First 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 First 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 some 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.

Our first quarter results reflect operating in a very volatile market environment during the first few months of 2022. On the positive side, TPS orders were up over 100% year-over-year, with TPS book-to-bill of 2.2 as the LNG order cycle continues to unfold. We also experienced some challenges in parts of our business due to continued pressures from broader global supply chain constraints, as well as some impact from the recent geopolitical events.

As we look ahead to the rest of 2022, we see a favorable oil and gas price backdrop, as well as a dynamic operating environment, with perhaps the most challenging supply chain and inflationary environment we have seen in several decades. The recent and unfortunate geopolitical events are amplifying several trends, including broad-based inflation and supply pressure for key materials, commodities, and labor. These events are also driving changes on the economic front, where the world is transitioning from an era of strong economic growth to an environment that is more tenuous and likely to feature diverging economic conditions regionally.

Despite broader political uncertainty around the world, Baker Hughes is committed to helping deliver energy globally in a safe, clean, and reliable manner, while also maintaining our commitment to net-zero carbon emissions and leadership in the energy transition. To meet the world's energy needs in a responsible manner, we believe multiple years of spending growth will be required, as well as a significant increase in LNG infrastructure investment. While there is some near-term risk on the demand side, we expect global oil and gas supply to remain constrained in the coming years, which should support higher commodity prices and multiple years of spending growth from our customers.

Recent geopolitical events have severely constrained what was already a tight global natural gas market and have re-focused the world on the importance of energy security, diversity, and reliability. As the world reacts to the rapid changes in the global commodity market, governments are prioritizing natural gas and LNG as a key transition and destination fuel. We continue to see a focus on prioritizing LNG from stable, lower-cost markets and locations that can provide "cleaner" LNG.

Given the current LNG price environment and the quickly changing dynamics, we believe that global LNG capacity will likely exceed 800 MTPA by the end of this decade to meet growing demand forecasts. This compares to the current global installed base of 460 MTPA and projects under construction totaling almost 150 MTPA. In order to be operational by 2030, this additional capacity will need to reach FID by around 2025.

Despite the volatile, yet improving, medium-term macro environment, Baker Hughes remains focused on executing our strategy and we continue to drive further optimization across the two core business areas of OFSE and IET.

Earlier this year we created Climate Technology Solutions, or CTS; and Industrial Asset Management, or IAM. The creation of these two groups is critical to accelerating the speed of commercial development across our key growth areas of new energy frontiers and industrials.

We continue to make steady progress in developing our Climate Technology Solutions capabilities, with recent investments and partnerships in NET Power, HIF Global and the acquisition of Mosaic Materials, which features a promising direct air capture technology. Mosaic's material science and technical expertise, including their unique metal-organic framework technology, provides Baker Hughes with the potential to efficiently capture low concentrations of CO_2 across a number of applications.

NET Power is an emission free gas-to-power technology, where Baker Hughes will develop supercritical CO_2 turboexpanders and other critical pumping and compression technology. We will also bring system integration and process knowledge experience to the partnership to help accelerate the market positioning and deployment of NET Power's emission-free and low-cost electric power.

HIF Global develops projects in multiple geographies to produce eFuels by blending green hydrogen and CO_2. Baker Hughes is investing alongside EIG, Porsche, AME and Gemstone and will provide compressors, turbines, pumps, valves, and other technology on future projects. We are also discussing how our recently acquired Mosaic Materials' DAC technology could be incorporated into these future projects.

Overall, we are excited about adding another carbon capture technology to our portfolio and the potential of these two partnerships to open new market opportunities in clean power and low carbon fuels for Baker Hughes.

In Industrial Asset Management, we signed an important agreement with Accenture, C3 AI and Microsoft to collaborate on the build-out of the IAM solutions offering. The partnership will focus on creating and deploying Baker Hughes IAM solutions that use digital technologies to help improve the safety, efficiency, and emissions profile of industrial machines, field equipment, and other physical assets.

In addition to advancing our commercial efforts in CTS and IAM, we also remain focused on optimizing our broader organization structure under the core business areas of OFSE and IET. At the beginning of April, we took some steps to strengthen and better position Oilfield Services to more closely align our products, services, and solutions to the life cycle of the well, and ultimately to what our customers require.

OFS will move from a product-line oriented structure to a solutions-focused business, centered around Well Construction; Completions, Intervention, and Measurements; and Production Solutions.

