COKER & PALMER
INVESTMENT SECURITIES

EQUITY RESEARCH ALERT

January 20, 2022

BAKER HUGHES COMPANY

4Q21 Earnings First Take – Positive

OILFIELD SERVICES & GREEN ENERGY
Vaibhav (Vebs) Vaishnav | Analyst
Coker Palmer Institutional
713-344-0852 (O) / 281-546-0315 (M)
vebs@cokerpalmer.com

Quick Take: Positive. BKR reported $844M EBITDA, 7% above Street est. FCF of $645M handily beat ~$300M expectations. We expect ~5% upside to 1Q22 Street EBITDA est. Investor positioning is likely not favorable. It will be interesting to see if BKR raises 2022 EBITDA expectations after lowering them on 3Q21 call.

Earnings Reaction: Positive. BKR reported $844M adj. EBITDA for 4Q21, 7% above Street Est. of $786M (and our Street high $819M est.). Beat was driven by OFS and OFE vs. our est. Revenues of $5.5B were in line with Street est. FCF of $645M handily beat Street's ~$300M est. likely driven by working capital (+$10M vs. our -$250M est.). TPS orders of $3.0B far exceeded our $1.8B est.

1Q22 Potential Earnings: Positive. We think ~$700M EBITDA for 1Q22, or about 5% above Street is reasonable. Sequentially in 1Q22, we assume OFS revs stay flattish with ~50bps lower margins, OFE EBIT of ~$20M, TPS revs (-15%) with ~16.7% margins, and DS revenues -15% with ~4% margins.

Stock Reaction: Positive given a 7% EBITDA miss and ~5% potential upside to 1Q22. Investor positioning too is not favorable, in our opinion.

Backboard plays: (1) International OFS revenues growth of 7% reflect seasonal bump which should benefit both HAL and SLB. (2) OFS margins beat at 10.0% vs. our 9.7% implying inflation control or passing on the costs have been successful that bode well for other OFS companies especially CHX.

Positives

- BKR reported $844M adj. EBITDA for 4Q21, 7% above Street Est. of $786M
- FCF of $645M handily beat Street's ~$300M est.
- BKR bought back ~$325M stock in 4Q21 (~$105M in 3Q21) out of $2B authorization.
- TPS orders of $3.0B far exceeded our $1.8 est.
- OFS EBIT margins of 10.0% were better than our 9.7% est.
- OFE EBIT of $23M was above our $16M est.

Negatives

- DS revenues of $558M and $51M were modestly below our $561M and $54M est. respectively.

Questions to Ask

- Color on expected LNG and non-LNG orders for 2022?
- NAM and international spending expectations for 2022?
- Any chance in thoughts on eventual OFSE and industrial energy technology businesses separation with pull back in green energy stocks?
- Update on chip shortages and impact to 2022 DS results?

Appendix A – Required Disclosures

Analyst Certification

I, Vaibhav (Vebs) Vaishnav, certify that to the best of my knowledge, the views and opinions in our research reports accurately reflect my personal views about the subject company (companies) and its (their) securities. I have not and will not receive direct or indirect compensation related to the specific recommendations or opinions of this report. Unless otherwise stated, the individuals listed on the cover page of this report are analysts for Coker Palmer Institutional (CPI). Coker Palmer Institutional (CPI) is the brand name used to distinguish Coker & Palmer's institutional only, sell side equity research operations.

Important Disclosures

Conflicts of Interest: You should assume that as of the publication date of any report or letter, CPI (possibly along with or through our members, partners, affiliates, employees, and/or consultants) along with our clients and/or investors has a position in the subject companies or derivatives of subject companies mentioned in this report, and therefore stands to realize gains based on the price movements of stocks covered in this report. Following publication of any report or letter, we intend to continue transacting in the securities covered therein, and we may be long, short, or neutral at any time hereafter regardless of our initial recommendation.

Analyst Compensation

Analysts are not directly compensated based on investment banking fees, but analysts' compensation is based on overall firm profitability, which may or may not include investment-banking fees. CPI has not received investment-banking income from the subject companies in the previous 12 months. Investors should expect that Coker & Palmer may seek and may be seeking compensation for investment banking and non-investment banking related services and production from any or all companies mentioned within this report.

Conflicts

Vaibhav (Vebs) Vaishnav, Oilfield Services & Green Energy Analyst, does not hold any stocks from those sectors in his personally managed accounts.

In the normal course of offering investment and banking products and services to clients, CPI may act in several capacities (including issuer, market maker, underwriter and distributor agent) simultaneously with respect to a product, giving rise to potential conflicts of interest. CPI uses controls such as information barriers to manage conflicts should they arise.

CPI has not been involved with any investment banking/consulting activities in the Oilfield Services and/or Green Energy sector in the past six months.

