First Quarter 2024 – Earnings Conference Call Prepared Remarks

Chase Mulvehill *Baker Hughes – VP of Investor Relations*

Good morning everyone, and welcome to the Baker Hughes First Quarter 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 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 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 are pleased with our solid first-quarter results, as we continue to build on the momentum from last year and shape our company. The resilience of our order book and margin progress in both OFSE and IET put us on a path towards achieving our full-year guidance and overcoming external volatility.

Overall, EBITDA margins continue to demonstrate strong year-over-year growth, increasing by 100 basis points. The margin upside was attributed to IET, where both Gas Tech Equipment and Industrial Tech demonstrated strong performance.

As highlighted on slide 4, we've had a positive start to the year on the orders front. This is particularly evident in IET, where we booked over $2.9 billion of orders during the quarter, including large awards from Aramco for the Master Gas System 3 and Black & Veatch for Cedar LNG.

LNG equipment orders totaled almost $200 million during the quarter. Excluding LNG Equipment, our IET business booked more than $2.7 billion of orders, the second highest of any quarter since the 2017 merger. This was attributed to non-LNG Gas Tech Equipment orders more than tripling from prior-year levels. This really underscores the breadth and versatility of our IET portfolio.

In OFSE, we received two significant contract awards from Petrobras, with the first for integrated well construction services in the Buzios field. Baker Hughes has been working closely with Petrobras on the field development for many years, leveraging our expertise across both OFSE and IET, demonstrating the power of our combined portfolio. We have previously received awards that include turbomachinery equipment on 10 FPSOs for the Buzios field and multiple OFSE service contracts.

The second Petrobras contract awarded during the quarter was to supply electrical submersible pumps, variable speed drives and sand separation across 450 wells to help a customer in Brazil optimize efficiency, reliability, and sustainability of its onshore operations in the Bahia-Terra cluster.

We delivered strong first-quarter operating results, highlighted by 50% year-over-year EPS growth. Importantly, we exceeded the midpoint of our EBITDA margin guidance, driven by outstanding operational performance in IET. We booked $239 million of new energy orders and generated over $500 million of free cash flow.

As mentioned, IET got off to a strong start to the year. Compared to the first quarter of 2023, IET EBITDA increased by 30%, the best quarterly year-over-year growth rate in three years and represents 80 basis points of EBITDA margin improvement year-on-year. This was driven by the conversion of higher margin equipment backlog, continued margin expansion in our Industrial Tech businesses, and further efficiency and cost optimization efforts by the team, partially offset by continued tightness in the Gas Tech Services supply chain.

In OFSE, we continue to make solid progress on the margin front even with some lower offshore activity during the quarter. Segment EBITDA margins were in line with guidance and improved 80 basis points compared to last year, supported by year-over-year OFS incrementals of nearly 40%. On the activity front, we experienced some delays in rigs coming out of maintenance in both Mexico and the North Sea due to tight supply chains and busy shipyards. We expect these are only timing delays and see no impact to our overall outlook for OFSE this year.

In line with our previous commitments, we continue to enhance returns to our shareholders. During the quarter, we increased our quarterly dividend by one penny to 21 cents, which represents an 11% increase year-on-year, repurchased $158 million of shares, and remain firmly on track to deliver 60% to 80% of free cash flow to shareholders.

Turning to the macro on slide 5. Since bottoming in December of last year, oil prices have rallied significantly. A resilient global economy, steeper-than-expected seasonal decline in U.S. oil production to start the year, and the roll forward of OPEC+ production cuts have helped to keep global oil markets more balanced. OPEC+'s timing on restarting idled oil production, the trajectory of global economic activity, and the geopolitical risks will be key factors in determining the oil price path for the remainder of this year.

We reiterate our 2024 North America and International drilling and completion spending outlooks as we see potential offsets to higher oil prices. In North America, our outlook remains for a year-over-year decline in the low-to-mid single-digit range. We continue to anticipate declining activity in U.S. gas basins, partially offsetting modest improvement in oil activity during the second half of the year.

