

## BAKER HUGHES COMPANY

### 3Q21 Earnings First Take –Negative

**Quick Take:** Negative. BKR reported 3Q21 revenues 5% below Street est. and adj. EBITDA of \$665M, 3% below Street est. FCF of \$305M handily beat Street's \$162M est. We expect 4Q21 EBITDA at ~\$800M or 5% below Street est. Any soft in-line 2022 guide should help. The stock has underperformed in the last two weeks suggesting low expectations.

**Earnings Reaction:** Negative. BKR reported \$665M adj. EBITDA for 3Q21, 3% below Street Est. of \$683M. Revenues of \$5,094M were 5% below Street est. FCF of \$305M handily beat Street's \$162M est. TPS beat was more than offset by OFS and DS miss.

**4Q21 Potential Earnings:** Negative. We think ~\$800M EBITDA for 4Q21, or about 5% below Street is reasonable. Sequentially in 4Q21, we assume OFS revs grow 8% with 9.8% margins, OFE EBIT of ~\$15M, TPS revs +20% with 16.5% margins, and DS revenues +10% with ~9.5% margins. TPS and DS seasonal increases are wildcards.

**Stock Reaction:** Negative given a 3% EBITDA miss and ~5% potential downside to 4Q21. Any soft in-line 2022 guide should help. The stock has been a laggard in the last two weeks reflecting low expectations.

**Backboard plays:** (1) Inflation in chemicals has negative readthrough for CHX, which should be known already. (2) International revenues growth confirm improving trend. (3) Strong OFE orders bode well for other equipment companies such as FTI and NOV.

#### Positives

- FCF of \$305M handily beat Street's \$162M est.
- BKR started buying back stock, ~\$105M in 3Q21 out of \$2B authorization.
- TPS revenues of \$1,562M were below Street's \$1,680M est. but margins were strong at 17.8% (vs. Street's 13.9% est.)
- OFE orders of \$724M were above Street's \$547M est.

#### Negatives

- BKR reported revenues of \$5,094M and EBITDA of \$665M, 5% and 3% below Street est. respectively.
- OFS revenues of \$2,419M and EBIT of \$190M was below Street's \$2,520M and \$216M est. from hurricane Ida, chemicals inflation and supply chain constraints.

#### Questions to Ask

- Color on expected LNG orders for 4Q21/2022?
- NAM and international spending expectations for 2022?
- TPS EBIT directionally in 2022?
- Signposts, steps and timeline for eventual OFSE and industrial energy technology businesses separation?

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## Appendix A – Required Disclosures

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## Appendix A – Required Disclosures Contd.

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Category	Count	Percent
Sector Outperform	4	29%
Sector Perform	4	29%
Sector Underperform	6	43%
Total	14	100%

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## Appendix A – Required Disclosures Contd.

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