

# **Baker Hughes Company (BKR) Q2 2024 Earnings Call Transcript**

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**Body**

Baker Hughes Company (BKR)

Q2 2024 Results Conference Call

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Company Participants

Chase Mulvehill - VP, IR

Lorenzo Simonelli - Chairman and CEO

Nancy Buese - CFO

Conference Call Participants

Luke Lemoine - Piper Sandler

David Anderson - Barclays

James West - Evercore

Arun Jayaram - JPMorgan Securities

Stephen Gengaro - Stifel

Presentation

Operator

Good day, ladies and gentlemen, and welcome to the Baker Hughes Company Second 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. Please go ahead, sir.

Chase Mulvehill

Thank you. Good morning, everyone, and welcome to Baker Hughes second 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 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 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 delivered outstanding second quarter results, highlighted by strong operational performance across the company. Our IET performance benefited from excellent execution of its robust backlog. In OFSE, results were supported by a solid seasonal recovery in the Eastern Hemisphere, portfolio resilience in North America and added success in driving enhanced cost efficiencies across the business.

We continue to improve our operational consistency, as this marks the sixth consecutive quarter of meeting or exceeding the midpoint of our quarterly EBITDA guidance.

As highlighted on Slide 4, we had another strong quarter for orders. This is particularly evident in IET, where we booked $3.5 billion during the quarter, including a large SONATRACH award for gas boosting in Algeria's Hassi R'Mel gas field. This marks the highest level of non-LNG equipment quarterly bookings in the company's history and again underscores the breadth and versatility of our IET portfolio.

We also secured two major offshore topside contracts to provide power generation systems for innovative all-electric FPSO units, which will be installed offshore in Latin America. These awards further build on IET's positive momentum in the offshore market.

On the digital front, Baker Hughes secured a multimillion dollar global frame agreement with BP, covering all of their upstream and downstream assets. This provides an enterprise subscription for Cordant Asset Health, enabling BP to deliver reliable, efficient condition monitoring and supporting its digital optimization strategy.

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We also saw continued traction in our Gas Tech Services business, booking to backlog free multi-year service awards that totaled $500 million. This included a 25 year service agreement to support our customers' offshore operations in Latin America. Our services backlog uniquely differentiates Baker Hughes, adding recurring long term and profitable revenue streams.

In the new energy, we continue to see solid order momentum. We booked record new energy orders of $445 million during the quarter, taking year-to-date orders to $684 million sand already approaching the $750 million we booked in 2023.

Considering this strong first half performance, we are trending toward the high end of this year's new energy guidance range of $800 million to $1 billion. This is another reflection of our technology differentiation and the versatility of our portfolio to provide new energy customers with innovative solutions.

In Asia Pacific, we secured a major Gas Tech and Climate Tech Solutions contract to supply electric-driven compression and power generation to a global energy operator. This will enhance gas operations and power CO2 capture to reduce the carbon intensity at the customer's LNG facility.

We also continue to build on our strategic collaboration with Air Products. In the second quarter, CTS was awarded a contract for CO2 and hydrogen compressors as well as pumps for one of Air Products' hydrogen projects in North America.

In Germany, CTS also secured an award to provide [Passoni Deutschland] with zero emission integrated compressors, providing increased compression capacity to handle the large volumes of gas entering the network from new LNG regasification terminals.

In July, we signed a long-term agreement to be a preferred equipment and service supplier for Wabash Valley Resources' ammonia and carbon sequestration plant in Indiana. The project will capture and sequester 1.6 MTPA of CO2, making it one of the largest carbon sequestration projects in the U.S.

Importantly, the EPA issued Wabash Class VI permits in January of this year. Once this project is FID, we have the potential to book a wide range of orders that could span across both OFSE and IET. These include compression, pumps, valves, digital hardware and software, NovaLT turbines in IET, and sequestration analysis, CO2 flexible pipe, well construction, and surface and sub-surface monitoring in OFSE.

This is one example of how we realize synergies between IET and OFSE, a theme we believe will become a common thread for new energy projects at Baker Hughes. In OFSE, we received another significant Petrobras award for workover and plug and abandonment services in pre-salt and post-salt fields offshore Brazil. The multi-year project will leverage Baker Hughes' integrated solutions portfolio to optimize performance for Petrobras.