Across international markets, we maintain our expectations for high single-digit growth. This contemplates extended OPEC+ cuts through the end of the year, as well as any potential timing differences between the transitioning of rigs from oil to gas in Saudi Arabia.

Looking out beyond 2024, we expect continued upstream spending growth despite the recent MSC target reduction in Saudi Arabia, although at a more moderate pace than we have experienced in recent years. We expect growth to be led by offshore markets in Latin America and West Africa, as well as the Middle East.

As we move into this next phase of the upstream spending cycle, we anticipate increasing focus on optimizing production from existing assets. At our Annual Meeting in January, we launched Mature Assets Solutions, an emerging business that maximizes the health and value of our customers' mature fields. It leverages our decades of experience, deep domain knowledge and industry-leading technologies, including Leucipa™ and coveted franchises in both upstream chemicals and artificial lift. We continue to experience strong customer demand for Leucipa as this differentiated digital solution is driving next level efficiencies for our customers through automation, digital optimization, and workflow orchestration.

Turning to global natural gas and LNG on slide 6. The long-term demand outlook for both remains very encouraging. Through 2040, we expect natural gas demand to grow by almost 20%, representing a 1% CAGR driven by growth in underlying energy demand and the desire to drive towards a net-zero energy ecosystem.

Looking at non-OECD Asia, coal still accounts for about 60% of power generation, which is three to four times the level utilized in the United States and Europe. As this region increasingly focuses on reducing and abating emissions, we expect coal-to-gas substitution to be more pervasive, helping to drive a mid-single-digit CAGR for both India and China natural gas demand through 2040, while the rest of Asia will grow at a solid low single-digit rate.

Strong underlying natural gas demand will spur robust growth in LNG over the coming decades. Through the end of this decade, we expect demand to increase by mid-single digits annually. We believe this will support an installed nameplate capacity of 800 MTPA by 2030. Looking out to 2040, we expect LNG demand growth to continue, requiring further capacity additions beyond 800 MTPA.

While there could be periods of price volatility driven by temporary dislocations in supply and demand over this time period, we see these as opportunities for accelerated demand creation. LNG consumers, who tend to be very price sensitive, typically respond to lower prices with stronger demand.

We have seen evidence of this recently. Global LNG demand is up 4% year to date, against the backdrop of an approximate 50% decline in LNG prices over the same period.

As shown on slide 7, we expect global LNG FIDs of about 100 MTPA over the next three years. This view, supported by customer dialogue and our internal LNG demand expectations, would result in our installed capacity increasing by 70%. This growing installed base brings significant opportunities for Baker Hughes across the lifecycle of the equipment.

Like our industrial peers, our Gas Tech business typically generates more profitability on the less cyclical aftermarket services. For LNG equipment specifically, this accounted for less than 10% of our total company EBITDA last year.

On the new energy front, we continue to see good momentum with a number of positive developments across our five focus areas of CCUS, hydrogen, geothermal, clean power and emissions abatement.

As mentioned, we booked $239 million of new energy orders during the first quarter, including a Climate Technology Solutions award from Snam for compression trains driven by hydrogen-ready NOVALT12 turbines. This equipment will support a new gas compressor station in Italy that will eventually transport additional hydrocarbons from Azerbaijan, Africa and the Eastern Mediterranean region to Northern Europe.
CTS also secured an order to supply ICL zero-emissions integrated compressor technology to be deployed by TotalEnergies for a process plant in the Vaca Muerta region of Argentina.

We continue to expand our relationship with a key Middle Eastern industrial company, securing a CTS order for the refurbishment of steam turbines and centrifugal compressor trains. This upgrade drives process efficiency improvement and 5% estimated CO2 emission reduction as part of the customer's energy transition roadmap.

