First Quarter 2023 – Earnings Conference Call Prepared Remarks

Jud Bailey *Baker Hughes – VP of Investor Relations*

Thank you.

Good morning everyone, and welcome to the Baker Hughes First 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 earlier today 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.

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 pleased with our first quarter results and remain optimistic on the outlook for 2023. As you can see on slide 4, we maintained our strong order momentum in IET and SSPS. We also delivered solid operating results at the high end of our guidance in both business segments, booked almost $300 million of New Energy orders and generated approximately $200 million of free cash flow.

Turning to slide 5, while 2023 has already started off with some macro volatility, we remain optimistic on the outlook for energy services and Baker Hughes. Our diverse portfolio features long cycle and short cycle businesses that position us well to navigate any periods of variability that may occur across the energy sector.

Despite the elevated recession risk for major developed economies, we expect the supply-demand balance in the global oil markets to gradually tighten over the course of the year. Factors driving this include China's economy recovering, non-OECD demand continuing to grow, and OPEC+ remaining proactive in maintaining adequate and stable oil price levels. We expect this macro backdrop to still support a double-digit increase in global upstream spending in 2023, with multiple international projects being executed and the offshore development pipeline growing.

We continue to believe that the current environment remains unique, with a spending cycle that is more durable and less sensitive to commodity price swings, relative to prior cycles. Factors driving this extended cycle include financially strong operator balance sheets, disciplined capital spending focused on returns versus growth, and IOCs and NOCs that are balancing modest production growth with longer-term investments in New Energy.

Another notable characteristic of this cycle is the continued shift towards the development of natural gas and LNG. As the world increasingly recognizes the crucial role natural gas will play in the energy transition, serving as both a transition and destination fuel, the case for a multi-decade growth opportunity in gas is steadily improving. This is driving operators of all sizes to dedicate more spending towards natural gas development, as well as LNG projects and associated infrastructure.

We are seeing the early stages of this shift through a step-up in the exploration and development of gas reserves in regions like Africa, the Middle East, and the Eastern Mediterranean. We are also seeing the introduction of new technologies and entrants into the LNG sector more broadly, as well as an evolution in contracting structures for LNG offtake volumes.

For these reasons, LNG project sanctioning activity has gotten off to a strong start in 2023 with 20 MTPA already reaching FID and other projects likely to soon follow. Contrary to conventional wisdom, we believe that recent declines in global LNG prices from the unsustainably high levels reached last year is a net positive for the sector, by supporting demand growth in key developing markets and bringing closer alignment on LNG pricing expectations between buyers and sellers.

Based on conversations with existing and new customers, we see the potential for this LNG cycle to extend for several years with a pipeline of new international opportunities expanding project visibility out to 2026 and beyond. We remain confident that we will see 65 to 115 MTPA of LNG projects reach FID in 2023 and continue to see solid project activity in 2024 and 2025.

In addition to capitalizing on the commercial opportunities presented by this favorable macro backdrop, a primary focus for Baker Hughes in 2023 is transforming the company operationally and positioning it for the future of the energy markets. This includes executing on our previously stated cost-out initiatives, which Nancy will talk about in more detail, and reshaping the company into two strategically managed business segments with a leaner corporate function.

We have done a lot of work evaluating our entire organization these last few months, and the changes we are driving will enable faster decision-making and allow us to operate as a leaner, more simplified organization. It will take time to reach our ultimate goals, but I strongly believe that the work we are undertaking this year will lay the foundation for consistently better operating results and higher returns in the future.

Turning to slide 6, I will provide an update on each of our business segments.

In **Oilfield Services and Equipment**, despite recent volatility in oil and gas prices, we remain positive on the outlook for a multi-year cycle, with growth trends clearly shifting in favor of international and offshore markets. With approximately 70% of our OFSE business internationally focused, we are well positioned to capitalize on these unfolding market dynamics.

Geographically, multiple regions are poised for strong growth this year led by the Middle East and Latin America, where the pipeline for both shallow water and deepwater growth opportunities is becoming more visible. In other markets like West Africa and the Eastern Mediterranean, offshore activity is also improving, with multi-year drilling programs starting to come into focus.

