of 2023.

Finally, in **Digital Solutions**, order activity remained resilient in the third quarter, but the operating environment continues to be challenged by the ongoing disruption to supply chains for chips and electrical components.

During the quarter, Bently Nevada secured a multi-year SaaS agreement, expanding its existing scope to deliver plantwide software across a customer's entire installed base in Europe. The solution brings together System 1 cloud-based software, advanced analytics powered by Augury, as well as services and enterprise training. This project marks the first award with the Augury Alliance and demonstrates the potential to drive growth through differentiated digital and hardware offerings.

On the operational side, while we have seen some improvement in availability of chips, timing of delivery and the size of allocation remains uncertain, which is restricting our team's ability to effectively and efficiently execute on backlog. For the aspects we control, the team has acted; moving to qualify additional suppliers as well as redesigning circuit boards to utilize more standardized chips.

Beyond addressing the supply chain issues, we also recently announced the combination of the DS portfolio with TPS to create Industrial & Energy Technology. We are in the early stages of removing functional layers and integrating the portfolio with TPS, which we expect to generate initial cost savings of at least $50 million by the end of 2023.

We expect significant commercial and technological benefits from closer integration and believe that IET will be uniquely positioned to enable more reliable, efficient, and lower carbon solutions across the energy and industrial complex.

2022 has presented some unique challenges for Baker Hughes and driven several important decisions to better position the company for an evolving energy landscape. As we head towards 2023, while we are preparing for a volatile environment, we are confident that we can navigate these challenges with the support from our recent corporate actions and our world class team. We are intently focused on improving our operational execution, capitalizing on the multi-year upstream spending cycle, and the unfolding wave of LNG FIDs.

Before I turn the call over to Brian, I would like to make an announcement about our executive leadership team. After many years with the company and six years as our CFO, Brian Worrell will be leaving Baker Hughes in 2023. Brian has not only been our CFO, but also a key leader driving our strategy as well as our separation from GE. I would like to thank Brian for the instrumental role he has played in the formation and transformation of Baker Hughes.

Replacing Brian effective November 2nd will be Nancy Buese, who has over 15 years of public CFO experience in the mining and energy sectors and more than 30 years of finance and accounting experience. We believe that Nancy's experience in multiple sectors will be instrumental as we continue to transform all aspects of Baker Hughes and increase shareholder value.

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 $6.1 billion, up 3% sequentially driven by OFE and OFS, partially offset by a decrease in Digital Solutions and TPS.

Year-over-year, orders were up 13%, driven by increases across all four segments.

We are pleased with the orders performance in the quarter, following strong orders in the first half of the year.

Remaining Performance Obligation was $24.7 billion, up 1% sequentially. Equipment RPO ended at $9.1 billion, up 3% sequentially and services RPO ended at $15.6 billion, flat sequentially.

Our total company book-to-bill ratio in the quarter was 1.1 and our equipment book-to-bill in the quarter was 1.3.

Revenue for the quarter was $5.4 billion, up 6% sequentially, driven by increases across all segments.

Year-over-year, revenue was up 5%, driven by OFS and Digital Solutions, partially offset by lower volumes in TPS and OFE.

Operating income for the quarter was $269 million.

Adjusted operating income was $503 million, which excludes $235 million of restructuring, impairment, separation, and other charges. The restructuring charges in the third quarter were primarily driven by cost reduction projects for the recently announced re-organization, as well as global footprint optimization in our OFS and OFE businesses.

Adjusted operating income was up 34% sequentially and up 25% year-over-year. Our adjusted operating income rate for the quarter was 9.4%, up 190 basis points sequentially. Year-over-year, our adjusted operating income rate was up 150 basis points.

Adjusted EBITDA in the quarter was $758 million, up 16% sequentially and up 14% year-over-year. Adjusted EBITDA rate was 14.1%, up 120 basis points sequentially and up 110 basis points year-over-year.

Corporate costs were $103 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 $254 million in the quarter. For the fourth quarter, we expect D&A to increase slightly from third quarter levels.