Turning to our operational performance. We delivered strong second quarter results, highlighted by 46% year-over-year EPS growth and 25% increase in EBITDA. Importantly, we again exceeded our EBITDA margin guidance, driven by outstanding execution and continued cost productivity improvements across the company. Our efforts to structurally change the way we operate are evident in our margin performance. Overall, EBITDA margins increased almost 150 basis points year-over-year to 15.8%.

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In OFSC, margins came in above our guidance, driven by strong performance in SSPS and the acceleration of our cost optimization initiatives announced earlier this year. Notably, OFSE's year-over-year incremental margins were approximately 60%, highlighting the team's persistent focus on cost productivity.

In IET, margins also exceeded our guidance. Gas Tech Equipment posted another strong quarter with margin significantly increasing from the same period last year, as we convert higher margin backlog. In addition, Industrial Products & Solutions benefited from higher volumes and improved supply chain efficiency with both contributing to IET's better margin performance.

Turning to the macro view on Slide 5. On the back of softer global demand and continued economic uncertainty, oil prices experienced some volatility during the second quarter. Yes, Brent prices still averaged $85 per barrel with support from the extension of OPEC+ production cuts, rising geopolitical risk, and firming oil demand in June.

The trajectory of global economic activity, the persistence of inflation and geopolitical risk will be key factors in determining the oil price path for the remainder of this year. Next year, the pace of OPEC+ barrels returning to the market will likely be the major determinant of oil prices.

Our global upstream spending outlook for the year is revised slightly lower due to North American softness. In North America, we previously expected the market to decline in the low to mid-single-digit range compared to last year. Due to lower-than-expected first half rig activity and tempered second half expectations, we now expect year-over-year declines in North America spending to be down in the mid-single-digits.

With our Gulf of Mexico exposure, which is expected to demonstrate another year of solid growth and our portfolio mix that is more tied to production, we believe that our North American revenues will outperform the market.

Across international markets, we maintain our expectations for high single-digit growth compared to last year. The market outlook already contemplated the expansion that 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 global upstream growth to be led by Latin America and West Africa offshore markets and the Middle East, albeit at a decelerated pace. As the cycle matures, we expect our customers to increasingly focus on optimizing production from existing assets, providing significant growth opportunities for our mature asset solutions. This leverages our decades of experience, deep-domain knowledge and industry-leading technologies, including Leucipa and coveted franchises in both upstream chemicals and artificial lift.

Turning to global natural gas and LNG on Slide 6. We reiterate our positive outlook for global gas markets. Earlier this year, the IEA updated its projections for electricity consumption, noting that, global demand for data centers, driven by crypto currency and AI could double by 2026. This robust data center growth implies its annual electricity consumption could account for 4% of global energy demand. To put this in perspective, this would equal roughly the same amount of electricity, used by the entire country of Japan.

We believe natural gas will be essential to meet this growing power demand, which will be additive to the growth required for new energy sources in the future. Therefore, the notable rise in generative AI could provide upside to our current expectations for natural gas demand to increase by almost 20% between now and 2040.

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We are confident that, strong underlying natural gas demand will lead to robust and sustainable growth in LNG. Through the end of this decade, we maintain our expectations for LNG demand to increase by mid-single-digits annually, requiring an installed nameplate capacity of 800 MTPA by 2030.

As we highlight on the slide, year-to-date offtake contracting for LNG is 42% higher than the same period last year. With recent contracting of Middle East capacity from Asian buyers and portfolio players, we expect a record breaking year for contracting offtake volumes. Contracting of offtake capacity is a key factor in many LNG projects reaching FID.

Therefore, these recent trends only increase our confidence in the pipeline of potential projects progressing. We continue to expect global LNG FIDs of about 100 MTPA over the next three years, which would result in our installed capacity increasing by 70%. Importantly, our growing installed base of equipment, brings significant aftermarket service opportunities for Baker Hughes across the lifecycle of the equipment.

Turning to Slide 7, I want to take a moment to reflect on the strong tailwinds outside of LNG that we are experiencing within IET's Gas Technology Equipment portfolio. The versatility of Gas Tech Equipment uniquely sets Baker Hughes apart from our peers. This enables us to sell our equipment into numerous end markets, outside of LNG, where we often compete and win against a diverse group of industrial companies.