In North America, activity has been seasonally weaker to start the year as expected, with a high likelihood of further softness as activity in gas basins responds to recent natural gas price weakness. However, with roughly 55% of our North American business comprised of artificial lift and production chemicals, and a customer mix weighted towards the majors and large independents, we expect our portfolio to perform relatively well in the current environment.

Within our OFSE product lines, we continue to see the strongest growth and performance in our Well Construction product line, which is supported by the leading technologies in our drilling portfolio. Our Completions, Intervention, and Measurement product line also continues to perform well, and will be further improved by the recently closed acquisition of Altus Intervention. Altus will complement our existing intervention solutions business and add new technology that can be scaled into new geographic markets.

In Production Solutions, we continue to see incremental improvements in our chemicals business as supply chain constraints ease and profitability continues to normalize. Our Singapore facility will soon be fully operational, and we remain on track for margins in the chemicals business to return to historical levels by the end of this year.

Another positive development for our Production Solutions business is the recent announcement of Leucipa, which is a platform agnostic digital solution. This software enables the automation of field production, connecting artificial lift, fluids and chemicals, and removing unnecessary costs and manual processes, which will ultimately drive enhanced production. We also recently announced a collaboration with CORVA, a third-party digital solution that improves well construction efficiency, further enhancing OFSE's digital capabilities.

In our Subsea & Surface Pressure Systems product line, the demand outlook continues to strengthen. During the first quarter, we booked a major award to provide equipment and services for the Agogo field offshore Angola. We will be providing 23 subsea trees and 11 Aptara manifolds, representing our largest subsea tree order in almost five years. As we reposition the Subsea Projects & Services business to focus predominately on a few key markets, we see a robust pipeline of opportunities building and anticipate further order momentum for this year and beyond.

For our Flexibles business within SSPS, we expect orders to remain strong in 2023 after a record year in 2022. Given robust demand, conversion cycles are lengthening in this business with limited excess capacity until 2025.

On the operational front, the integration of SSPS into our OFSE segment and restructuring of the business continues to progress well. In line with the capacity rationalization for SPS that we disclosed last quarter, we are in the process of decommissioning and right sizing multiple manufacturing sites.

Our focus is now shifting to the Surface Pressure Control business, where we see similar opportunities to right-size capacity, integrate supply chain and engineering, and localize in key growth markets, particularly the Middle East. As a reminder, these steps are in addition to the cost savings gained from removing management layers and will largely come into effect in 2024.

For 2023, we continue to expect OFSE to deliver double-digit revenue growth and for EBITDA margins to expand by 150 to 200 basis points as activity increases in multiple regions and self-help initiatives in key areas are executed.

Moving to **Industrial & Energy Technology**, we saw another excellent quarter commercially, continuing on the strong momentum from the end of 2022. Gas Tech Equipment booked a number of LNG awards in the quarter, totaling almost $1.4 billion, with continued progress across our world-class franchise.

The recent decline in LNG prices have had virtually no impact on our discussions in terms of timing or the pipeline of opportunities. With project cycle times that can last 8 to 10 years from the initial planning phase to final commissioning, operators take a long-term view for LNG project development and look through near-term commodity price fluctuations.

During the first quarter, we were pleased to be awarded a major order to supply two main refrigerant compressors for the North Field South project, which will be executed by Qatargas. The MRCs are part of two LNG “mega trains” representing 16 MTPA of additional capacity that is estimated to further boost Qatar’s LNG production capacity to 126 MTPA by 2027.

Also during the quarter, Baker Hughes was awarded an order by Bechtel to supply two MRCs for Sempra’s Port Arthur LNG Phase 1 project in Jefferson County, Texas. Baker Hughes will supply gas turbines and centrifugal compressors across two LNG trains, for a nameplate capacity of approximately 13 MTPA, as well as two electric motor driven compressors for the plant’s boosting services.

Baker Hughes was also awarded an order by Black & Veatch to deliver two LM9000-driven compressor trains for the PETRONAS ZLNG facility in Sabah, Malaysia. PETRONAS specifically selected the LM9000 gas turbine technology for the 2 MTPA FLNG facility to reduce complexity, maximize efficiency and minimize footprint, while lowering CO2 emissions compared to other technologies in its class.

On the New Energy front, we booked almost $250 million of orders in the quarter in IET, including contracts to supply CO2 compression solutions for multiple FPSO projects in Brazil. The six gas turbine-driven compression trains will each reinject more than 1 MTPA of CO2 into oil reservoirs, enhancing production rates and reducing emissions.