As we look out across the rest of the year, we remain confident in achieving new energy orders between $800 million and $1 billion, which would amount to a tripling of new energy orders since 2021. Longer term, we continue to be encouraged by increasing opportunities to support growing energy demand and decarbonization efforts, giving us confidence in achieving our $6 to $7 billion new energy orders target in 2030.

Turning to slide 8. I want to take a moment to reflect on some of the emerging themes within the energy sector. It has been a busy quarter with several industry events, including our own Annual Meeting in Florence where we hosted over 2,000 customers, partners and industry leaders in January.

Firstly, it is becoming clearer just how complex the undertaking is to transition the world's energy ecosystem. This complexity is driving a slower-than-expected expansion of renewable energy capacity and leading to record levels of coal demand. Consequently, we are seeing more pragmatism towards a pathway for decarbonization.

With growing urgency to affect this trend, there is mounting consensus that there is no possible route to decarbonize the energy ecosystem without driving greater efficiencies and significantly increasing gas' weighting within the overall energy mix.

Energy providers face the multi-faceted challenge of providing secure, sustainable and affordable energy against a backdrop of increasing energy demand. Gas is abundant, lower emission, low cost, and the speed to scale is unrivaled. This IS the age of gas.

Whether it be the super majors, the NOCs, or the independent companies – all of our customers are messaging that they plan to increase their exposure to gas in the coming years. Baker Hughes is extremely well-positioned to facilitate this through our upstream capabilities in OFSE and expertise in LNG and gas infrastructure in IET.

An excellent example of this is the reallocation of capital in Saudi Arabia, primarily towards gas, following the recent announcement to not pursue an increase to its maximum sustainable capacity. The country's shifting focus towards natural gas, where production is now expected to increase by more than 60% through 2030, will require significant investment in gas infrastructure. This represents a sizeable opportunity for our IET business as highlighted by our MGS3 award.

Considering this transition towards gas, as well as increasing investments in new energy and chemicals, we see this announcement as a long-term net positive for Baker Hughes given our exposure to all three markets.

In addition, we are seeing a number of gas infrastructure projects emerge around the world. These midstream opportunities, along with solid first-quarter bookings, give us confidence that non-LNG Gas Tech Equipment orders will be up more than 50% this year.

Adding further impetus to this growth theme is an increasing demand for Artificial Intelligence, which is expected to be a key enabler in driving significant productivity and efficiency improvements across the entire energy value chain and could enhance decarbonization efforts.

At Baker Hughes, we have been utilizing AI within our digital solutions for a number of years. We continue to make great progress with our Leucipa production optimization solution in OFSE and drive greater efficiencies and reliability with our Cordant solutions platform in IET, which both leverage AI.

The efficiency and productivity benefits of AI will be balanced by the increased need for energy-intensive data centers. AI will likely drive substantial electrical load growth, therefore increasing both the challenge and opportunity to provide clean, reliable, and firm power solutions.

Given the requirement for continuous power supply, the demand for distributed power systems will be substantial, with gas the likely dominant fuel source. Baker Hughes is again well-positioned to participate in this market through our clean power solutions, particularly our NovaLT fleet of turbines, which can run on natural gas and hydrogen. As this market scales, the size of data centers and power needs will also likely grow, which would benefit our larger-scale solutions that include steam turbines for SMR solutions and Net Power.

With the growing realization that we need an "all of the above" approach to the energy transition, the focus is shifting towards the emissions rather than the fuel source. I have spoken about this important shift for several years now, and we are pleased to see it taking hold in our customers' operations and policy initiatives.

The markets' increasing alignment towards this view is spawning stronger momentum, in particular for CCUS. This is very encouraging to see and provides tailwinds for our technology solutions that play across the entire CCUS value chain.

Specifically on the capture side, we continue to make progress across our portfolio, where we are developing a suite of solutions that have applications across various scales and purities of CO2.