In addition to the organizational changes in OFS, we were pleased to announce an agreement to acquire Altus Intervention, a leading international provider of well intervention services and down-hole technology. The acquisition complements OFS' existing portfolio by enhancing our life-of-well capabilities as operators look to improve efficiencies from mature fields.

Maria Claudia and the OFS team are enhancing their operating model to become more competitive, improve the speed of decision-making, and capitalize on growth opportunities in the market. These organizational changes are important steps in OFS' journey as customers are increasingly asking for integrated offerings and more solutions-oriented outcomes, as well as a continuation of the strong productivity improvements in OFS over the past few years.

As we continue to evolve Baker Hughes across the two business areas of OFSE and IET, we expect more meaningful synergy opportunities between TPS and DS. We are also focused on driving better returns in our OFE business, as well as further synergies between OFS and OFE.

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

In **Oilfield Services**, activity levels at the start of the year have continued to trend positively in both the international and North American markets. We also see improving visibility for stronger growth in several key areas over the rest of 2022.

In the international markets, underlying activity is improving broadly, with particular strength in Southeast Asia, Latin America, and the Middle East. The uncertainty in Russia is an offset. We expect growth in most international markets to continue, with the strongest increases likely to come from the Middle East over the second half of the year and into 2023. Producers in the region are in the early stages of investing in capacity expansion that should help drive a multi-year increase in activity across the region.

In North America, drilling and completion activity continues to move solidly higher with further increases expected over the course of the year. Although current oil and gas prices would normally suggest a stronger increase in activity, the combination of E&P capital discipline and industry shortages in labor and equipment is likely to keep short-term incremental increases more moderate in nature.

While we are pleased with the growth in activity and the growing pipeline of work in many regions, underlying operations continue to be impacted by supply chain and inflationary pressures and, most recently, disruption to our operations in Russia. Our OFS team is working extremely hard to offset these headwinds, with price increases, sourcing actions, and a global team working to solve logistics constraints.

The product line that continues to feel the most supply-chain related pressure is our production chemicals business, where we have taken actions to enhance our sourcing and manufacturing functions. In addition to recently enacting a supply surcharge and changing out some of the leadership in our chemicals business, we are also taking steps to source and produce chemicals closer to key demand hubs, with the opening of our production chemicals facility in Singapore later this year and the recently announced JV with Dussur in Saudi Arabia.

As we look over the balance of the year, we remain committed to achieving a 20% EBITDA margin by the fourth quarter.

Moving to **TPS**, the first quarter represented a continuation of the successes we achieved in 2021. TPS orders totaled $3 billion for the second consecutive quarter, driven again by strong orders in LNG. We believe that we are at the beginning of another constructive LNG cycle, which is being expedited by the current geopolitical situation, particularly for US LNG projects.

Our positive long-term view is also supported by the recent improvements in policy sentiment in certain parts of the world towards natural gas' role within the energy transition. The recent EU taxonomy changes to now include natural gas as a transition fuel is an example of this, and the added need to diversify and provide energy security will likely intensify policy efforts.

As these market dynamics play out, a number of projects should accelerate, and we now believe that 100 to 150 MTPA of LNG FIDs will be authorized over the next two years with additional FIDs becoming more likely in 2024 and 2025.

Given the strong TPS orders performance in the first quarter as well as the acceleration in timing for several LNG projects, we now expect TPS orders to increase in 2022 versus 2021.

During the first quarter, we were pleased to be awarded a major order to provide an LNG system for the first phase of Venture Global's Plaquemines LNG project. We will be providing 24 modularized compression trains for the first phase of the project, and this award is part of a 70 MTPA master equipment supply agreement. The highly efficient liquefaction train system is modularized, helping to lower construction and operational costs with a "plug and play" approach that enables faster installation and first cargo.

This important order builds on an award in the fourth quarter of 2021 for power generation and electrical distribution equipment for the comprehensive power island system for the Plaquemines project.

The Plaquemines order follows a similar contract for VG's Calcasieu Pass LNG terminal in 2019. In 2021, Baker Hughes successfully completed delivery of the ninth and final block for Calcasieu Pass; all shipments were finalized ahead of schedule, an excellent achievement by our team. Calcasieu Pass holds the global record for the fastest construction of a large-scale greenfield LNG project, moving from FID to first LNG in 29 months.

