

# **Baker Hughes Company (BKR) Q1 2024 Earnings Call Transcript**

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**Body**

Baker Hughes Company (BKR)

Q1 2024 Earnings Conference Call

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Company Participants

Chase Mulvehill - VP, IR

Lorenzo Simonelli - Chairman and CEO

Nancy Buese - CFO

Conference Call Participants

Scott Gruber - Citigroup

Arun Jayaram - JPMorgan Securities LLC

Dave Anderson - Barclays

James West - Evercore ISI

Luke Lemoine - Piper Sandler

Presentation

Operator

Good day, ladies and gentlemen, and welcome to the Baker Hughes Company First Quarter 2024 Earnings Call. At this time all participants are in a listen-only mode. Later, we will conduct a question-and-answer session and instructions will follow at that time. As a reminder, this conference call is being recorded.

I would now like to introduce your host for today's conference, Mr. Chase Mulvehill, Vice President of Investor Relations. Sir, you may begin.

Chase Mulvehill

Thank you. Good morning, everyone, and welcome to Baker Hughes first quarter earnings conference call. Here with me are Chairman and CEO, Lorenzo Simonelli; and our CFO, Nancy Buese. The earnings release we issued yesterday evening can be found on our website at bakerhughes.com. We will also be using a presentation with our prepared remarks during this webcast, which can be found on our investor website.

As a reminder, during the course of this conference call, we will be providing 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 the factors that could cause actual results to differ materially. Reconciliations of operating income and other GAAP to non-GAAP measures can be found in our earnings release.

With that, I'll turn the call over to Lorenzo.

Lorenzo Simonelli

Thank you, Chase. Good morning, everyone, and thanks for joining us.

We are pleased with our solid first quarter results as we continue to build on the momentum from last year and shape our company. The resilience of our order book and margin progress in both OFSE and IET put us on a path towards achieving our full year guidance and overcoming external volatility.

Overall, EBITDA margins continued to demonstrate strong year-over-year growth, increasing by 100 basis points. The margin upside was attributed to IET, where both Gas Tech Equipment and Industrial demonstrated strong performance.

As highlighted on Slide 4, we've had a positive start to the year on the orders front. This is particularly evident in IET, where we booked over $2.9 billion of orders during the quarter, including large awards from Aramco for the Master Gas System 3 and Black & Veatch for Cedar LNG.

LNG equipment orders totaled almost $200 million during the quarter. Excluding LNG equipment, our IET business booked more than $2.7 billion of orders, the second highest of any quarter since the 2017 merger. This was attributed to non-LNG Gas Tech Equipment orders more than tripling from prior year levels. This really underscores breadth and versatility of our IET portfolio.

In OFSE, we received two significant contract awards from Petrobras, with the first for integrated well construction services in the Buzios field. Baker Hughes has been working closely with Petrobras on the field development for many years, leveraging our expertise across both OFSE and IET, demonstrating the power of our combined portfolio. We have previously received awards that include turbomachinery equipment on 10 FPSOs for the Buzios field and multiple OFSE service contracts.

The second Petrobras contract awarded during the quarter was to supply electrical submersible pumps, variable speed drives and sand separation across 450 wells to help the customer in Brazil optimize efficiency, reliability and sustainability of its onshore operations in the Baha Terra cluster. We delivered strong first quarter operating results, highlighted by 50% year-over-year EPS growth. Importantly, we exceeded the midpoint of our EBITDA margin guidance driven by outstanding operational performance in IET. We booked $239 million of new energy orders and generated over $500 million of free cash flow.

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As mentioned, IET got off to a strong start to the year. Compared to the first quarter of 2023, IET EBITDA increased by 30%, the best quarterly year-over-year growth rate in three years and represents 80 basis points of EBITDA margin improvement year-on-year. This was driven by the conversion of higher-margin equipment backlog, continued margin expansion in our industrial tech businesses and further efficiency and cost optimization efforts by the team, partially offset by continued tightness in the gas tech services supply chain.

In OFSE, we continue to make solid progress on the margin front, even with some lower offshore activity during the quarter. Segment EBITDA margins were in line with guidance and improved 80 basis points compared to last year, supported by year-over-year OFS incrementals of nearly 40%.

On the activity front, we experienced some delays in rigs coming out of maintenance in both Mexico and the North Sea due to tight supply chains and busy shipyards. We expect these are only timing delays, and see no impact to our overall outlook for OFSE this year. In line with our previous commitments, we continue to enhance returns to our shareholders.

During the quarter, we increased our quarterly dividend by $0.01 to $0.21, which represents, an 11% increase year-on&; repurchased $158 million of shares and remain firmly on track to deliver 60% to 80% of free cash flow to shareholders.

Turning to the macro on Slide 5. Since bottoming in December of last year, oil prices have rallied significantly, a resilient global economy, steeper-than-expected seasonal decline in U.S. oil production to start the year and the roll forward of OPEC+ production cuts have helped to keep global oil markets more balanced.

OPEC+ timing on restarting idled oil production, the trajectory of global economic activity and the geopolitical risk will be key factors in determining the oil price path for the remainder of the year. We reiterate our 2024 North America and international drilling and completion spending outlooks as we see potential offsets to higher oil prices.