In the first half of this year, we have booked $6.4 billion of orders, with about 85% associated with non-LNG equipment and services. This strength has been most notable in Gas Tech Equipment, where we booked almost $1.4 billion of non-LNG orders during the quarter. On the back of a robust fast half, we now expect Gas Tech Equipment orders outside of LNG to exceed $3 billion for the full year, which is almost double last year's level.

Looking beyond 2024, we see an opportunity for our GTE business to capture increasing share of the addressable non-LNG market, which we expect to total $100 billion to $120 billion through 2030. This significant opportunity includes a broad set of growing end markets, including gas processing and pipeline infrastructure, onshore and offshore production, downstream, and industrial.

This year, we have experienced a notable increase infrastructure orders. In the first quarter, we announced the Master Gas System Free award with Aramco. During the second quarter, we booked the Hassi R'Mel pipeline expansion project in Algeria that will bring gas to Europe. In total, these two projects accounted for more than $1 billion of equipment bookings.

Looking over the next few years, we see continued strength in gas infrastructure opportunities across the Middle East, U.S., Latin America, and Sub-Saharan Africa, due to secular growth in global natural gas and LNG demand through at least 2040. This will drive further momentum in gas infrastructure equipment orders well beyond this year and provides opportunities for Gas Tech services, condition monitoring and pipeline inspection.

A key strength of our business model is to monetize equipment cycles and leverage our growing installed base for sustainable and profitable revenue growth. Beyond gas infrastructure markets, we also expect continued strength in onshore and offshore production orders, led by the FPSO market.

Over the next few years, we anticipate the market awards 7 to 9 FPSOs per year, driven by growth in Brazil and Guyana. Long, X.M recent discoveries in Namibia's Orange Basin provide growing confidence in FPSO orders outside the strong momentum we see over the next couple of years. In onshore production, we are optimistic about associated processing opportunities as global gas production increases, particularly in the Middle East.

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One example is the Jafurah gas field where we have been previously awarded compression trains, stabilizer compressors, valves and condition monitoring for the strategic gas basin in Saudi Arabia. As this basin is set to significantly increase production, we see opportunity to book additional IET orders in the future.

In refining and petrochemicals, we are also experiencing positive momentum. We see growing opportunities for refinery conversion to bio-feedstock as well as growth in ethylene and ammonia markets, driven by rising fuel, fertilizer, and plastics demand. We are seeing increasing power demand led by data center and electric vehicle growth.

This dynamic coupled with renewables intermittency and planned reduction in coal-fired generation capacity is expected to result in power shortages across U.S. grid network. For example, ERCOT's Texas power grid operator has forecasted that 2030 peak summer low demand will exceed generation by 33 gigawatts.

This is equivalent to the energy needed to power 25 million homes, which amounts to 10x the number of homes in Houston. Due to these grid reliabilities and availability concerns, we are experiencing increased interest in our turbo-machinery technology for behind-the-meter and off-grid solutions across data centers, transportation sectors such as airports and seaports, and oil and gas markets.

Our NovaLT turbines, which can run either on natural gas or hydrogen, are the core technology for our micro-grid offering. We will also benefit from increased demand for utility scale power solutions through our partnership with NET Power as well as our steam turbine generators and super-critical CO2 technology that enable power generation through small modular reactor solutions.

Lastly, we have experienced solid growth across our BRUSH portfolio, which includes solutions to meet most challenging requirements for power generation, grid stabilization and decarbonization with its electric motors, synchronous generators and condensers.

As additional intermittent renewable power capacity and electrification-driven demand are added to the grid, we expect that grid stabilization will be an area of significant growth for IET. In summary, we are very excited by the strong tailwinds that we are seeing across our energy and industrial end markets. We remain confident in our ability to deliver $11.5 billion to $13.5 billion of IET orders this year.

Before I turn the call over to Nancy, I wanted to briefly provide some highlights around the progress we are making on our emissions and the success we're having in helping our customers reduce their own emissions intensity.

Baker Hughes was one of the first companies in our industry to make a public commitment to a reduction in our operational emissions by 2030 and achieve net zero by 2050. As detailed in our Corporate Sustainability Report published in May, we remain on-track to achieve these goals, and we continue to provide products and services that help our customers reduce their emissions intensity.

