Second Quarter 2021 – Earnings Conference Call Prepared Remarks

Jud Bailey *Baker Hughes – VP of Investor Relations*

Thank you.

Good morning everyone, and welcome to the Baker Hughes Second Quarter 2021 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.

During the second quarter we generated strong free cash flow, booked several key awards, and took a number of positive steps in our journey to grow our new energy businesses. At a product company level, TPS once again delivered solid orders and operating income while OFE booked a solid orders quarter and OFS continued to improve margins.

As we look to the second half of 2021 and into 2022, we see continued signs of global economic recovery that should drive further demand growth for oil and natural gas. Although we recognize the risks presented by the variant strains of the COVID-19 virus, we believe that the oil price environment looks constructive with demand recovering and operators largely maintaining spending discipline.

In the natural gas and LNG markets, fundamentals are equally as strong if not better than oil, as a combination of outages and strong demand in Asia, Latin America, and Europe have driven third quarter LNG prices to levels not seen since 2015. Although hot weather in Europe and the US has contributed to solid demand improvement and lower gas storage levels, structural growth continues unabated in Asia, with Chinese LNG imports up almost 30% in the first half of 2021 vs. the first half of 2020. Given the strong pace of current growth and the increasing demand for cleaner sources of energy, we maintain our positive long-term outlook for natural gas and LNG.

Outside of traditional oil and gas, the momentum for cleaner energy projects continues to increase around the world. In the US, Europe and Asia, various projects around wind, solar, and green and blue hydrogen are moving forward, as well as a number of carbon capture projects. For example, so far this year there have been 21 CCUS projects announced and in the early stages of development, compared to 19 CCUS projects announced in 2020.

During the second quarter, we continued to build on a key pillar of our strategy to position for some of these new energy frontiers. Our team has moved quickly and decisively in selected areas to establish relationships and build a strong foundation for future commercial success. Our approach has been one of collaboration and flexibility, which is reflected in the number of agreements we reached in the second quarter, ranging from early stage partnerships and MOUs to more immediate investments, commercial agreements, and tangible orders for Baker Hughes.

Most recently, we announced a collaboration with Samsung Engineering for low to zero-carbon projects utilizing hydrogen and CCUS technologies. As part of the collaboration, we will work with Samsung Engineering to identify joint business development opportunities for Korean energy and industrial customers, domestically and abroad, to help reduce their emissions. Baker Hughes will look to deploy compression and NovaLT gas turbine technology as well as flexible pipes for transportation in hydrogen. In CCUS, we will be providing reservoir studies, well construction services, flexible pipes, condition monitoring solutions, and certain auxiliary solutions such as carbon dioxide compression and liquefaction for key industrial assets.

Another example of our early stage partnerships is the collaboration agreement we reached with Bloom Energy on the potential commercialization and deployment of integrated, low carbon power-generation and hydrogen solutions. This partnership will allow Baker Hughes to work with Bloom Energy across a number of areas, including integrated power solutions, integrated hydrogen solutions and other technical collaborations.

Bloom Energy is a leading clean energy player with Solid Oxide Fuel Cell technology in natural gas and hydrogen and a growing electrolyzer presence. Through this agreement we will gain further insights into fuel cell and electrolyzer technologies, where Bloom has key offerings today, and explore how we can integrate and utilize our world class gas turbine and compression technology alongside these solutions.

We were also very pleased to announce an MOU with Borg CO2, a Norwegian carbon capture and storage developer, to collaborate on a CCS project to serve as a hub for the decarbonization of industrial sites in the Viken region of Norway.

Borg's "industrial cluster" approach provides a great opportunity for Baker Hughes to test and scale our wide-ranging CCUS portfolio, including our Chilled Ammonia Process and our Compact Carbon Capture solution. This builds on our MOU with Horisont Energi for the Polaris carbon storage project in Norway announced last quarter.