In North America, our outlook remains for a year-over-year decline in the low to mid-single-digit range. We continue to anticipate declining activity in U.S. gas basins, partially offsetting modest improvement in oil activity during the second half of the year.

Across international markets, we maintain our expectations for high single-digit growth. This contemplates extended OPEC+ cuts through the end of the year as well as any potential timing differences between the transitioning of rigs from oil to gas in Saudi Arabia.

Looking out beyond 2024, we expect continued upstream spending growth despite the recent MSC target reduction in Saudi Arabia, although at a more moderate pace than we have experienced in recent years. We expect growth to be led by offshore markets in Latin America and West Africa as well as the Middle East.

As we move into the next phase of the upstream spending cycle, we anticipate increasing focus on optimizing production from existing assets. At our Annual Meeting in January, we launched mature asset solutions, an emerging business that maximizes the health and value of our customers' mature fields.

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It leverages our decades of experience, deep domain knowledge and industry-leading technologies, including Leucipa, and coveted franchises in both upstream chemicals and artificial lift. We continue to experience strong customer demand Leucipa for as this differentiated digital solution is driving next level efficiencies for our customers through automation, digital optimization and workflow orchestration.

Turning to global natural gas and LNG on Slide 6. The long-term demand outlook for both remains very encouraging. Through 2040, we expect natural gas demand to grow by almost 20%, representing a 1% CAGR driven growth in underlying energy demand and the desire to drive towards a net-zero energy ecosystem.

Looking at non-OECD Asia, coal still accounts for about 60% of power generation, which is three times to four times the level utilized in the United States and Europe. As this region increasingly focuses on reducing and abating emissions, we expect coal to-gas substitution to be more pervasive helping to drive a minimal digit CAGR for both India and China natural gas demand through 2040, while the rest of Asia will grow at solid low single-digit rate.

Strong underlying natural gas demand was a robust growth in LNG over the coming decades. Through the end of this decade, we expect demand to increase by mid-single digits annually. We believe this will support stalled nameplate capacity of 800 MTPA by 2030.

Looking out to 2040, we expect LNG demand growth to continue, requiring further capacity additions beyond 800 MTPA. While there could be periods of price volatility driven by temporary dislocations in supply and demand over this time period, we see these as opportunities for accelerated demand creation.

LNG consumers who tend to be very price sensitive typically respond to lower prices with stronger demand. We have seen evidence of this recently. Global LNG demand is up 4% year-to-date against the backdrop of an approximate 50% decline in LNG prices over the same period.

As shown on Slide 7, we expect global LNG FIDs of about 100 MTPA over the next three years. This view, supported by customer dialogue and our internal LNG demand expectations would result in our installed capacity increasing by 70%. This growing installed base brings significant opportunities for Baker Hughes across the life cycle of the equipment. Like our industrial peers, our gas tech businesses typically generate more profitability on the less cyclical aftermarket services.

For LNG equipment specifically, this accounted for less than 10% of our total company EBITDA last year. On the new energy front, we continue to see good momentum with a number of positive developments across our five focus areas of CCUS, hydrogen, geothermal, clean power and emission abatement.

As mentioned, we booked $239 million of new energy orders during the first quarter including a Climate Technology Solutions award from Snam for compression trains driven by hydrogen-ready NovaLT12 turbines. This equipment will support a new gas compressor station in Italy that will eventually transport additional hydrocarbons from Azerbaijan, Africa and the Eastern Mediterranean region to Northern Europe.

CTS also secured an order to supply ICL Zero-Emissions Integrated Compressor Technology to be deployed by Total Energy for a process plant in the Vaca Muerta region of Argentina. We continue to expand our relationship with the key Middle Eastern industrial company, securing a CTS order for the refurbishment of steam turbines and centrifugal compressors trains. This upgrade drives process efficiency improvement and 5% estimated CO2 emissions reduction as part of the customer's energy transition roadmap.

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As we look out at the rest of the year, we remain confident in achieving new energy orders between $800 million and $1 billion which would amount to a tripling of new energy orders since 2021. Longer term, we continue to be encouraged by increasing opportunities to support growing energy demand and decarbonization efforts giving us confidence in achieving our $6 billion to $7 billion new energy orders target in 2030.

Turning to Slide 8. We I wanted to take a moment to reflect on some of the emerging themes within the energy sector. It has been a busy quarter with several industry events, including our own Annual Meeting in Florence where we hosted over 2,000 customers, partners and industry leaders in January.

Firstly, it is becoming clearer just how complex the undertaking is the transition of the world's energy ecosystem. This complexity is driving a slower-than-expected expansion of renewable energy capacity and leading to record levels of coal demand.

Consequently, we are seeing more pragmatism towards a pathway for decarbonization. We're growing urgency to affect this trend. There is mounting consensus that there is no possible route to decarbonize the energy system without driving greater efficiency and significantly increasing gases weighting within the overall energy mix.

Energy providers face the multifaceted challenge of providing secure, sustainable and affordable energy against the backdrop of increasing energy demand. Gas is abundant. Lower emission, low cost and the speed to scale is unrivaled. This is the age of gas. Whether it be the super majors, the NOCs or the independent companies, all of our customers are messaging that they plan to increase their exposure to gas in the coming years.