In IEC, we have sold a number of zero emission integrated compressors or ICLs. Also, customers are increasingly interested in our more efficient turbines highlighted by increasing NovaLT order flow. Our Panametrics' flare.IQ technology is also seeing increased customer adoption. It helps to monitor, reduce and control emissions associated with flaring and covers a wide range of assets, including assisted flares associated with downstream petrochemical, refinery, and upstream operations.

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In OFSC, our artificial lift product line deploys more efficient permanent magnet motors at well sites, replacing older, more emissive technology. Combining permanent Magnum motor technology with Baker Hughes' electrical, submersible pump capabilities creates differentiated solutions, providing advantages for our customers and producing fewer emissions. Across both segments, we have developed digital and condition monitoring solutions that enable our customers to efficiently monitor their equipment performance, highlighting any inefficiencies that drive emissions up.

Our customers are clearly focused on reducing their emissions, and we have a broad suite of products to help them on this journey.

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

Nancy Buese

Thanks, Lorenzo.

I will begin on Slide 9 with an overview of our consolidated results and then speak to segment details before summarizing our outlook. We're extremely pleased with our second quarter results. Our operational discipline and rigor are gaining traction, highlighted by our consistent improvement in EBITDA margins and returns. In just two years, our margins are up almost 300 basis points, a credit to our team's dedication and hard work.

We're pleased with the strong margin performance in both OFSC and IET, resulting in adjusted EBITDA of $1.13 billion, a 25% year-over-year increase. This was driven by strong backlog conversion in both SSPS and IET, effective management of our aeroderivative supply chain tightness in Gas Tech Services and realization of efficiency gains and productivity improvements across the business.

GAAP operating income was $833 million. Adjusted operating income was $847 million. GAAP diluted earnings per share were $0.58. Excluding adjusting items, earnings per share were $0.57 an increase of 46% compared to the same quarter last year.

Our continued discipline resulted in corporate costs for the quarter of $83 million, down more than 20% since our transformation effort began in 2022, a testament to our multi-year focus on driving productivity and efficiency gains. Our adjusted tax rate was down slightly year-over-year to approximately 30%, as we continue to execute our tax optimization program. We have line of sight to additional tax rate improvement opportunities and we'll execute on these in the coming quarters.

As Lorenzo mentioned, we had another quarter of strong order momentum with total company orders of $7.5 billion including $3.5 billion from IET. The diversity of IET's end markets continue to support a healthy order book, which was led by the Hassi R'Mel gas pipeline boosting project and two FPSO awards booked during the quarter. Alongside a strong order book, IET RPO ended the quarter at $30.2 billion, up 10% year-over-year and setting a new record for the company, as IET RPO is now up 50% over the last 5 years.

In OFSC, RPO remained at a healthy $3.3 billion. Free cash flow came in at $106 million for the quarter, bringing our first half total to $608 million. As we previously highlighted, we expect free cash flow to be more weighted towards the back half of the year. For the full year, we continue to target free cash flow conversion of 45% to 50%.

Turning to Slide 10. Our balance sheet remains strong, as we ended the second quarter with cash of $2.3 billion, net debt-to-EBITDA ratio of 0.9x and liquidity of $5.3 billion.

Let's turn to capital allocation on Slide 11. In the second quarter, we have returned $375 million to shareholders. This included $209 million of dividends and $166 million of shares repurchased during the second quarter. In total, for the first half of the year, we have returned $743 million to investors.

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For the full year, we remain committed to returning 60% to 80% of free cash flow to shareholders. Our primary focus is to continue growing our dividend with increases aligned with the structural growth in the company's earnings power. We will continue to utilize buybacks to reach the target range and we remain opportunistic.

Now I will walk you through the business segment results in more detail and provide our outlook. Starting with Industrial and Energy Technology on Slide 12.

For the second consecutive quarter, IET outperformed our EBITDA guidance, mostly attributed to excellent conversion of Gas Tech Equipment backlog that drove revenue and margin upside. IET orders were strong at $3.5 billion with non-LNG Gas Tech Equipment accounting for 97% of the total.