Outside of LNG, we booked an award for NovaLT16 turbines, which will run on 100% hydrogen, for Air Products' new net-zero blue hydrogen energy complex in Edmonton, Alberta. Our collaboration with Air Products will be critical for a net-zero future, and this order follows the award we received for advanced compression technology for the NEOM carbon-free green hydrogen project.

We were also pleased to be awarded a contract by TERNA to supply gas turbines and compressors that can run on a blend of natural gas and hydrogen for a new compression station for the Greek natural gas transmission system. Baker Hughes will provide three compression trains, deploying our NovaLT12 hydrogen-ready gas turbines and PCL compressors, with the capability to transport up to 10% hydrogen for this project.

The project directly supports the EU's Hydrogen Strategy goals to accelerate the development of clean hydrogen and ensure its role as a cornerstone of a climate-neutral energy system by 2050. These latest hydrogen orders build on Baker Hughes' extensive experience in developing and supplying turbomachinery equipment to compress, transport and utilize hydrogen.

Next, on **Oilfield Equipment**, we are encouraged to see improving demand trends across the different business areas. Although recent world events impacted first quarter results, we remain disappointed with the overall level of profitability.

At a macro level, trends in the subsea and offshore markets continue to improve. In the subsea tree and flexible pipe market, we expect a solid increase in industry awards this year as a firm commodity price outlook supports a growing pipeline of deepwater opportunities in core markets. In our international wellhead business, we also see a positive order outlook across multiple regions, and particularly in the Middle East.

In the first quarter, we were awarded a contract in Asia to provide subsea wellheads and subsea production systems plus related services, including 12 subsea trees, for a deepwater gas field. We also achieved our first award in Ivory Coast, where we will supply subsea trees, flexible flowlines and risers to develop the Baleine deepwater oil field.

In Latin America, we were pleased to build on our flexible pipe business' success, securing awards for flexible pipe systems and services that will be deployed across a number of key post-salt revitalization programs, enabling increased oil recovery, and extending the life of multiple subsea developments.

Finally, in **Digital Solutions**, order activity remains solid with growth across our industrial end markets as well as improvement in the oil and gas market. DS continues to be affected by supply chain challenges and electronic shortages, as well as continued inflationary pressures. The team is working tirelessly to manage the situation and navigate the evolving supply chain issues that have been exacerbated by recent events.

In the first quarter, we made a number of changes in the DS business, as we look to improve the overall performance. We unified our unique sensor business units, Panametrics, Reuter-Stokes and Druck, under one product line, Precision Sensors & Instrumentation, or PSI. As a combined business, PSI will better support potential investment opportunities crucial for future development and help optimize the unique technology and commercial requirements of each brand. Unifying the businesses will also help drive better cost and operational performance.

While we recognize that there is still more work to do, we also continue to make key personnel and operational changes across DS, to drive performance, profitability and return improvements and to ensure that we have the right team in place to take this business forward.

During the quarter, Bently Nevada secured an important contract with a refiner in Brazil. Our ARMS Reliability OnePM solution will support the customer's operations by providing visibility on over 10,000 assets. We will be providing optimal digital strategies to support asset integrity and availability, which will lead to maintenance cost-optimization, and effectively enable risk management while delivering enhanced performance.

Despite some of the challenges this quarter, we are optimistic on the outlook across both of our core business areas and excited about the new energy investments we are making for Baker Hughes. We believe that we are well positioned to benefit from an extended cyclical recovery in OFSE and longer-term structural growth trends in LNG, new energy, and industrial asset management.

Importantly, we expect to generate strong free cash flow as the cycle plays out and remain committed to returning the majority of it back to shareholders.

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 $6.8 billion, up 3% sequentially driven by OFE and TPS, partially offset by a decrease in Digital Solutions and OFS.

Year-over-year, orders were up 51%, driven by increases across all four segments.

We are particularly pleased with the orders performance in the quarter, especially in TPS, following a strong orders performance in the fourth quarter.

Remaining Performance Obligation was $25.8 billion, up 10% sequentially. Equipment RPO ended at $9.9 billion, up 20% sequentially and services RPO ended at $15.9 billion, up 4% sequentially.

Our total company book-to-bill ratio in the quarter was 1.4 and our equipment book-to-bill ratio in the quarter was 1.9.

Revenue for the quarter was $4.8 billion, down 12% sequentially, with declines in all four segments.

Year-over-year, revenue was up 1%, driven by increases in OFS and Digital Solutions, partially offset by decreases in OFE and TPS.

Operating income for the quarter was $279 million.

