COKER & PALMER
INVESTMENT SECURITIES

EQUITY RESEARCH ALERT
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OILFIELD SERVICES & GREEN ENERGY
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BAKER HUGHES COMPANY

4Q21 Earnings Call Takeaways – Positive

Quick Take: We think BKR 2022 guidance implies ~$3.4B EBITDA, 5% above Street est. albeit 1Q22 guide was in line with Street at ~$675M. FCF conversion guide of ~50% implies $1.7B or 6% FCF yield. Surprisingly, BKR guided to only $200-300M annual buybacks despite 1x net debt/EBITDA and annual FCF of $1.7B-$2.0B vs. $750M dividend. We'd be curious if more and larger M&A in New Energy are in the offing.

Business Separation/New Energy

- New Energy orders of ~$250M booked across TPS/OFS and DS primarily in hydrogen and CCUS. Still expect ~$200M orders in 2022.
- M&A initiatives continuing including ARMS Reliability acquisition and investment in Augury (industrial asset mgmt.) for industrial business and investment in Electrochaea, Nemesys and Ekona and license with SRI.
- Created two new groups - Climate Technology Solution (CCUS, hydrogen, emissions management and integrated power solutions) and Industrial Asset Management (digital capabilities, software and hardware to increase efficiencies and reduce emissions) - to accelerate technology commercialization.

Outlook

- We think BKR 2022 guidance imply ~$3.4B EBITDA, 5% above Street est. However, since we expect higher U.S. spending growth of ~45% vs 25-30% BKR est., our 2022 EBITDA est. is ~$3,450M or 8% above Street est. (Page 2)
- We think BKR's guidance implies 1Q22 EBITDA at ~$675M, in-line with Street est. (Page 2)

New Energy M&A On The Horizon?

BKR guided to $200-300M annual buybacks once GE ownership ends. We think that could be taken negatively. We would have expected more with net debt/EBITDA at ~1x currently and expectations of $1.7B FCF for 2022 (~50% EBITDA conversion) and $2B+ in out years and only $750M dividend. BKR has made several small acquisitions and investments in New Energy already. We'd be curious if more and larger M&A are in the offing. Historically, GE's M&A activity in OFS has been viewed unfavorably, but mgmt. has changed since.

Questions To Ak

- Use of FCF beyond existing dividend and $200-300M annual buybacks considered?
- Why should TPS orders be flat y/y in 2022? LNG orders of only 22 MTPA were booked in 2021. Assuming 150MTPA over three years implies 50MTPA or additional ~30MTPA in 2022 which at mid-point of range of $50/MTPA implies $1.5B orders. What orders are declining to offset LNG growth?
- How do you see LNG revenues share changing within TPS? Can we revert to high teens/low 20s EBIT margins for TPS?
- What are the sign posts you are looking to come to an eventual decision of separating the businesses?

2022 Outlook

- We think BKR 2022 guidance imply ~$3.4B EBITDA, 5% above Street est. However, since we expect higher U.S. spending growth of ~45% vs 25-30% BKR est. our 2022 EBITDA est. is ~$3,450M or 8% above Street est.
- TPS
  - Additional LNG FID expected in 2022. Continuing to expect 100-150MTPA over next two-three years with bias to the high end of range.
  - TPS orders flattish y/y. New Energy orders of ~$200M.
  - Revenues up HSD y/y with flattish margins depending on the mix. Revenue growth in 2023 will exceed 2022.
  - We est. revs. +10% and ~16.5% margins or ~$1.2B EBIT
- OFS
  - International – Low to mid-teens spending growth y/y with LAM double digits and the ME beginning on a multi-year growth cycle
  - NAM spending up 25-30% driven by privates.
  - Solid double digit revenues growth y/y and EBITDA margins of 20% by 2022 end.
  - We est. ~15% revs. growth and ~12% margins or ~$1.3B EBIT.
- OFE
  - Subsea tree demand to grow y/y in 2022 but still below pre-pandemic level
  - Improving market for international wellhead and subsea services. **This bodes well for FTI too**.
  - Double digit revenue decline with MSD margins.
  - We est. ~$80M EBIT.
- DS
  - Solid revenue growth and margins approaching double digits.
  - We est. +5% revs. and ~8.5% margins or ~$185M EBIT.
- Line Items
  - Corporate cost flat y/y at ~$425M.
  - EBITDA to FCF conversion at ~50% as working capital will be a use. Multi-year conversions should be at or above 50%.

1Q22 Outlook

- We think BKR's guidance implies 1Q22 EBITDA at ~$675M, in-line with Street est.
- OFS: Revenues and margins should decline modestly. We est. -2% revs. and 9.3% margins or ~$235M EBIT
- OFE: Double digit revenues decline q/q and LSD margins. We est. ~$20M EBIT
- TPS: Flattish y/y revenues with modestly y/y higher margins. We est. -16% revs and 14.6% margins or ~$220M EBIT
- DS: Modest y/y revenue growth and MSD margins. We est. -10% revs. and ~5.5% margins of ~$30M EBIT
- Corp. Exp. flat q/q (~$105M); D&A modestly up (we est. $280M); Int expense similar to 3Q21
- FCF to decline q/q seasonally.

Appendix A – Required Disclosures

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Appendix A – Required Disclosures Contd.

These shorter term views are based upon catalysts or events that may have a shorter-term impact on the market price of the equity securities discussed in research reports, including but not limited to the inherent volatility of the marketplace. Any such shorter-term views expressed in research report are distinct from and do not affect the Research Analyst's 12-month view and are clearly noted as such.

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Total	14	100%

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Appendix A – Required Disclosures Contd.

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