Rating Methodology

Coker Palmer Institutional (CPI) is restarting formal rating systems. The firm has a three-tiered rating system, with ratings of Sector Outperform, Sector Perform, and Sector Underperform. Each Research Analyst assigns a rating that is relative to his or her coverage universe or an index identified by the Research Analyst that includes, but is not limited to, stocks covered by the Research Analyst.

The rating assigned to each security covered in this report is based on the CPI Research Analyst's 12-month view on the security. Research Analysts may sometimes express in research reports shorter-term views on these securities that may impact the price of the equity security in a manner directly counter to the Research Analyst's 12-month view.

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.

Ratings

Sector Outperform (SO)

The stock is expected to outperform the average 12-month total return of the analyst's coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.

Sector Perform (SP)

The stock is expected to perform approximately in-line with the average 12-month total return of the analyst's coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.

Sector Underperform (SU)

The stock is expected to underperform the average 12-month total return of the analyst's coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.

Coker & Palmer Institutional Ratings Distribution

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

Price Target Methodology:

Coker Palmer Institutional (CPI) price targets are essentially based on DCF methodology.

Valuation/Risk Factors

Oilfield Services (OFS) business is inherently risky. OFS investors should be fully aware of these risks, which include, but are not limited to, volatile natural gas, NGL's and crude oil prices, demand for and competition for a company's product and/or service, asset quality, customer risks, changes in operating costs, company capital structures, operating and working capital needs and ability to raise both debt and equity capital to fund operations. We value OFS equities on many different metrics, including but not limited to, our subjective view as to the quality of management, discounted cash flows, net asset values, enterprise value to EBITDA or cash flow multiples, price to earnings or cash flow multiples, reinvestment risk and full cycle economics. These factors are uncertain and our outlook is subject to change, sometimes quite quickly. Any changes in the above factors can impede achievement of our valuation assessments.

Appendix A – Required Disclosures Contd.

Green Energy businesses are inherently risky. The industry is still at a nascent stage and long-term viability is still not established. Investors should be fully aware of these risks, which include, but are not limited to, viability of new products and markets targeted, volatile commodity prices, demand for and competition for a company's product and/or service, asset quality, customer risks, changes in operating costs, company capital structures, operating and working capital needs and ability to raise both debt and equity capital to fund operations. We value Green Energy equities on many different metrics, including but not limited to, our subjective view as to the quality of management, discounted cash flows, net asset values, enterprise value to EBITDA or cash flow multiples, price to earnings or cash flow multiples, reinvestment risk and full cycle economics. These factors are uncertain and our outlook is subject to change, sometimes quite quickly. Any changes in the above factors can impede achievement of our valuation assessments.

The Exploration and Production (E&P) business in inherently risky. Investors in E&P equities should be fully aware of these risks, which include, but are not limited to, volatile natural gas, NGL's and crude oil prices, regional pricing differences, field and company asset quality, reserve depletion factors, drilling risks, operating costs, company capital structures, operating and working capital needs and ability to raise both debt and equity capital to fund operations. . E&P Valuation Methods used to determine the Price Target: We value E&P companies on many different metrics, including, but not limited to, our estimate of net asset value (NAV), enterprise value to EBITDA or cash flow multiples, price/earnings or cash flow multiples, discounted cash flow analysis and breakup/acquisition values. All our estimates and valuations are highly and inherently uncertain. They are based on, but not limited to, our outlook for the commodity price, our subjective view as to the quality of management, net asset value, quality of the proven and unproven reserves and resources, ability to develop and produce these reserves/resources, financial strength, cash flow, access to capital, and full cycle economics of investments. These factors are uncertain and our outlook is subject to change, sometimes quite quickly. Any changes in the above factors can impede achievement of our valuation assessments.

Industrials: This category might cover many different types of companies with various business models and various factors affecting the operations and stock prices, some of which include overall economic growth, end market demand, product inventories and competition. Some of these companies might have various energy-related exposure through both sales and/or costs. In general, industrial company risks include, but not limited to, high fixed operating costs, rising input costs, currency and commodity price fluctuations, variable demand, inventory levels, quality of management, competition and obsolesce.

E&P, Oilfield Service, Industrials, Green Energy, as well as investments in the other subsectors we follow are subject to a myriad of external factors, including but not limited to, commodity price risk, geopolitical risk, changes in interest rates, the value of worldwide currencies, especially the U.S. dollar, changing regulations, both domestically and abroad, regulatory enforcement levels, and changes in domestic or global economic fundamentals. Please see specific companies' most recent SEC filings, including 10-Ks, 10-Qs, 8-Ks, and proxy filings for additional risks and considerations. For companies based outside the US, please see country specific regulatory filings for additional risks and considerations.