Baker Hughes is extremely well positioned to facilitate this through our upstream capabilities in OFSE and expertise in LNG and gas infrastructure in IET. An excellent example of this is the reallocation of capital in Saudi Arabia, primarily towards gas.

Following the recent announcement to not pursue an increase to its maximum sustainable capacity, the country's shifting focus towards natural gas where production is now expected to increase by more than 60% through 2030, will require significant investment in gas infrastructure. This represents a sizable opportunity for our IET business as highlighted by our MGS3 award.

Considering this transition towards gas as well as increasing investments in new energy and chemicals, we see this announcement as a long-term net positive for Baker Hughes given our exposure to all free markets.

In addition, we are seeing a number of gas infrastructure projects emerge around the world. These midstream opportunities, along with solid first quarter bookings give us confidence that non-LNG Gas Tech Equipment orders will be up more than 50% this year.

Adding further impetus to this growth theme is an increasing demand for artificial intelligence, which is expected to be a key enabler in driving significant productivity and efficiency improvement across the entire energy value chain and could enhance decarbonization efforts.

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At Baker Hughes, we have been utilizing AI within our digital solutions for a number of years. We continue to make great progress with our Leucipa production optimization solution in OFSE and drive greater efficiencies and reliability with our Cordant solutions platform in IET, which both leverage AI.

The efficiency and productivity benefits of AI will be balanced by the increased need for energy-intensive data centers. AI will likely drive substantial electrical load growth, therefore, increasing both the challenge and opportunity to provide clean, reliable and firm power solutions.

Given the requirement for continuous power supply, the demand for distributed power systems will be substantial with gas to likely dominant fuel source. Baker Hughes is again well positioned to participate in this market through our clean power solutions, particularly our NovaLT fleet of turbines, which can run on natural gas and hydrogen.

As the market scales, the size of data centers and power needs will also likely grow, which would benefit our larger scale solutions that include steam turbines for SMR solutions and net power.

With the growing realization that we need and all of the above approach to the energy transition, the focus is shifting towards the emissions rather than the fuel source. I have spoken about this important shift for several years now, and we are pleased to see it taking hold in our customers' operations and policy initiatives.

The markets increasing alignment towards the view is spawning stronger momentum, in particular, for CCUS. This is very encouraging to see and provides tailwinds for our technology solutions that play across the entire CCUS value chain.

Specifically, on the capture side, we continue to make progress across our portfolio, where we are developing a suite of solutions that have applications across various scales and purities of CO2.

Complementing our capture portfolio at the decades of experience we have in CO2 compression and storage. For CO2 compression, we have experienced a strong increase in demand, both for offshore and onshore applications, while we are also involved in several CO2 storage projects.

In summary, all of these themes play to the strengths of Baker Hughes and continue to heighten our conviction in our strategy. With our expansive portfolio, capabilities and solutions offerings, we are uniquely positioned to deliver value for our diverse set of energy and industrial customers. This is what differentiates Baker Hughes and enables us to deliver durable earnings and free cash flow across our free time horizons.

With that, I'll turn the call over to Nancy.

Nancy Buese

Thanks, Lorenzo.

I'll begin on Slide 10 with an overview of our consolidated results and then speak to segment details before outlining our second quarter outlook. We are very pleased with our first quarter results above the midpoint of our EBITDA guidance. Orders remain solid as the diversity of IET's end markets continue to support a strong level of orders.

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We continue to make progress on driving operational improvements across the business to enhance margins and returns, highlighted by the consistent improvement in EBITDA margins and ROIC. We remain confident in our full year guidance that points to another strong year for Baker Hughes.

Adjusted EBITDA of $943 million increased 21% year-over-year and came in above the midpoint of our guidance range which was due to stronger performance in IET. First quarter GAAP operating income was $653 million. Adjusted operating income was $660 million. GAAP diluted earnings per share were $0.45. Excluding adjusting items, earnings per share were $0.43, an increase of 50% compared to the same quarter last year.

Our adjusted tax rate continues to trend downwards, declining to 29.7% in the quarter as we continue to execute as planned. As a reminder, we guided to a midpoint of 29.5% in 2024, down from our average 2023 tax rate of approximately 33%. Corporate costs for the quarter were $88 million, $2 million lower than our guidance.

Total company orders of $6.5 billion maintained strong momentum, highlighted by continued strength in IET orders of $2.9 billion. Alongside a strong order book, IET RPO ended the quarter at $29.3 billion, up 10% year-over-year, while OFSE/RPO remained at a healthy $3.4 billion, up 8% year-over-year. These RPO levels provide exceptional revenue and earnings visibility over the coming years.

Free cash flow was robust, coming in at $502 million. For the full year, we continue to target free cash flow conversion of 45% to 50% and expect free cash flow to be more weighted towards the back half of this year.

Turning to Slide 11. Our balance sheet remains strong, as we ended the first quarter with cash of $2.7 billion, net debt to trailing 12-month adjusted EBITDA ratio of 0.8x and liquidity of $5.7 billion.

Let's turn to capital allocation on Slide 12. In the first quarter, we returned $368 million to shareholders. This included $210 million of dividends where we have increased the quarterly dividend 3x over the past six quarters. In addition, we repurchased $158 million of shares. We remain committed to returning 60% to 80% of free cash flow to shareholders. Since the company was formed in 2017, we've now returned over $10 billion to shareholders through dividends and buybacks.