We were also pleased to book an order for centrifugal pumps and hydraulic-powered recovery turbines for Air Products’ blue hydrogen project in Edmonton to enable CO2 capture during the Auto-Thermal Reforming process. This award is another example of how Baker Hughes and Air Products continue to collaborate to drive the hydrogen economy forward.

During the quarter we also announced an agreement with HIF Global, the world’s leading eFuels company, to cooperate on the development of technology for Direct Air Capture. HIF Global intends to test Baker Hughes’ Mosaic technology to capture carbon dioxide through Direct Air Capture and combine it with green hydrogen to produce eFuels.

Orders in our Industrial Technology businesses maintained strong momentum to start 2023 with double digit growth year over year across all product lines, led by some of the hydrogen-related awards in Pumps, Valves, and Gears. In our Condition Monitoring business, we saw notable awards in the Middle East and in Europe, which featured the full suite of our capabilities in monitoring, sensing, and asset health across multiple sectors.

On the operational side, Industrial Tech also continues to benefit from volume and margin improvements in Condition Monitoring and Inspection, as chip shortages and supply chain issues gradually abate. Although supply chain functionality and operational performance is still not back to where we would like, we are seeing steady progress that we expect to continue over the course of the year.

In IET Digital, Cordant, our recently launched integrated suite of solutions, is seeing some initial success. We are pleased to be collaborating with bp on further defining and developing Cordant for asset performance management and process optimization.

bp will deploy OnePM in select locations across its Gulf of Mexico production assets, where Baker Hughes currently has a large installed base of rotating equipment, controls, and associated digital services. The companies will look for opportunities to expand this collaboration across other regions in the future.

Overall, we are pleased to see strong momentum for IET continue into 2023, with a record backlog of $26.5 billion and a robust pipeline of new order opportunities in LNG, Onshore/Offshore Production, and New Energy.

Based on our strong first quarter and the growing pipeline of project opportunities, we are increasingly confident that IET orders for 2023 are likely to meet or potentially exceed the high end of our guidance range of $10.5 to $11.5 billion.

Before I turn the call over to Nancy, I would like to spend some time on the commitments Baker Hughes is making in the areas of sustainability and ESG. As many of you know we were one of the first companies in the energy sector to commit to a 50% reduction in Scope 1 and Scope 2 emissions by 2030 and to be at net zero by 2050. To help achieve these goals, we are empowering Baker Hughes employees to remove carbon from our products and operations as we better integrate our Carbon Out program. We are also intently focused on developing our own Scope 3 emissions reduction roadmap and expect to have more news to share on this area later this year.

Overall, I feel confident in the structural changes we are executing at Baker Hughes and our positioning to capitalize on the multi-year upstream spending cycle, the ongoing wave of LNG investments, and the acceleration in New Energy opportunities.

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

Nancy Buese *Baker Hughes – CFO*

Thanks, Lorenzo. I will begin on slide 8 with an overview of total company results and then move into the segment details and our forward outlook.

Total company orders for the quarter were $7.6 billion. Year-over-year, orders were up 12%, driven by an increase in OFSE, partially offset by a slight decline in IET.

Sequentially, orders were down 5%, driven by Industrial & Energy Technology, partially offset by an increase in Oilfield Services and Equipment.

We are again extremely pleased with the orders performance in the quarter as we maintained strong momentum across both segments.

Remaining Performance Obligation was $29.6 billion, up 7% sequentially. OFSE RPO ended at $3.1 billion, up 20% sequentially, while IET RPO ended at $26.5 billion, up 5% sequentially.

Our total company book-to-bill ratio in the quarter was 1.3. IET book-to-bill was 1.7.

Revenue for the quarter was $5.7 billion, down 3% sequentially and up 18% year-over-year, driven by increases in both segments.

Operating income for the quarter was $438 million.

Adjusted operating income was $512 million, which excludes $74 million of restructuring and other charges.

Adjusted operating income was down 26% sequentially and up 47% year-over-year.

Adjusted EBITDA in the quarter was $782 million, down 17% sequentially and up 25% year-over-year. Our adjusted EBITDA rate for the quarter was 13.7%, down 240 basis points sequentially, and up 80 basis points year-over-year.