Complementing our capture portfolio are the decades of experience we have in CO2 compression and storage. For CO2 compression, we have experienced a strong increase in demand, both for offshore and onshore applications, while we are also involved in several CO2 storage projects.

In summary, all of these themes play to the strengths of Baker Hughes and continue to heighten our conviction in our strategy. With our expansive portfolio, capabilities, and solutions offerings, we are uniquely positioned to deliver value for our diverse set of energy and industrial customers. This is what differentiates Baker Hughes and enables us to deliver durable earnings and free cash flow across our three time horizons.

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 speak to segment details before outlining our second-quarter outlook.

We are very pleased with our first-quarter results, above the midpoint of our EBITDA guidance. Orders remain solid, as the diversity of IET's end markets continue to support a strong level of orders. We continue to make progress on driving operational improvements across the business to enhance margins and returns, highlighted by the consistent improvement in EBITDA margins and ROIC. We remain confident in our full-year guidance that points to another strong year for Baker Hughes.

Adjusted EBITDA of $943 million increased 21% year-over-year and came in above the midpoint of our guidance range, which was due to stronger performance in IET.

First quarter GAAP operating income was $653 million. Adjusted operating income was $660 million.

GAAP diluted earnings per share were 45 cents. Excluding adjusting items, earnings per share were 43 cents, an increase of 50% compared to the same quarter last year.

Our adjusted tax rate continues to trend downwards, declining to 29.7% in the quarter as we continue to execute as planned. As a reminder, we guided to a midpoint of 29.5% in 2024, down from our average 2023 tax rate of approximately 33%. Corporate costs for the quarter were $88 million, $2 million lower than our guidance.

Total company orders of $6.5 billion maintained strong momentum, highlighted by continued strength in IET orders of $2.9 billion.

Alongside a strong order book, IET RPO ended the quarter at $29.3 billion, up 10% year-over-year, while OFSE RPO remained at a healthy $3.4 billion, up 8% year-over-year. These RPO levels provide exceptional revenue and earnings visibility over the coming years.

Free cash flow was robust, coming in at $502 million. For the full year, we continue to target free cash flow conversion of 45% to 50% and expect free cash flow to be more weighted towards the back-half of this year.

Turning to slide 11, our balance sheet remains strong, as we ended the first quarter with cash of $2.7 billion, net debt to trailing twelve-month adjusted EBITDA ratio of 0.8 times, and liquidity of $5.7 billion.

Let's turn to capital allocation on slide 12. In the first quarter, we returned $368 million to shareholders. This included $210 million of dividends, where we have increased the quarterly dividend three times over the past six quarters. In addition, we repurchased $158 million of shares.

We remain committed to returning 60% to 80% of free cash flow to shareholders. Since the company was formed in 2017, we have now returned over $10 billion to shareholders through dividends and buybacks. Our primary focus is to continue growing our dividend, with increases aligned with the structural growth in the company's earnings power. We will continue to use buybacks to reach our 60% to 80% target – and will remain opportunistic on buybacks within this range.

Now, I will walk you through the business segment results in more detail and provide our second-quarter outlook.

Starting with **Oilfield Services & Equipment** on slide 13. The segment maintained its strong margin trajectory, meeting our margin expectations despite heavier seasonality across our international markets. This is a testament to the work the OFSE team has done to drive cost efficiencies across the business.

Strength in flexibles helped to drive SSPS orders of $633 million, in line with fourth-quarter levels. We expect the offshore market to remain strong, and SSPS orders should remain at solid levels in 2024 and beyond.

OFSE revenue in the quarter was $3.8 billion, up 6% year-over-year.
International revenue was down 5% sequentially, while North America fell 3%. Delays in rig reactivations in Mexico and the North Sea impacted international activity, adding to the traditional seasonal declines typically experienced during the first quarter. In North America, offshore declined while North America land held flat.