Our primary focus is to continue growing our dividend with increases aligned with the structural growth in the company's earning power. We will continue to use buybacks to reach our 60% to 80% target and we'll remain opportunistic on buybacks within this range.

Now I'll walk you through our business segment results in more detail and provide our second quarter outlook. Starting with Oilfield Services & Equipment on Slide 13. The segment maintained its strong margin trajectory meeting our margin expectations despite heavier seasonality across our international markets.

This is a testament to the work the OFSE team has done to drive cost efficiencies across the business. Strength and flexibles help to drive SSPS orders of $633 million, in line with fourth quarter levels. We expect the offshore market to remain strong and SSPS orders should remain at solid levels in 2024 and beyond.

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OFSE revenue in the quarter was $3.8 billion, up 6% year-over-year. International revenue was down 5% sequentially, while North America fell 3%. Delays in rig reactivations in Mexico and the North Sea impacted international activity, adding to the traditional seasonal declines typically experienced during the first quarter.

In North America, offshore declined while North America land held flat. OFSE EBITDA in the quarter was $644 million, up 11% year-over-year. This came in slightly below our guidance midpoint due to the previously mentioned seasonal declines and slower-than-anticipated activation of offshore rigs, factors that were considered in our guidance range. OFSE EBITDA margin rate was 17%, increasing 80 basis points year-over-year, driven by continued improvements in cost efficiencies, productivity enhancements and improved execution, particularly in SSPS.

Now turning to Industrial & Energy Technology on Slide 14. This segment performed above the midpoint of our EBITDA guidance during the quarter due to improving revenues and margins. IET orders were solid $2.9 billion with non-LNG Gas Tech Equipment orders more than tripling compared to last year, highlighting the diversity of our customer base and end market exposure.

IETs orders were $193 million in the first quarter, highlighted by strong orders for our NovaLT12 turbines that can run on 100% hydrogen. IET RPO ended the quarter at $29.3 billion, up 10% year-on-year. Gas Tech Equipment RPO was $11.5 billion. Gas Tech Services RPO was $14.6 billion. Gas Tech Equipment book-to-bill was onetime, the 11th consecutive quarter of 1% or greater.

Turning to Slide 15. IET revenue for the quarter was $2.6 billion, up 23% versus the prior year, led by a 46% increase in Gas Tech Equipment revenues as we continue to execute our robust backlog. IET EBITDA was $386 million, up 30% year-over-year and exceeding the high end of our guidance range of $380 million from better Gas Tech Equipment backlog conversion and strong performance in Industrial Tech. Both drivers were previously identified as factors that would push us to the higher end of our guidance range.

EBITDA margin was 14.7%, up 80 basis points year-over-year against the backdrop of robust growth in Gas Tech Equipment. Solid margin improvement in both Industrial Tech and Gas Tech Equipment were partially offset by higher R&D spend related to our new energy investments and continued supply chain tightness in Gas Tech Services.

Before walking through our updated outlook, which is shown on Slide 16, I would like to spend some time on the progress each business is making on achieving their 20% EBITDA margin target. We're off to a strong start to the year in OFSE and IET. EBITDA margins increased 80 basis points for both segments when compared to the same quarter last year. Looking forward, we see good progression throughout the year and remain confident in our ability to achieve these targets in 2025 for OFSE and 2026 for IET.

These are important targets that set a benchmark and demonstrate our operational progress since announcing the consolidation into our two segments from four segments previously. These actions helped to streamline the organization and have created a simpler, leaner and lower cost structure that allows for faster decision-making and has driven more than $150 million of cost out across the company. In reality, we've been working on this since we brought the businesses together in 2017.

To accelerate our transition to an energy technology company, we have long held the three-pronged approach of transforming the core, investing for growth and positioning for new energy frontiers. To date, the success of transforming the core, a key initiative to drive higher profitability and returns across the company has been most visible in OFSE.

For this segment, margins are expected to approach 18% this year, up more than 400 basis points from pre-COVID levels. The OFSE team has done a tremendous job transforming the way the business operates with a focus on rightsizing operations, removing duplication and improving service delivery to drive sustainable, structural improvement in OFSE margins.

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Turning to IET's margin journey. This segment's margin progress has been more measured in part due to the tremendous growth in our Gas Tech Equipment business, where we have consistently exceeded our order expectations. We are very excited by the robust growth in our equipment installed base that will drive decades of margin-accretive service growth in Gas Tech.

The IET team is committed to executing its margin expansion strategy. As the nucleus of this strategy is instilling a more rigorous process-driven culture across the organization. These changes are helping to drive enhanced operational discipline and dedication to continuous improvement.

In addition, there is a cultural shift to focus more on value over volume. With these foundational elements in place alongside the opportunities for better R&D absorption, supply chain optimization and execution of higher-margin backlog, we remain confident in achieving 20% margins for the segment.

Next, I'd like to update you on our outlook for the two business segments. Overall, the outlook remains strong for our businesses, which will be complemented by continued operational enhancements, sustained improvement in backlog execution and margin upside. We continue to focus on operational excellence and service delivery across our two segments.