Year-to-date, we've now booked $6.4 billion of IET orders and we remain on track to achieve our guidance range $11.5 billion to $13.5 billion. The versatility and differentiation of the IET portfolio across Industrial and Energy segments remains a significant competitive advantage for Baker Hughes, allowing us to profitably grow with new customers and applications.

CTS orders were $392 million in the second quarter, led by solid order activity in both carbon capture and hydrogen-related projects. This puts CTS orders for the first half of 2024 at $585 million, supporting robust year-to-date new energy orders of $684 million. IET RPO ended the quarter at $30.2 billion a record level and up 10% year-on-year.

This level of backlog provides exceptional revenue and earnings visibility over the coming years. As we execute our robust equipment backlog, this will significantly increase our installed base, which will then drive structural growth in our aftermarket service business well beyond 2030.

Turning to Slide 13. IET revenue for the quarter was $3.1 billion, up 28% versus the prior year, led by a 59% increase in Gas Tech Equipment revenues, as we continue to execute our record levels of backlog. We also experienced outstanding performance in Cordant. Gas Tech services revenues expectations, increasing 5% versus the prior year. IET EBITDA was $497 million, up 37% year-over-year.

EBITDA margin increased about 100 basis points year-over-year to 15.9%. I want to specifically highlight the progress in Gas Tech Equipment margins, which are up about 500 basis points compared to prior year levels, due to conversion of higher margin backlog, cost efficiency improvement and strong productivity gains. We also continue to see good margin expansion in our Industrial Tech business led by Cordant, where we are benefiting from the improved output due to process enhancements and a return to normalization of our supply chain.

Now turning to Oilfield Services and Equipment on Slide 14. The segment maintained its strong margin trajectory, keeping us on track to achieve our 20% margin target for next year. This is a testament to the work the OFSC team has done to drive cost efficiencies and maintain commercial discipline as they remain focused on profitable growth.

Continued strength in flexibles helped to drive SSPS orders of $888 million up 40% on a sequential basis. We expect the offshore market to remain strong and anticipate an increased order contribution from subsea-tree awards in the second half of the year.

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OFSC revenue in the quarter was $4 billion, up 6% quarter-over-quarter. International revenue was up 7% sequentially. We experienced continued growth across all Middle Eastern markets and a strong seasonal recovery in North Sea, where rigs returned from maintenance following the prior quarter's delays.

In Latin America, we continue to experience rig reactivation delays in Mexico. In North America, 3% sequential growth was entirely attributed to the Gulf of Mexico, where a sharp increase in project-related activities benefited results. North America land revenues remained relatively stable compared to first quarter, outperforming the decline in rig activity due to our weighting towards production businesses.

OFSC EBITDA in the quarter was $716 million, up 13% year-over-year. This was led by solid performance on both revenues and margins. OFSC EBITDA margin rate was 17.8%, increasing 144 basis points year-over-year. This strong margin improvement was led by cost efficiency and productivity enhancements that we've been executing across the business.

We are particularly pleased with the continued improvement in SSPS margin performance, which is now approaching low teens. More broadly, we are clearly seeing the benefits of our transformation efforts initiated in late 2022, which are having a positive impact on our financial performance across both segments.

Turning to Slide 15. I want to take a moment to provide more details on the actions we're taking to drive sustainable margin improvement across the company. In IET, the team has adopted a process mindset that is driving a culture of improved efficiency and productivity. We are on a journey to create an efficient organization that emphasizes the elimination of waste, continuous improvement and delivers more value to our customers.

As highlighted by the strong margin outperformance so far this year, these continued optimization efforts are gaining traction across IET and are a key part of the strategy to reach our 20% margins by 2026. In OFSC, we're focusing on improving our cost competitiveness and enhancing our execution. Supply chain optimization and service delivery improvements are key strategic priorities to achieve our 20% margin targets.

Commercially, we remain disciplined, ensuring we are maximizing returns and focusing on profitable growth. Combined with our leading technologies and solutions, we are now demonstrating a sustainable uplift in our OFSC margins. In our corporate functions, we're driving structurally lower corporate costs, as we execute several projects to streamline activities, remove duplication and modernize management systems.