Corporate costs were $100 million in the quarter. For the second quarter, we expect corporate costs to be roughly flat compared to first quarter levels.

Depreciation and amortization expense was $269 million in the quarter, driven by the closing of multiple acquisitions in the fourth quarter of 2022. For the second quarter, we expect D&A to be around $280 million, with the increase driven by the acquisition of Altus Intervention.

Net interest expense was $64 million.

Income tax expense in the quarter was $179 million.

GAAP earnings per share was $0.57 cents. Included in GAAP earnings per share were $392 million in gains from the change in fair value for certain equity investments, all of which are recorded in other non-operating income.

Adjusted earnings per share were $0.28 cents.

Turning to slide 9, we maintain a strong balance sheet with total debt of $6.7 billion and net debt of $4.2 billion, which is 1.4 times our trailing 12 months adjusted EBITDA.

We generated free cash flow in the quarter of $197 million, down sequentially driven by lower adjusted EBITDA. Year-over-year, our free cash flow is up $302 million.

For the second quarter, we expect free cash flow to improve sequentially, primarily driven by higher earnings and stronger collections. We continue to expect free cash flow conversion from adjusted EBITDA to be in the low to mid 40% range for the year, and anticipate the majority of our free cash flow to be generated over the second half of the year.

Turning to slide 10 and capital allocation. We maintained our quarterly dividend at $0.19 per share and we did not repurchase any stock during the first quarter. Despite slowing down our buyback pace from last year as we closed and began integrating multiple small acquisitions, we remain committed to returning 60 to 80% of our free cash flow back to shareholders with a priority of increasing our regular dividend over time.

Turning to slide 11, as Lorenzo mentioned, we continue to make progress with our $150 million cost-out target and expect all actions necessary to achieve these savings to be completed by the end of the second quarter. The majority of these savings will come from direct structural cost reductions as we consolidate the former four product companies into two business segments. These actions drive a smaller executive leadership function, the removal of duplicative spending and an overall leaner corporate structure.

During the first quarter, we benefitted from approximately $15 million of cost-out related to the consolidation into two business segments.

The balance of the identified savings will come from additional headcount reductions and more efficient cost measures related to the streamlining of multiple support and corporate functions across the organization. We expect to realize the full benefit of these initiatives by the end of the year.

Based on progress-to-date and areas of opportunity that we have found, we have good line of sight to exceeding our initial $150 million target. Working through this process, we have identified additional areas to remove excess layers, de-centralize key functions, and standardize key operating processes that will result in significant additional cost savings.

Although we have not yet quantified the additional cost-out savings, we plan to have all the work completed on any additional restructuring by the end of the second quarter and to realize the full cost-out benefit by the end of the year.

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

Starting with **Oilfield Services and Equipment** on slide 12, orders in the quarter were $4.1 billion, up 10% sequentially and up 25% year-over-year.

SSPS orders were $1.2 billion, up 60% year-over-year driven by an increase in subsea tree awards across multiple regions. Most notably, we received a large subsea equipment order from ENI for Agogo Phase 3 and an SPC order in the Middle East.

OFSE revenue in the quarter was $3.6 billion, flat sequentially and up 19% year-over-year. On a sequential basis, the seasonal decline in the traditional oilfield services businesses was offset by an increase in SSPS revenue driven by the timing of backlog conversion.

International revenue was up 1% sequentially, driven by Latin America up 10%, and Europe, CIS, SSA up 1%, offset by Middle East/Asia down 2%. North America revenue decreased 4%. Excluding SSPS, international revenue was down 3% sequentially and North America revenue was down 1%.

OFSE Operating Income in the quarter was $371 million, down 11% sequentially and up 75% year-over-year

Operating income rate was 10.4%, down 120 basis points sequentially and up 330 basis points on a year-over-year basis.

OFSE EBITDA in the quarter was $579 million, down 6% sequentially and up 33% year-over-year.

EBITDA margin rate was 16.2%, with margins decreasing 100 basis points sequentially primarily due to seasonality in the services businesses, lower cost productivity and a higher mix of SSPS revenue converting during the quarter. Year-over-year EBITDA margins were up 180 basis points.

If we move to slide 13, **IET** orders were $3.5 billion, down 18% sequentially and down 1% on a year-over-year basis.