For Baker Hughes, we expect second quarter revenue to be between $6.6 billion and $7.05 billion and EBITDA between $1 billion and $1.1 billion, resulting in EBITDA margin rate increasing quarter-over-quarter by approximately 70 basis points at the midpoint. For OFSE, we expect second quarter results to reflect typical seasonal growth in international and flattish activity in North America. We expect second quarter OFSE revenue between $3.8 billion and $4.0 billion and EBITDA between $660 million and $710 million.

Factors impacting this range include the phasing of 2024 E&P budgets, SSPS backlog conversion, realization of further cost-out initiatives and the pace of recovery and activity that was deferred in the first quarter.

For IET, we expect second quarter results to benefit from strong year-over-year revenue growth as we continue to execute on our near-record backlog for Gas Tech Equipment and convert our healthy backlog in industrial technology. We also expect to see continued progress on our margins as we drive productivity enhancements and process improvements across the business.

Overall, we expect second quarter IET revenue between $2.8 billion and $3.05 billion and EBITDA between $425 million and $475 million. The major factors driving this range will be the pace of backlog conversion in Gas Tech Equipment, the impact of any aeroderivative supply chain tightness in Gas Tech and operational execution in Industrial Tech.

Turning to our full year outlook. We maintain our 2024 guidance issued in January of this year. For the full year 2024, we continue to expect Baker Hughes revenue to be between $26.5 billion and $28.5 billion and EBITDA between $4.1 billion and $4.5 billion. At the midpoint, our outlook results in EBITDA growing a strong 14% from the prior year. In addition, we still expect total company new energy orders of $800 million to $1 billion, which at the high end would amount to a tripling of new energy orders since 2021.

For OFSE, we maintain our full year forecast of revenue between $15.75 billion and $16.75 billion, and EBITDA between $2.8 billion and $3.0 billion as we expect continued strength across international markets to be modestly offset by softness in North America land. We expect IET orders to remain at robust levels this year and maintain a range between $11.5 billion to $13.5 billion, driven by strong momentum across all aspects of the IET portfolio.

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As mentioned, we've already experienced a noticeable increase in non-LNG Gas Tech Equipment orders in the first quarter. As a result of continued momentum and exceptional orders performance over the last two years, we maintain our full year IET guidance for revenue between $10.75 billion and $11.75 billion and EBITDA between $1.65 billion and $1.85 billion.

In summary, we remain confident in our ability to generate double-digit EBITDA growth for the fourth consecutive year as we remain focused on execution, driving further operational improvements, and capitalizing on market tailwinds with our differentiated portfolio of products and services. Overall, we are very pleased with the progress demonstrated by our first quarter results and remain excited about the future of Baker Hughes.

I'll turn the call back to Lorenzo.

Lorenzo Simonelli

Thank you, Nancy.

Turning to Slide 18. 2024 is off to a strong start for Baker Hughes, highlighted by our strong margin performance in both OFSE and IET. Our continued focus on commercial enhancements and cost efficiencies are driving structural improvement in both segments underlying margins. With these transformational efforts gaining momentum, we remain on track to achieve our 20% margin targets for both segments.

Margin improvement and EBITDA growth are important parts of the Baker Hughes story. As important, we have significantly improved our returns on invested capital, which has increased by more than three times compared to 2019 levels. Our focus on disciplined growth and margin enhancement facilitated by transforming the way we work is helping to drive meaningful improvements in returns across the company.

With margins, EBITDA and returns forecast to increase further over the coming years, we expect to see stronger free cash flow conversion of at least 50% through the cycle, and as a result, higher free cash flow. When combined with our balanced portfolio, untapped market opportunities and overhauled cost structure, Baker Hughes is becoming less cyclical in nature and capable of generating more durable earnings and free cash flow across cycles.

All of these metrics provide a healthy backdrop as we remain committed to returning 60% to 80% of free cash flow to shareholders. This will add to the impressive $10 billion plus that we have already returned to shareholders since forming the new company in 2017. To put this in context, this amounts to almost one-third of our current market cap. We have a history of returning cash to shareholders and expect to continue that trend well into the future.

With that, I'll turn the call back over to Chase.

Chase Mulvehill

Thanks, Lorenzo. Operator, let's open the call for questions.

Question-and-Answer Session

Operator

Thank you. [Operator Instructions] Our first question comes from the line of Scott Gruber from Citigroup.

Scott Gruber

Yes. Good morning.

Lorenzo Simonelli

Hi, Scott.

Scott Gruber

So your IET margins were quite strong despite a headwind from more equipment revenues, which is great to see. And Lorenzo, you walked through the multiple drivers. Looking at 2Q, IET guidance is above our forecast, but you didn't list the full year. So can you walk through how you think about those margin drivers continuing? How do you think about the impact on the second half for IET? Are there reasons to believe the normal seasonality may be a bit more muted for both revenues and margins in the second half? Or is the high end of the range for full year revenues and EBITDA will be more likely now for IET?

Lorenzo Simonelli

Yes, Scott, first of all, very strong quarter for the company. And as you said, led by also IET, but overall, very pleased by both segments. And IET, a very strong, solid quarter. And as we've said, we've been committed to our journey and IET towards the 20% EBITDA, and you're starting to see some of those levers coming through, as you look at first quarter and as you look at the rest of the year, again, you've got strong backlog conversion in Gas Tech Equipment. As you can see in the first quarter, revenue up nearly 50% and year-over-year, and that helped the Gas Tech Equipment.