OFSE EBITDA in the quarter was $644 million, up 11% year-over-year. This came in slightly below our guidance midpoint due to the previously mentioned seasonal declines and slower than anticipated activation of offshore rigs, factors that were considered in our guidance range.

OFSE EBITDA margin rate was 17%, increasing 80 basis points year-over-year driven by continued improvements in cost efficiencies, productivity enhancements and improved execution, particularly in SSPS.

Now turning to **Industrial & Energy Technology** on slide 14. This segment performed above the midpoint of our EBITDA guidance during the quarter due to improving revenues and margins.

IET orders were a solid $2.9 billion, with non-LNG Gas Tech Equipment orders more than tripling compared to last year, highlighting the diversity of our customer base and end-market exposure.

CTS orders were $193 million in the first quarter, highlighted by strong orders for our Nova LT12 turbines that can run on 100% hydrogen.

IET RPO ended the quarter at $29.3 billion, up 10% year-on-year. Gas Tech Equipment RPO was $11.5 billion. Gas Tech Services RPO was $14.6 billion. Gas Tech Equipment book-to-bill was 1x, the eleventh consecutive quarter of one or greater.

Turning to slide 15, IET revenue for the quarter was $2.6 billion, up 23% versus the prior year, led by a 46% increase in Gas Tech Equipment revenues as we continue to execute our robust backlog.

IET EBITDA was $386 million, up 30% year-over-year and exceeding the high end of our guidance range of $380 million from better Gas Tech Equipment backlog conversion and strong performance in Industrial Tech. Both drivers were previously identified as factors that would push us to the higher end of our guidance range.

EBITDA margin was 14.7%, up 80 basis points year-over-year, against a backdrop of robust growth in Gas Tech Equipment. Solid margin improvement in both Industrial Tech and Gas Tech Equipment were partially offset by higher R&D spend related to our new energy investments and continued supply chain tightness in Gas Tech Services.

Before walking through our updated outlook, which is shown on slide 16, I would like to spend some time on the progress each business is making on achieving their 20% EBITDA margin targets.

We are off to a strong start to the year in OFSE and IET. EBITDA margins increased 80 basis points for both segments when compared to the same quarter last year. Looking forward, we see good progression throughout the year and remain confident in our ability to achieve these targets in 2025 for OFSE and 2026 for IET.

These are important targets that set a benchmark and demonstrate our operational progress since announcing the consolidation into our two segments, from four segments previously. These actions helped to streamline the organization and have created a simpler, leaner, and lower cost structure that allows for faster decision-making and has driven more than $150 million of cost out across the company.

In reality, we have been working on this since we brought the businesses together in 2017. To accelerate our transition to an energy technology company, we have long held the three-pronged approach of Transforming the Core, Investing for Growth and Positioning for New Energy Frontiers.

To date, the success of transforming the core, a key initiative to drive higher profitability and returns across the company, has been most visible in OFSE. For this segment, margins are expected to approach 18% this year, up more than 400 basis points from pre-COVID levels. The OFSE team has done a tremendous job transforming the way the business operates, with a focus on right-sizing operations, removing duplication, and improving service delivery to drive sustainable, structural improvement in OFSE margins.

Turning to IET's margin journey. This segment's margin progress has been more measured, in part due to the tremendous growth in our Gas Tech Equipment business where we have consistently exceeded our order expectations. We are very excited by the robust growth in our equipment installed base that will drive decades of margin-accretive, service growth in Gas Tech.

The IET team is committed to executing its margin expansion strategy. At the nucleus of this strategy is instilling a more rigorous, process-driven culture across the organization. These changes are helping to drive enhanced operational discipline and dedication to continuous improvement. In addition, there is a cultural shift to focus more on value over volume. With these foundational elements in place, alongside the opportunities for better R&D absorption, supply chain optimization and execution of higher margin backlog, we remain confident in achieving 20% margins for this segment.

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

Overall, the outlook remains strong for our businesses, which will be complemented by continued operational enhancements, sustained improvement in backlog execution, and margin upside. We continue to focus on operational excellence and service delivery across our two segments.