During the quarter, we also announced a 15% investment in Electrochaea to expand Baker Hughes' CCUS portfolio with power-to-gas and energy storage solutions. Baker Hughes will combine its post-combustion carbon capture technology with Electrochaea's bio-methanation technology to transform CO2 emissions into synthetic natural gas, a low-carbon fuel capable of being used across multiple industries.

Lastly, during the second quarter we were extremely pleased to finalize our collaboration with Air Products, a global leader in hydrogen, to develop next generation hydrogen compression and accelerate the adoption of hydrogen as a zero-carbon fuel.

As part of the collaboration, Baker Hughes will provide Air Products with advanced hydrogen compression and gas turbine technology for global projects. This includes NovaLT 16 gas turbines and compression equipment for their net-zero hydrogen energy complex in Alberta, Canada. We will also provide advanced compression technology, using our high-pressure ratio compressors for the NEOM carbon-free hydrogen project in Saudi Arabia. Through these two projects with Air Products, Baker Hughes will provide equipment on the world's largest blue and green hydrogen projects.

As you can see from all of these recent announcements, we feel confident in the momentum we are building in both the CCUS and hydrogen spaces, and believe that we have a differentiated technology offering that positions us as a leader in these areas.

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

In **Oilfield Services**, increases in activity levels became more broad-based during the second quarter and the outlook for the second half of the year continues to improve.

Internationally, we have seen a pick-up in activity across multiple regions over the last few months, including Latin America, Southeast Asia, and the North Sea. Looking at the second half of the year, we expect stronger growth across a broader range of markets, most notably in the Middle East and Russia. Based on discussions with our customers, we expect international activity to gain momentum over the second half of the year and lay the foundation for growth in 2022.

In North America, strong second quarter growth was evenly distributed between our onshore and offshore business lines. Given the strength in oil prices and bid activity, we expect to see additional growth over the second half of the year.

While we expect to capitalize on the growing improvement in global activity levels, we are committed to being disciplined through this upcycle, with a focus on profitability and returns. This includes maintaining focus on our various cost reduction and operating efficiency initiatives, as well as navigating the inflation in supply chain costs, a situation that our team is managing well. As a result, OFS remains on track to achieve our goal of 20% EBITDA margins in the medium term.

Moving to **TPS**, the outlook continues to improve, driven by opportunities in LNG, onshore/offshore production, pumps and valves, and new energy initiatives. While the order outlook for TPS in 2021 should be roughly consistent with 2020, we are growing increasingly confident that a multi-year growth opportunity will begin to emerge in 2022. Underpinning this framework is the strength that is developing in multiple parts of the TPS portfolio and the diversification of the business, which has commercial offerings in several end-markets with high growth opportunities.

In LNG, we booked two awards during the second quarter with gas turbines and compressors for Train 7 at Nigeria LNG and liquefaction equipment for New Fortress Energy's first "FAST LNG" project. Following these two orders, we still expect one or two more LNG awards in 2021 and see a strong pipeline of opportunities that should produce a step-up in LNG activity in 2022 and beyond.

For the non-LNG segments of our TPS portfolio, we were pleased to book awards in the Middle East and Asia Pacific in our Refinery and Pipeline and Gas Processing segments. TPS also secured a key industrial win with our NovaLT 12-megawatt gas turbine technology in the Middle East for a combined heat and power application. We continue to see our NovaLT range of gas turbines gain further traction for lower-megawatt industrial applications.

For TPS Services, we are beginning to see real signs of recovery and remain optimistic about the outlook for 2021 and 2022. In the second quarter we experienced strong growth in Service orders, which grew year-over-year due to the significant upgrade awards across multiple regions and for various applications including pipeline, offshore, and solutions to support customers' operational decarbonization efforts. We also saw further improvements in transactional service orders as customers continued to increase spending.

In our contractual services business, TPS maintained strategic long-term relationships with LNG customers, achieving a major milestone by securing a 6-year services contract extension in North America for a key producer, building on the success we saw in the first quarter. Our TPS Services RPO now stands at close to $14.1 billion, which is up almost 10% year-over-year.

Next, on **Oilfield Equipment**, we remain focused on right-sizing the business, improving profitability, and optimizing the portfolio in the face of what remains a challenged long-term offshore outlook.