From a margins perspective, EBITDA was up nearly 200 basis points. And you're seeing the better backlog margin coming through as well as productivity in the factories. Of a bright spot was in IET from an Industrial Solutions perspective as you look at the revenue side, but also when you look at the projects and the services revenue, which was up 20% year-over-year and margins also improving in the Bently Nevada with some of the supply chain constraints that we've discussed before that have been alleviated now.

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And also Gas Tech services -- revenue increasing as we went through the first quarter, we continue to see that for the rest of the year, even though we're still constrained by some of the supply chain headwinds. So, as you look at IET for the rest of the year, we continue on the basis that we've said and the journey that we've laid out with continued margin expansion and improvement towards that 20% as we go forward as we continue the journey.

Scott Gruber

Got it. And then turning to the production side of OFSE, we recently saw one of your big competitors moved to enhance their position. How do you see the market evolving for the production vertical where you have a strong position? Does the growth rate for production start to rival the growth rate for drilling and completion spend in '25 and beyond? And how do you think about the competitive dynamics in the market? Your team was quite excited by your production optimization solutions at your annual meeting?

Lorenzo Simonelli

Yes, Scott, it's a very good point. And for us, what's happening from the external perspective and the dynamics doesn't change the strategy, and we've been firmly focused on a strategy around production solutions for some time. As you know, from the comments that I made at the annual meeting, 70% of the world's production comes from mature assets and a mature asset being a well that's produced 50% of its reserves or has been in production for over 25 years. And when we look at the future, there's a tremendous focus on improving that optimization.

And we've got some great capabilities with the largest global installed base of ESPs 44,000 pumps. And we're moving about 80 million barrels fluid daily. And again, as you look at continued chemicals that are being applied and a 1% improvement just in mature asset, production can give two to three years of global consumption. So, as we go forward, no change, and we continue to see this as a space where between our RTS, our ESPs and chemical solutions and also the digital automation and AI that we can deliver through Leucipa, being a great opportunity for our customers and an increasing area of focus for our company.

Scott Gruber

Appreciate the color, Lorenzo. Thank you.

Operator

Thank you. One moment for our next question. Our next question comes from the line of Arun Jayaram from JPMorgan Securities LLC.

Arun Jayaram

Good morning, Lorenzo and Nancy. Lorenzo, I want to start with the Saudi MSC reduction. I wanted to get your perspective on the potential impacts to Baker from the changing mix of activity with the higher mix of onshore versus offshore. And perhaps you could just comment on what on the gas side of the equation with higher infrastructure spend chemicals and new energy spend, what that means for Baker as we think about rest of this year and into next year?

Lorenzo Simonelli

Yes, sure Arun. We remain confident in the international market outlook. We expect E&P spending to be up high single digits this year. And as we look at, in particular, the MSC reduction, as we said in the last call, we don't anticipate any real changes. And in fact, when we look at Saudi, we see it as opportunities outside of just the upstream area given our presence. As you know, natural gas production is set to grow by 60% through 2030, and it's going to benefit our IET business. You saw the announcement that was made in 1Q relative to the Master gas system free, the pipeline project. There's going to be more opportunities down the road.

Also, this shift of CapEx is also across new energy and chemicals. We recently opened our new chemicals facility in the Kingdom. We're also, as you know, from a new energy perspective, participating in hydrogen on NEOM. So overall, this CapEx shift for us is a long-term net positive for Baker Hughes and doesn't change the outlook that we laid out at the beginning of the year.

Arun Jayaram

Great. That's helpful. Maybe a follow-up, maybe for Nancy. Nancy, I want to get your take on some of the puts and takes around the 2Q guide. It looks to be about 3% above our model and it looks like just slightly better margins. And so just wondering if you could talk about some of the puts and takes and just the fact that you kept the back half, maybe a follow-up to Scott's question, the full year is the same. And are you getting a little bit more confidence on the full year outlook given what's transpiring in the first half of the year?

Nancy Buese

Yes, happy to take that one. So on Q2, I'd really say the strength in our guide for that quarter highlights our differentiated portfolio. And we've really been talking about how that's helping us to frame up more durable earnings and strong free cash flow generation and growth.

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Our midpoint for EBITDA guidance in Q2 really represents about 16% year-over-year growth, and that's about 20% EBITDA growth in the IET business. So there are a lot of good drivers there. We've talked about the really robust backlog levels that are driving the Gas Tech Equipment acceleration and much higher margins in the backlog as we convert as we've been signaling.

And then we're also seeing broadening strength across industrial tech, I would also say the cost focus and the process-driven mindset deep into the business is starting to show signs of really solid momentum. And the midpoint of that guidance is indicating that margin expansion, and that's even as Gas Tech Equipment growth continues to impact us. And again, we've talked very much about how the growth in equipment is great for us in the longer term, and we love that installed base.

I would say that's also offset a bit by a slower than expected start to the year in OFSE, and some of that's related to timing and offshore rig delays. So on balance, we'd say Q2 is showing modestly better seasonal recovery on the OFSE side as some of those rigs come out of maintenance and also some of the delayed product shipments came out of Q1 into Q2.