Adjusted operating income was $348 million, which excludes $70 million of restructuring, separation, and other charges.

Adjusted operating income was down 39% sequentially and up 29% year-over-year. Our adjusted operating income rate for the quarter was 7.2%, down 320 basis points sequentially. Year-over-year, our adjusted operating income rate was up 160 basis points.

Adjusted EBITDA in the quarter was $625 million, down 26% sequentially and up 11% year-over-year. Adjusted EBITDA rate was 12.9%, up 120 basis points year-over-year. As I will expand on in a moment, our adjusted operating income and adjusted EBITDA margin rates were impacted by geopolitical events, as well as broader global supply chain challenges.

Corporate costs were $105 million in the quarter. For the second quarter, we expect corporate costs to be roughly flat compared to the first quarter.

Depreciation and amortization expense was $277 million in the quarter. For the second quarter, we expect D&A to be slightly up compared to first quarter levels.

Net interest expense was $64 million.

Income tax expense in the quarter was $107 million.

GAAP diluted earnings per share was $0.08 cents. Included in GAAP diluted earnings per share is an $85 million gain from the net change in fair value of our investment in ADNOC Drilling, and a $74 million loss from the net change in fair value of our investment in C3 AI; both are recorded in other non-operating loss.

Adjusted earnings per share were $0.15 cents.

Turning to the cash flow statement, free cash flow in the quarter was negative $105 million.

Free cash flow in the quarter was impacted by lower collections from a select number of international customers, which are largely timing related, as well as a build in inventory as we get ready to execute on our large order backlog.

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 around 50% for the year, but anticipate the majority of our free cash flow to be generated over the second half of 2022. The quarterly progression should be more in line with what we experienced during 2018 and 2019.

In the first quarter, we continued to execute on our share repurchase program, repurchasing 8.1 million Baker Hughes Class A shares for $236 million, at an average price of just under $29 per share.

As of March 31st, GE's ownership of Baker Hughes Class B shares represented 4% of the total company, down from just over 11% at the end of 2021. GE's overall ownership of Class A and Class B shares was 11.4% at the end of the first quarter, down from 16.2% at the end of 2021.

Before I go into the segment results, I will comment on the current situation in Russia and how it currently factors into our broader outlook. Russia represented roughly 4% of total company revenue in the first quarter, and we recently announced that we have halted all new investment in the country. Additionally, sanctions from the US, UK, and the EU continue to evolve and are making ongoing operations increasingly complex and significantly more difficult.

As a result, we expect erosion of our Russia-related revenues over the course of 2022, particularly in OFS. However, the pace and magnitude of this is difficult to predict given the dynamic nature of the situation. Therefore, there is a range of possible outcomes we are preparing for across our product companies.

On broader supply chain, while we did see some areas stabilize in the first quarter, there continues to be pressure on electronics, challenges in logistics, and an evolving understanding of implications due to global and geopolitical uncertainty. We remain focused on being adaptable to deliver for our customers and on our commitments.

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

In **Oilfield Services**, the team delivered a solid quarter despite some of the global challenges.

OFS revenue in the quarter was $2.5 billion, down 3% sequentially. International revenue was down 7% sequentially led by declines in the North Sea, Russia Caspian, the Middle East, and Latin America. North America revenue increased 6% sequentially, with solid growth in both North America land and offshore.

Operating income in the quarter was $221 million, down 14% sequentially. Operating margin rate was 8.9%, with margins declining 110 basis points sequentially driven by lower volume, less favorable mix and continued inflationary pressure in the Chemicals business. Year-over-year margins were up 230 basis points.

As we look ahead to the second quarter, underlying macro fundamentals continue to improve, and we expect to see strong growth in both international and North American activity, as well as improvement in pricing. This is likely to be partially offset by weakness in Russia.

We estimate that our second quarter revenue should increase sequentially in the mid to high-single digit range. With this revenue framework, we would expect our margins to increase by approximately 100 to 200 basis points sequentially.

For the full year 2022, we see an improving outlook across most major markets, which is partially tempered by global supply chain and geopolitical factors.

In the international market, we expect the continuation of a broad-based recovery with industry-wide activity growth in the low-to-mid double digits.

In North America, we expect continued activity increases, with the broader market set to experience strong growth in excess of 40%.

Given this macro backdrop and some of the headwind considerations I noted earlier, we would expect OFS revenue to increase in the low to mid-double digits. The largest variable to this range is the number of potential outcomes in Russia.