While Brent prices are near $70 and FID activity is beginning to pick up, we continue to expect only a modest improvement in industry subsea tree awards in 2021 followed by some additional growth in 2022. However, we continue to believe that it will be difficult to achieve and sustain 2019 order levels in the coming years as the deepwater market becomes increasingly concentrated into low-cost basins and upstream spending budgets for many larger operators are re-allocated to other areas.

However, one deepwater area that we expect to benefit from this environment is Brazil, where the pre-salt reserves are viewed as attractive by a number of IOCs. This quarter, our Flexibles business signed an important frame agreement with Petrobras for a number of pre- and post-salt fields offshore Brazil.

In the first half of 2021 and including the two contracts we were awarded in the first quarter, Petrobras has contracted Baker Hughes to provide up to 370 kilometers of flexible pipe. This is larger than the volume of flexible pipe awarded by Petrobras to Baker Hughes in 2019 and 2020 combined.

Finally, in **Digital Solutions**, we were pleased to see orders continue to recover, despite a challenging operating quarter. Year-over-year growth in orders was led by strong performances in our industrial and transportation end-markets. We saw continued traction in industrial end-markets in the second quarter, which represented over 30% of DS second quarter orders, as we continue to grow our presence in this key area.

During the quarter, DS continued to expand its industrial asset management presence with a number of wins across multiple end-markets. Bently Nevada secured a contract with a large corrugated paper manufacturing company for its condition monitoring and protection solutions to optimize production and reduce maintenance costs.

We were also pleased to see the recently acquired ARMS Reliability business secure some industrial asset management orders during the quarter, including a subscription for its OnePM software to be deployed by a global chemicals customer with initial roll-out in China and Chile. The deal will include software and consulting services to develop the customer's equipment reliability strategy library, driving the deployment of best-in-class asset reliability strategies and real-time alignment for its assets.

We are also having success integrating some of our emissions management solutions with our Bently Nevada business. This quarter, DS secured a Flare.IQ contract with bp, marking the first time Flare.IQ will be used in upstream oil & gas. This contract builds on our partnership with bp to measure and reduce their emissions across their global flaring operations. Flare.IQ will be embedded into bp's existing System 1 condition monitoring software from Bently Nevada, requiring no additional hardware for the customer.

Before I turn the call over to Brian, I would like to spend a few moments highlighting some of the achievements from our Corporate Responsibility Report that was published at the end of the second quarter. This report provides an expanded view of our environmental, social, and governance performance and outlines our corporate strategy and commitments for a sustainable energy future.

For 2020, we achieved several notable milestones in our CR report.

First, we continued to advance our reporting around sustainability and climate-related disclosures. This year, we included new reporting frameworks from the Sustainability Accounting Standards Board and the Task Force on Climate-Related Financial Disclosures.

Second, we again lowered our emissions footprint and expanded our emissions reporting. We achieved a 15% reduction in our Scope 1 and 2 carbon emissions compared to 2019, and we reset our base year from 2012 to 2019 to account for corporate changes in line with the Greenhouse Gas Protocol. Importantly, we also expanded our reporting of Scope 3 emissions to include new categories.

And third, we made significant improvements in HSE performance and engagement during 2020. We increased our number of perfect HSE days to 200, reduced our total recordable incident rate by 18%, and conducted more than 1 million HSE observations and leadership engagements globally.

Overall, Baker Hughes is successfully executing on its vision to become an energy technology company and to take energy forward – making it safer, cleaner, and more efficient for people and the planet. Our Corporate Responsibility Report demonstrates our progress in many of these areas, while our second quarter results illustrate our progress towards our financial and strategic priorities.

We believe that Baker Hughes is uniquely positioned in the coming years to deliver sector leading free cash flow conversion while also building one of the most compelling energy transition growth stories. We will also continue to evaluate our portfolio in order to drive the best financial returns and create the most value for shareholders as the energy markets evolve.