For Baker Hughes, we expect second-quarter revenue to be between $6.6 and $7.05 billion and EBITDA between $1.0 and $1.1 billion, resulting in EBITDA margin rate increasing quarter over quarter by approximately 70 basis points at the midpoint.

For OFSE, we expect second-quarter results to reflect typical seasonal growth in international and flattish activity in North America. We expect second-quarter OFSE revenue between $3.8 and $4.0 billion and EBITDA between $660 and $710 million.

Factors impacting this range include the phasing of 2024 E&P budgets, SSPS backlog conversion, realization of further cost-out initiatives, and the pace of recovery in activity that was deferred in the first quarter.

For IET, we expect second-quarter results to benefit from strong year-over-year revenue growth as we continue to execute on our near-record backlog for Gas Tech Equipment and convert our healthy backlog in Industrial Technology. We also expect to see continued progress on our margins as we drive productivity enhancements and process improvements across the business. Overall, we expect second-quarter IET revenue between $2.8 and $3.05 billion and EBITDA between $425 and $475 million.

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

Turning to our full-year outlook, we maintain our 2024 guidance issued in January of this year.

For the full-year 2024, we continue to expect Baker Hughes revenue to be between $26.5 and $28.5 billion and EBITDA between $4.1 and $4.5 billion. At the midpoint, our outlook results in EBITDA growing a strong 14 percent from the prior year.

In addition, we still expect total company new energy orders of $800 million to $1 billion, which, at the high end, would amount to tripling of new energy orders since 2021.
For OFSE, we maintain our full-year forecast of revenue between $15.75 and $16.75 billion and EBITDA between $2.8 and $3.0 billion as we expect continued strength across international markets to be modestly offset by softness in North America land.

We expect IET orders to remain at robust levels this year and maintain a range between $11.5 to $13.5 billion, driven by strong momentum across all aspects of the IET portfolio. As mentioned, we have already experienced a noticeable increase in non-LNG Gas Tech Equipment orders in the first quarter.

As a result of continued momentum and exceptional orders performance over the last two years, we maintain our full-year IET guidance for revenue between $10.75 and $11.75 billion and EBITDA between $1.65 and $1.85 billion.

In summary, we remain confident in our ability to generate double-digit EBITDA growth for the fourth consecutive year, as we remain focused on execution, driving further operational improvements, and capitalizing on market tailwinds with our differentiated portfolio of products and services.

Overall, we are very pleased with the progress demonstrated by our first-quarter results and 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.

Turning to slide 18. 2024 is off to a strong start for Baker Hughes, highlighted by our strong margin performance in both OFSE and IET. Our continued focus on commercial enhancements and cost efficiencies are driving structural improvement in both segments' underlying margins. With these transformational efforts gaining momentum, we remain on track to achieve our 20% margin targets for both segments.

Margin improvement and EBITDA growth are important parts of the Baker Hughes story. As important, we have significantly improved our returns on invested capital, which has increased by more than three times compared to 2019 levels. Our focus on disciplined growth and margin enhancement, facilitated by transforming the way we work, is helping to drive meaningful improvements in returns across the company.

With margins, EBITDA, and returns forecast to increase further over the coming years, we expect to see stronger free cash flow conversion of at least 50% through the cycle and, as a result, higher free cash flow. When combined with our balanced portfolio, untapped market opportunities, and overhauled cost structure, Baker Hughes is becoming less cyclical in nature and capable of generating more durable earnings and free cash flow across cycles.

All of these metrics provide a healthy backdrop as we remain committed to returning 60% to 80% of free cash flow to shareholders. This will add to the impressive $10 billion+ that we have already returned to shareholders since forming the new company in 2017. To put this in context, this amounts to almost one-third of our current market cap. We have a history of returning cash to shareholders and expect to continue that trend well into the future.

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.