But net-net, I would say for the year, we would retain our guidance as is. There's still a lot of unknowns, and it's still early in the year. We're very confident in our full year guidance. And we'll keep an eye on it. If there's more to tell, we'll be back to you next quarter with more information, but we feel very good about execution, and we're on the right track for Q2 and balance of the year.

Arun Jayaram

Thanks team. Appreciate it.

Operator

Thank you. One moment for our next question. Our next question comes from the line of Dave Anderson from Barclays.

Dave Anderson

Great. Thank you and good morning, Lorenzo. I was wondering if you could talk a little bit on - if we can talk about the non-LNG side of the IET Gas Tech Equipment order side. I think you made a couple of comments on there, you talked about is these have tripled this quarter and you expect to be up 50% this year. Could you kind of dig into that a little bit about where that's being driven from? I know we had an offshore side, which tends to be a little lumpier. I know you had the MGS3 award in there, but could you just sort of talk about the mix of that non-LNG business, please?

Lorenzo Simonelli

Definitely, Dave, and thanks for the question. Obviously, we've spoken a lot about LNG, and we will, I'm sure, in the future. And I think at times, we don't get a lot of time to talk about the non-LNG sector, and it's a very important part of our portfolio, and it's very expansive as well in the equipment and solutions that play across a number of end markets, including the upstream, midstream refining, petrochemical, as you look at the pipelines and various industrial and other end markets. And it's really the versatility of our equipment that not only goes into LNG but goes into these other end markets. And 1Q was evident of that. And as you said, tripled in 1Q versus prior year.

Onshore/offshore production has remained consistently strong as part of the mix. As you see, both on the compression side, you see on the power generation side. You highlighted the Master Gas System. And as you continue to see the shift towards gas, that gas infrastructure plays towards a lot more compression, plays towards also the pipelines that place towards a lot of the onshore power generation that's going to be necessary.

Also, as you look at on the Industrial side, when you think about the needs for distributed power generation, that plays to the Industrial gas turbines that we have, the NovaLT across it, we see an expanding base of non-LNG equipment. And again, it's part of the expansive portfolio that we have, including the pumps, the valves and the other areas that go into the other sectors when you think of refineries and also petrochemicals that are also increasing infrastructure builds that are happening around the world as we continue through an energy demand that is increasing.

Dave Anderson

And Lorenzo, sort of expanding upon that, I'd like to dig into maybe a little bit of what's going on in Saudi here. You touched on here a bit. Obviously, we saw the award we saw this quarter. But I'd be curious kind of if you could talk about how you're differentiated versus your competitors on both the IET side and the OFSE side.

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On the IET side, we're talking about we're displacing oil-driven power in the Industrial side of the natural gas. And so that seems like an enormous opportunity in Saudi, but it seems like it's a very unique opportunity for really just Baker. And then if I flip over to the OFSE side, one thing you've really done differently than others is manufacturing in country, kind of could you talk to that a little bit about kind of how that's a key initiative in the Kingdom and how that gives you an advantage?

Lorenzo Simonelli

Yes, Dave, thanks. And I know that you and the team also had the chance to tour the region and also visit the Kingdom. And that's true. We focused a lot on localization. And as I mentioned, we've just recently opened our chemicals facility on new Petrolite. We've also got wellheads that are manufactured. We've also got compressors. And as we look at drill bits and across the Kingdom, we focused on localization to support not just the Kingdom, but also support the region and outside of the region through capability close to our customers. And that's been a strategy of focus.

And the diversification of Baker Hughes is across the two major segments. We play obviously within the oilfield services and the equipment side, but then the gas infrastructure side, the hydrogen when we think of Neon and the facilities associated with hydrogen, the infrastructure that's going to be required when we think of power generation, distributed power generation. And as you think of also the opportunity for productivity and also with digital capabilities and solutions.

So across the Board, I think what makes us unique is, again, the ability to play at the full value chain of the energy ecosystem within the Kingdom through local capabilities. And -- that's a strategy that we've also put into place in other Middle Eastern countries as well with facilities in the UAE and Qatar. And likewise, it's a region that's very important to us.

Dave Anderson

Much appreciate. Thank you.

Operator

Thank you. One moment for our next question. Our next question comes from the line of James West from Evercore ISI.

James West

Hi, good morning, Lorenzo and Nancy.

Lorenzo Simonelli

Hi, James.

James West

Lorenzo, I wanted to touch back on carbon capture because it sounded like there was a bit of a shift in your tone there with respect to projects starting to move forward and to scale. So I want to know, one, is that accurate? Two, have you seen any change or have you put any change in your CCUS strategy? And how about an update on your kind of commercialization of some of the newer technologies in carbon capture?

Lorenzo Simonelli

Yes, definitely, James. And as we look at what's happening, and we've been discussing for some time, the continued increasing demand for energy and the realization that we need in all of the above approach to the energy transition, it means there's a shifting focus towards emissions rather than the fuel source. And that puts the forefront CCUS.

And as you know, we've been playing and participating in CCS for many decades. But we've also been investing in CCUS capabilities. And so as we go forward, we think CCUS is going to be a first mover. And as you look at our order intake also on the new energy front, you can see from last year also that a large portion of our orders was associated with carbon capture, utilization and storage. And we've got a wide array of capabilities that we've been developing.