Gas Technology Equipment orders in the quarter were down 9% year-over-year. Major awards during the quarter included equipment for Qatar's North Field South LNG expansion and Sempra's Port Arthur LNG Phase 1 project, as well as compression equipment for CO2 re-injection for multiple FPSOs in Brazil.

Gas Technology Services orders in the quarter were up 5% year-over-year, driven by strong upgrades and transactional services.

Industrial Technology orders were up 16% year over year with all subsegments delivering double digit orders growth.

RPO for IET ended at $26.5 billion, up 5% sequentially. Within IET RPO, Gas Tech Equipment RPO was $10.5 billion and Gas Tech Services RPO was $13.6 billion.

Turning to slide 14, revenue for the quarter was $2.1 billion, up 18% versus the prior year. Gas Tech Equipment revenue was up 52% year-over-year driven by the execution of project backlog.

Gas Tech Services revenue was up 2% year-over-year, driven by transactional services, offset by the discontinuation of our Russia operations.

Industrial Technology revenue was up 4% year-over-year. Inspection and Condition Monitoring revenue was up year-over-year, while PVG, PSI, and Nexus Controls were down year-over-year.

Operating Income for IET was $241 million, flat year-over-year.

Operating margin rate was 11.3%, down 200 basis points year-over-year.

IET EBITDA was $297 million, up 2% year-over-year. EBITDA margin was 13.9%, down 210 basis points year-over-year. Higher volume was offset by higher equipment mix and higher R&D spend related to new energy investments.

Turning to slide 15, I would like to update you on our outlook for the two business segments.

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

For Baker Hughes we expect second quarter revenue to be between $6.1 and $6.5 billion and adjusted EBITDA between $845 and $905 million. For the full year, our guidance remains unchanged. However, with the strong performance in the first quarter and positive outlook for the second quarter, we now believe that adjusted EBITDA is trending between the midpoint and the upper end of the guidance range of $3.6 to $3.8 billion.

For OFSE, we expect second quarter results to reflect growth in international markets and softness in North America, but still see sequential improvements on both revenue and EBITDA. We expect second quarter revenue for OFSE between $3.65 and $3.85 billion and EBITDA between $590 and $650 million.

For the full year 2023, we remain positive on the outlook for OFSE. International activity is tracking in line with our expectations, but we now expect North America D&C spending to increase in the low-double digits in 2023, which is lower than the mid-to-high double digit growth expectation that we communicated in January.

Despite the weaker outlook in North America, our full year outlook for OFSE remains unchanged with revenue between $14.5 and $15.5 billion and EBITDA between $2.4 and $2.8 billion in 2023.

For IET, we expect second quarter results to benefit from strong revenue growth year-over-year as we execute on our backlog for Gas Tech Equipment while Industrial Technology is expected to grow modestly. We expect second quarter IET revenue between $2.35 and $2.75 billion and EBITDA between $320 and $380 million.

For the full year, our outlook for IET is a little more constructive as we see positive order momentum continuing and supply chain disruption in both Gas Tech and Industrial Tech gradually improving in line with expectations.

For orders, we are maintaining our guidance range but feel increasingly confident in meeting high end of the range and see the opportunity to exceed the high end and potentially match 2022 order

levels. As we get more visibility on the timing for select projects we will provide updates during the year.

For revenue and EBITDA, our guidance remains unchanged but with a bias that each could trend above the midpoint of the range.

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

Lorenzo Simonelli *Baker Hughes – Chairman & CEO*

Thank you, Nancy. Turning to slide 16, Baker Hughes is committed to delivering for our customers and our shareholders. We remain focused on capitalizing on the growth opportunities across OFSE and IET, including LNG and New Energy. We continue to invest in R&D to develop our technology portfolio in hydrogen, carbon capture and clean power.

We also remain committed to delivering on our cost-out objective, by optimizing our corporate structure to enhance our margin and return profile. We continue to target EBITDA margins of 20% in OFSE & IET and increasing ROIC in both businesses to 15% and 20% respectively.

And finally, we continue to focus on generating strong free cash flow and returning 60 to 80% of this free cash flow to shareholders, while also investing for growth across our world class business.

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

Jud Bailey *Baker Hughes – VP of Investor Relations*

Thanks, Lorenzo.

Operator, let's open the call for questions.