Net interest expense was $65 million.

Income tax expense in the quarter was $153 million.

GAAP loss per share was $0.02 cents. Included in GAAP diluted loss per share was a $50 million loss from the net change in fair value of our investment in C3 AI; which is recorded in other non-operating loss.

Adjusted earnings per share was $0.26 cents.

Turning to the cash flow statement, free cash flow in the quarter was $417 million. For the fourth quarter, we expect free cash flow to improve sequentially, primarily driven by higher earnings and seasonality. As we highlighted in the second quarter, we still expect free cash flow conversion from adjusted EBITDA to be below 50% for the year.

In the third quarter, we continued to execute on our share repurchase program, repurchasing 10.7 million Baker Hughes Class A shares for $265 million, at an average price of $24.79 per share.

Before I go into the segment results, I would like to remind everyone that we will be changing our reporting structure in the fourth quarter to the two business segments OFSE and IET, which went into effect on October 1st. Although we will go from four reporting segments to two, our aim is to provide more transparency across the different businesses.

Going forward we will be reporting total OFSE revenue; operating income; and EBITDA. We will also provide tier two revenue disclosure across the four business lines of Well Construction; Completions, Intervention & Measurements; Production Solutions; and Subsea & Surface Pressure Systems. We will provide a geographic break out of OFSE revenue into four regions – North America, Latin America, Middle East/Asia, and Europe/CIS/Sub-Saharan Africa.

We will be reporting total IET revenue; operating income; and EBITDA. We will also provide tier two revenue disclosure across the six business lines of Gas Tech Equipment; Gas Tech Services; Condition Monitoring; Inspection; Industrial Pumps, Valves & Gears; and Other.

During the fourth quarter, we will provide three years of restated historical financials in this format.

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 $2.8 billion, up 6% sequentially. International revenue was up 4% sequentially led by increases in the Middle East, Asia Pacific, and Latin America, partially offset by lower revenues in Russia Caspian and Europe. North America revenue increased 10% sequentially, with low double-digit growth in North America land.

Operating income in the quarter was $330 million, up 27% sequentially. Operating margin rate was 11.6%, with margins increasing 190 basis points sequentially. Year-over-year margins were up 380 basis points. The higher margin rate was primarily driven by increased pricing and higher volumes, partially offset by cost inflation.

As we look ahead to the fourth quarter, underlying fundamentals continue to improve, with strong growth prospects internationally but with North America activity leveling off.

For the fourth quarter, we expect a solid sequential increase in OFS revenue and still expect EBITDA margin rates between 19% and 20%, depending on timing of completing the sale of our Russia business.

Although it is still early, I would like to give you some initial thoughts on how we see the OFS market in 2023.

In the international market, we expect continued, broad market growth spread across virtually all geographic regions. Overall, we believe that total international D&C spending is likely to increase in the low to mid-double digits on a year-over-year basis. While global macro risk could negatively impact oil prices, and therefore activity in some areas, we would expect the longer cycle nature of international spending to still drive double-digit growth in most scenarios.

In North America, there is far less visibility and market dynamics will be more dependent on oil prices. That being said, we expect public operators to modestly add to their 2022 exit rates, while private operators could modestly decrease or increase activity depending on a number of factors. As a result, we believe this type of activity level will translate into North America D&C spending growth in the mid to high double-digits in 2023.

With this type of macro backdrop, we would expect to generate solid double-digit revenue growth in OFS in 2023. EBITDA margin rates for the full year should be in line with, and potentially higher, than the OFS fourth quarter 2022 exit margin rate.

Moving to **Oilfield Equipment**, orders for the quarter were $874 million, up 21% year-over-year, driven by a strong increase in Flexibles, as well as SPC and Services, partially offset by a decrease in SPS and the removal of Subsea Drilling Systems from consolidated results.

Revenue was $561 million, down 7% year-over-year, primarily driven by SPS, and the removal of SDS, partially offset by growth in Flexibles, SPC, and Services.