We've got the chilled ammonia process, which is for large-scale applications like power generation. We've got the mixed salt process and compact carbon capture, which is rotating bet solution, which is suitable for a smaller footprint of industrial applications. And then we're also testing and piloting Mosaic materials for direct air capture technology and complementing all of this is the compression capability that we have and also storage and the knowledge of the reservoir and how to store and maintain the CO2 and compress it.

So this is a theme that we see in projects that are going forward. And we think that's increasing as the year progresses and also going into the next few years. As people appreciate that it is an all of the above and we're going to need to focus more on emissions as opposed to fuel source.

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James West

Great. And then maybe a follow-up on the all of the above comment. Lorenzo, wouldn't you have relationships with all the major tech companies, and they're trying to scale data centers and that's being supercharged by AI. It seems to me that renewable deployment is not going to be able to keep up with that. So going to have to go towards some type of fossil fuels, and it sounds like gas is the one they're targeting. But are these data center providers beginning to at least acknowledge that reality that for some period of time, we're going to have to build out potentially is more gas infrastructure to support this because the power generation needs are running well ahead of renewable or cleaner fuel sources?

Lorenzo Simonelli

Yes, I'd agree with you that there's a growing realization that there's a growing demand for energy, and that's being driven by some of the data centers. And look, AI provides huge benefits both internally and also from an external perspective to us internally to drive optimization for our customers, but also externally to drive growth for our equipment and the services that we provide.

And that's why we like the ready gas turbines that go on natural gas today, but then can switch to hydrogen, that's also why we like the solutions that we're offering with regards to other clean power solutions. And as we talk to our customers, that's what they're looking for.

James West

Great.

Lorenzo Simonelli

And when we look at the data center developers, they're all coming to a realization that there is going to be a growing need for off-grid solutions as well as distributed power generation with a view to continuing the aspect of reducing emissions. So, there's also opportunities for geothermal and others where we play. And we look at it as being a growing element of our equipment portfolio and a nice segment that again diversifies us versus others because of the portfolio that we have.

James West

Great. Thanks Lorenzo.

Lorenzo Simonelli

Thanks.

Operator

Thank you. One moment for our next question. Our next question comes from the line of Luke Lemoine from Piper Sandler.

Luke Lemoine

Hi. Good morning, Lorenzo, Nancy. The IET orders you had in 1Q put you on a nice pathway to hit the midpoint of the annual guide with GTE being the largest component. I'm sure most of the durability resides here. And you talked about some of the LNG awards outlook within GTE. But can you just talk about some of the puts and takes in the annual order guidance for IET?

Lorenzo Simonelli

Yes, I'll kick it off here, Luke. And we remain very confident in the orders range that we provided for 2024. If you look at the started the year very positive from the orders front, booking over $2.9 billion of orders, including large awards, again from Aramco, but also from Black & Veatch for Cedar LNG. And LNG equipment will still be a portion of the orders outlook as we go through the year.

And again, it was significant last year. But it's also outside of LNG. It's onshore/offshore production. It's the gas infrastructure and also coupled with the new energy. And as you look at the guidance that we've given of new energy orders between $800 million to $1 billion and stable growth in services and Industrial Tech, so very confident in the $11.5 billion to $13.5 billion orders range and a strong pipeline of activity.

And when you look at what's being heard from our customers and also what's being seen, I think growing confidence on the elements of gas infrastructure and the opportunities that we have in the multiple sectors that we play in.

Luke Lemoine

Okay. And then Nancy, on getting to the 20% OFSE margins next year, there were some finer points, but the broad buckets had kind of been on productivity cost, price volume. Could you just refresh us on the drivers here and maybe the confidence around the individual pieces?

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Nancy Buese

Absolutely. We absolutely remain confident in hitting those 20% EBITDA margins, and you're starting to see some traction with a lot of the activities that have been done in the segment and continuing actions. And we do still see strength in international markets this year. We're also maintaining our outlook for high single-digit E&P CapEx. So those are good drivers as well. I would also just note that hitting that margin target does not require an acceleration of growth compared to where we already are. So that's all baked into it.

Alongside that, we do have a cost-out program that we've announced with Q4 earnings, and that's really helping to reset the cost structure within the segment, reducing further duplication and becoming more efficient. I would say the team is also focused on continuing to drive more cost efficiencies around the business, and we'll see more of that come to play as 2024 unfolds.

The other piece of it is on the SSPS side, we have higher margin activity in that backlog, and you'll see that drive up margins in 2024 and 2025. So overall, I would say that 20% margin target remains in place. We feel very confident on it and it doesn't require anything from market tailwinds to achieve. So that's within our control, and we continue to focus on that target.

Luke Lemoine

Okay. Perfect. Thanks, Nancy. Thanks, Lorenzo

Operator

Thank you. At this time...

Lorenzo Simonelli

Thank you everyone. Yes, maybe just - thanks to everyone, for joining the call today, and look forward to speaking to everybody soon. And I think, operator, you can close the call.

Operator

Ladies and gentlemen, thank you for participating in today's conference. This concludes the program. You may all disconnect. Everyone, have a great day.

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