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 $5.1 billion, up 12% sequentially driven by OFE, OFS, and TPS, partially offset by a decrease in Digital Solutions. Year-over-year, orders were up 4%, driven by increases in TPS and Digital Solutions, partially offset by decreases in OFE and OFS.

Remaining Performance Obligation was $23.8 billion, up 3% sequentially. Equipment RPO ended at $7.6 billion, up 1% sequentially and services RPO ended at $16.2 billion, up 3% sequentially.

Our total company book-to-bill ratio in the quarter was 1.0 and our equipment book-to-bill in the quarter was 0.9.

Revenue for the quarter was $5.1 billion, up 8% sequentially, with increases in all four segments. Year-over-year, revenue was up 9%, driven by increases in TPS and DS, partially offset by decreases in OFE and OFS.

Operating income for the quarter was $194 million. Adjusted operating income was $333 million, which excludes $139 million of restructuring, separation, and other charges. The restructuring charges in the second quarter primarily relate to projects previously announced in 2020. We expect to see restructuring and separation charges taper off through the second half of the year.

Adjusted operating income was up 23% sequentially and $229 million year-over-year. Our adjusted operating income rate for the quarter was 6.5%, up 80 basis points sequentially. Year-over-year, our adjusted operating income rate was up 430 basis points.

Adjusted EBITDA in the quarter was $611 million, which excludes $139 million of restructuring, separation, and other charges. Adjusted EBITDA was up 9% sequentially and up 38% year-over-year.

Corporate costs were $111 million in the quarter. For the third quarter, we expect corporate costs to be slightly down compared to second quarter levels.

Depreciation and amortization expense was $278 million in the quarter. For the third quarter, we expect D&A to be roughly flat sequentially.

Net interest expense was $65 million. Net interest expense was down $9 million sequentially, primarily driven by one-time interest on tax credits. Also slightly reducing interest expense in the second quarter was the repayment of our UK short-dated commercial paper facility. For the third quarter, we expect interest expense to be roughly in line with first quarter levels.

Income tax expense in the quarter was $143 million.

GAAP loss per share was $0.08 cents. Included in GAAP loss per share is a non-recurring charge for a loss contingency related to certain tax matters. Also included are losses from the net change in fair value of our investment in C3.ai. These charges are recorded in other non-operating income. Adjusted earnings per share were $0.10 cents.

Turning to the cash flow statement, free cash flow in the quarter was $385 million. Free cash flow for the second quarter includes $62 million of cash payments related to restructuring and separation activities.

We are again particularly pleased with our free cash flow performance in the second quarter following the strength we saw in the first quarter. We have worked hard to improve our billing and cash collection process and have also updated the company's incentive structure with an increased focus on free cash flow, and we are pleased to see the performance so far this year. We have now generated $883 million of free cash flow in the first half of the year, which includes $170 million of cash restructuring and separation related payments. For the total year, we believe that our free cash conversion from adjusted EBITDA should be around 50%, given the capital efficiency of our portfolio and the winding down of the restructuring and separation costs.

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 good quarter in an improving market environment.

OFS revenue in the quarter was $2.4 billion, up 7% sequentially. International revenue was up 6% sequentially led by increases in Asia Pacific, Europe, and Latin America. North American revenue increased 11% with solid growth in both our US land and offshore businesses.

Operating income was $171 million, up 20% sequentially, and margin rate expanded 80 basis points to 7.3%, due to higher volume and lower depreciation. While we continued to execute on our cost-out program in the second quarter, this was partially offset by mix and cost inflation in some areas. Although we have moved quickly to pass inflation on to our customers, there is a timing lag relative to the increase in costs.

As we look ahead to the third quarter, we expect to see strong sequential improvement in international activity and continued improvement in North America. As a result, we expect sequential revenue growth for OFS in the third quarter to be similar to the second quarter.

On the margin side, we expect the sequential increase in operating margin rate to solidly exceed the improvement in the second quarter due to more favorable mix and better cost recovery.