Despite this uncertainty, we still expect margin rates to increase throughout the year and continue to target 20% EBITDA margins by the fourth quarter.

Moving to **Oilfield Equipment**, orders for the quarter were $739 million, an increase of over 100%, or $394 million year-over-year. The strong orders performance was driven by SPS, supported by a large subsea tree contract in Asia, along with growth in Flexibles, Surface Pressure Control, and Services. As a reminder, we removed Subsea Drilling Systems from consolidated OFE operations when we completed the merger with MHWirth in the fourth quarter of 2021.

Revenue was $528 million, down 16% year-over-year, primarily driven by SPS, SPC, and the removal of SDS, partially offset by growth in Services and Flexibles.

Operating loss was $8 million, down $12 million year-over-year, primarily driven by lower volume in the quarter. OFE's lower revenue and operating margin in the quarter were driven by lower equipment backlog conversion in SPS.

For the second quarter, we anticipate revenue to be approximately flat to up mid-single digits sequentially, depending on the timing of backlog conversion. We expect operating income to be around breakeven or slightly positive.

For the full year 2022, we expect a recovery in offshore activity and project awards, which should help drive a solid increase in orders when adjusting for the removal of SDS. We expect OFE revenue to decline double digits, primarily driven by the de-consolidation of SDS, and OFE margin rate to be in the low-single digit range.

Next, I will cover **Turbomachinery**. The team delivered another strong quarter with solid execution.

Orders in the quarter were $3.0 billion, up $1.6 billion year-over-year; a new quarterly record for TPS. Equipment orders were up $1.5 billion year-over-year, driven by a significant award to provide an LNG system for the first phase of VG's Plaquemines LNG project in North America.

Service orders in the quarter were up 8% year-over-year, primarily driven by growth in contractual and transactional services, partially offset by lower order volumes in upgrades.

Revenue for the quarter was $1.3 billion, down 9% versus the prior year. Equipment revenue was down 26% driven by timing of project execution. Services revenue was up 6% year-over-year, driven by higher volume in upgrades, pumps and valves.

Operating income for TPS was $226 million, up 9% year-over-year. Operating margin was 16.8%, up 280 basis points year-over-year. Margin rates in the first quarter were favorably impacted by higher services mix and strong cost productivity, especially on projects at or near completion.

For the second quarter, we expect revenue to be flat to up mid-single digits 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 roughly flat to slightly higher versus the second quarter of 2021, depending on the ultimate mix between equipment and services.

For the full year, we expect strong growth in TPS orders versus 2021, driven by increasing LNG awards. We also continue to see a solid pipeline in our onshore/offshore production segment, along with opportunities in pumps, valves, and new energy areas.

While we expect very strong growth in orders, revenue growth should likely range between high single digits to low double digits.

On the margin side, we continue to expect operating income margin rates to be roughly flat year-over-year in 2022, depending on the mix between services and equipment. As we mentioned last quarter, included in this framework is an expected increase in investments and R&D expenses that relate to our new energy and industrial growth areas.

Finally, in **Digital Solutions**, orders for the quarter were $567 million, up 3% year-over-year. DS continues to see a strengthening market outlook and delivered growth in orders across most end-markets. Sequentially, orders were down 6% driven by typical seasonality.

Revenue for the quarter was $474 million, up 1% year-over-year, primarily driven by higher volumes in Precision Sensors & Instrumentation and Waygate, partially offset by lower volume in PPS, Nexus Controls, and Bently Nevada. Sequentially, revenue was down 15%, driven by typical seasonality and challenges in the global environment, particularly supply chain.

Operating income for the quarter was $15 million, down 38% year-over-year, largely driven by headwinds from electronics shortages, some cost inflation, and COVID-19 related lockdowns in China. Sequentially, operating income was down 71%, driven by lower volume.

For the second quarter, we expect to see strong sequential revenue growth and operating margin rates back into the mid-single digits.

For the full year, following five quarters in a row of positive book-to-bill, we expect solid DS revenue growth as supply chain constraints begin to ease over the second half of the year and backlog conversion improves. With higher volumes, we expect to see strong improvements in DS margins, which should approach high-single digits for the total year.

Overall, we have navigated a volatile environment during the quarter, delivering strong orders across the company and positioning to execute on our record backlog. Despite very troubling and challenging geopolitical events and broadly stressed global supply chains, we are confident in our ability to adapt and execute as the rest of the year unfolds.

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.