Operating loss was $6 million, down $20 million year-over-year, primarily driven by lower volumes from SPS in the quarter, and the removal of SDS. OFE's lower operating margin rate was primarily driven by lower volume, cost inflation, and lower cost productivity.

For the fourth quarter, we expect revenue to be flat to slightly higher sequentially with operating income still below breakeven due to cost under absorption following the suspension of recent contracts.

Looking ahead to 2023, we expect continued recovery offshore as activity in several basins is set to further strengthen. We expect mid to high single-digit growth in OFE revenue driven by backlog conversion and growth in Subsea Services. We expect operating income for the year to be around breakeven, with any potential upside driven by the timing of our cost out and restructuring efforts.

Next, I will cover **Turbomachinery**. Orders in the quarter were $1.8 billion, up 5% year-over-year. Equipment orders were up 13% year-over-year, supported by liquefaction equipment awards for NFE and an award for power generation equipment for a major LNG project in North America.

Service orders in the quarter were down 1% year-over-year, driven by lower contractual services orders, partially offset by an increase in upgrades.

Revenue for the quarter was $1.4 billion, down 8% versus the prior year. Equipment revenue was down 17% driven by lower backlog conversion and foreign currency movements. Services revenue was flat year-over-year. primarily driven by increases in transactional services and upgrades, offset by a decrease in contractual services and foreign currency movements.

Operating income for TPS was $262 million, down 6% year-over-year. Operating margin rate was 18.2%, up 40 basis points year-over-year driven by favorable services mix and productivity on equipment contracts, partially offset by cost inflation.

For the fourth quarter, we expect another strong orders quarter, and still expect TPS orders in 2022 to be in the $8 to $9 billion range. We expect a double-digit increase in TPS revenue in the fourth quarter on a year-over-year basis, driven by higher equipment volume from planned backlog conversion.

With this revenue outlook, we expect TPS margin rates to be moderately lower on a year-over-year basis, due to a higher equipment mix compared to the fourth quarter of 2021.

Looking into 2023, we expect continued strength in TPS orders in the $8 to $9 billion range supported by LNG and onshore/offshore production.

We expect TPS revenue to grow in the low 20% range in 2023 driven primarily by equipment backlog conversion. However, similar to this year, revenue growth will also be impacted by any project movements in backlog, as well as foreign currency movements.

On the margin side, we expect operating income margin rates to decline modestly in 2023 due to higher equipment mix, as well as a step up in R&D spending in our CTS and IAM growth areas to drive new technology commercialization.

Finally, in **Digital Solutions**, orders for the quarter were $547 million, up 5% year-over-year. We saw improvements in Oil & Gas and Transportation end markets, partially offset by lower Power and Industrial orders. Sequentially, orders were down 10%, with all end markets lower.

Revenue for the quarter was $528 million, up 4% year-over-year, driven by higher volumes across all Digital Solutions product lines. Sequentially, revenue was up 1%, driven by higher volume in Nexus Controls and PSI, partially offset by lower volume in Bently Nevada.

Operating income for the quarter was $20 million, down 22% year-over-year, largely driven by lower cost productivity and cost inflation as we continue to work through electronic shortages, partially offset by higher volume. Sequentially, operating income was up 11%, driven by higher volumes.

For the fourth quarter, we expect to see strong sequential revenue growth and a strong increase in operating margin rates.

Looking into 2023, we expect DS revenues to increase mid-single digits, which assumes revenue growth from backlog conversion improvements as chip shortages ease and energy markets remain robust. This will be partially offset by expected declines across all our industrial businesses due to likely global economic weakness. We expect these volume increases to drive solid growth in operating margins.

Lastly, and before we move to Q&A, I would like to thank Lorenzo and the Baker Hughes team for all their support over the years. This company has come a long way since the merger with GE Oil & Gas and is in great financial condition with a strong balance sheet and outstanding finance team. Baker Hughes is well positioned to execute on the continued transformation into a leading energy technology company. It has been a pleasure to work with all of you.

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.