For the full year 2021, our industry outlook remains largely intact, with second half activity in North America modestly better than previously expected. Overall, we still expect our OFS revenue to be down slightly year-over-year with North American revenues roughly flat and international revenue down mid-single digits.

On the margin side, we continue to expect strong growth in operating income and margin rates on a year-over-year basis.

Moving to **Oilfield Equipment**, orders in the quarter were $681 million, down 3% year-over-year, and up 97% sequentially. Strong year-over-year growth in Subsea Services and Flexibles orders was offset by declines in SPC Projects and Subsea Production Systems. The sequential improvement in orders was driven by an increase in orders in SPS, along with several orders in Flexibles outside of Brazil.

Revenue was $637 million, down 8% year-over-year, primarily driven by declines in Subsea Drilling Systems, and the disposition of SPC Flow, partially offset by growth in Flexibles.

Operating income was $28 million, which is up $42 million year-over-year. This was driven by increased volumes in Flexibles, as well as productivity from our cost-out programs.

For the third quarter, we expect revenue to decrease sequentially driven by lower SPS and Flexibles backlog conversion. We expect operating margin rate in the low single digits.

For the full year 2021, we believe the offshore markets will remain challenged as operators re-assess their portfolios and project selection. We expect OFE revenue to be down double digits on a year-over-year basis due to the lower order intake in 2020 and a likely continuation of a lower order environment in 2021.

Although revenue is likely to be down in 2021, we expect to generate positive operating income as our cost-out efforts should continue to offset the decline in volumes.

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

Orders in the quarter were $1.5 billion, up 15% year-over-year. Equipment orders were up 8% year-over-year. As Lorenzo mentioned, orders this quarter were supported by LNG awards for Nigeria LNG Train 7 and for New Fortress Energy's "FAST LNG" project. We were also pleased to book a number of non-LNG awards, specifically in our Refinery & Petrochemical, and Industrial segments.

Service orders in the quarter were up 20% year-over-year and up 15% sequentially, primarily driven by increases in upgrades and transactional services.

Revenue for the quarter was $1.6 billion, up 40% versus the prior year. Equipment revenue was up almost 90% year-over-year as we continue to execute on our LNG and Onshore / Offshore production backlog. Services revenue was up 14% versus the prior year.

Operating income for TPS was $220 million, up 48% year-over-year, driven by higher volume and continued execution on cost productivity, partially offset by a higher equipment mix. Operating margin was 13.5%, up 70 basis points year-over-year.

We continue to be very pleased with the TPS margin rate improvement, particularly as our equipment revenue mix has increased from 36% to 48% year-over-year.
For the third quarter, we expect revenue to increase modestly on a sequential basis based on expected equipment backlog conversion.

With this revenue outlook, we expect TPS margin rates to improve modestly on a sequential basis.

For the full year 2021, we expect TPS to generate strong double-digit year-over-year revenue growth, driven by equipment backlog conversion and growth in TPS Services. Despite a higher mix of equipment revenue, we now expect TPS margin rates to slightly improve year-over-year.

Finally, in **Digital Solutions**, orders for the quarter were $540 million, up 16% year-over-year. We saw strong growth in orders in industrial and transportation, offset by declines in power. Sequentially, orders were down 2% driven by declines in power and oil & gas, partially offset by improvements in transportation and industrial.

Revenue for the quarter was $520 million, up 11% year-over-year primarily driven by higher volumes in PPS and Waygate, offset by lower volume in Nexus Controls. Sequentially, revenue was up 11% driven by a higher order intake in the first quarter of 2021.

Operating income for the quarter was $25 million, down 39% year-over-year, largely driven by costs related to a legacy software contract that we do not expect to repeat. Sequentially, operating income was up 3% driven by higher volume.

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

For the full year 2021, we still expect modest growth in revenue on a year-over-year basis, primarily driven by a recovery in industrial end-markets. With lower margins in the first half of the year and higher volumes over the second half, we expect DS margin rates to be in the high single digits on a full year basis.

Overall, we delivered a solid quarter and continued strong free cash flow. While we faced challenges in our DS business, we are confident in our ability to 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.