This is improving clarity, transparency and the pace of decision making. We are making significant progress in changing the way we operate. What it strikes me the most is what lies ahead. We still have a lot of opportunity to drive margins higher and the market tailwinds for our unique portfolio of technologies and solutions are only strengthening.

Next, I'd like to update you on our outlook. The details of our third quarter and full year 2024 guidance are found on Slide 16. The ranges for revenue, EBITDA and G&A are shown on the slide and I'll focus on developments. Overall, we're increasingly bullish on the outlook for the company, in particular, our IET business.

As Lorenzo highlighted, this segment is benefiting from strength in multiple cycles including LNG, gas infrastructure, offshore and new energy. Our portfolio is well-suited to capitalize on the positive momentum in each of these areas. Given the tailwinds and our continued operational improvement, we expect third quarter company EBITDA of $1.2 billion at the midpoint of our guidance range.

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For IET, we expect third quarter results to benefit from continued productivity enhancements and process improvements, as well as strong revenue conversion of the segment's record backlog. Overall, we expect third quarter IET EBITDA of $525 million at the midpoint of our guidance range. 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 and Climate Tech Solutions.

For OFSE, we expect third quarter results to reflect typical seasonal growth in international and flattish activity in North America. We expect third quarter OFSC EBITDA of $760 million at the midpoint of our guidance range. Factors impacting this range include the phasing of 2024 E&P budgets, SSPS backlog conversion, realization of further cost out initiatives and execution on larger international projects.

Turning to our full year guidance. We are increasing the midpoint of the EBITDA range by 5%, entirely attributed to strong IET performance as our OFSC EBITDA midpoint remains unchanged. For the full year 2024, we now expect Baker Hughes EBITDA of $4.525 billion at the midpoint of our guidance range.

Given the strength in first half new energy orders, we now expect to end the year towards the high-end of our $800 million to $1 billion range. We expect IET orders to remain at robust levels this year and maintain the guidance range between $11.5 billion to $13.5 billion driven by strong momentum across all aspects of the IET portfolio.

As a result of robust backlog conversion and strong margin performance, we are increasing our full year outlook for IET EBITDA to $1.965 billion at the midpoint of our guidance range. Compared to our prior guidance, this amounts to a 12% increase. For OFSE, we maintain our EBITDA midpoint at $2.9 billion for our guidance range, as we expect margin upside to offset lower revenue expectations in North America.

In summary, for Baker Hughes, we now expect the company to generate at least 20% EBITDA growth for the second consecutive year. 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 second quarter results.

The structural changes we are making to the business are increasingly visible in our financial performance and provide a clear path to our upgraded guidance range. We are intensely-focused on driving sustainable margin improvements and remain on track to deliver 20% EBITDA margins in OFSC and IET. We are excited about the continued improvement of our business and about the future of Baker Hughes.

I'll turn the call back to Lorenzo.

Lorenzo Simonelli

Thank you, Nancy.

Turning to Slide 18. We are exceptionally proud of the progress we have demonstrated on the margin front. EBITDA margins are expected to be in the high teens range during the second half of this year, and 2024 is anticipated to produce Baker Hughes' highest margin rate. Our transformation efforts are clearly driving structural improvement in underlying margins. Our progress is clear and we are confident in our plan to achieve 20% margins for OFSE in 2025 and IET in 2026.

The story today of Baker Hughes is more than just improving operational performance. As I highlighted earlier, we have growth tailwinds in IET that span across multiple end markets, including gas infrastructure, LNG, FPSOs, distributed power, and new energy. Orders from these key growth markets have been major drivers of our record equipment backlog. Throughout our transformation, we have taken steps to reinforce our culture as one Baker Hughes. Our people are the driving force behind our success. We put people first and take energy forward.

I'd like to conclude by thanking the Baker Hughes team for yet again delivering very strong operating results. It's a testament to the strength of our people, the culture we're building, the portfolio we have created, and the value of the Baker Hughes enterprise.

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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

[Operator Instructions] Our first question comes from the line of Luke Lemoine with Piper Sandler.

Luke Lemoine

Good morning, Lorenzo, Nancy. You had really strong margins in both segments, which I guess is another step on your journey to 20% for both. You talked about some of what has been done, but could you elaborate on the drivers from here, if it's any cost initiatives, operational enhancements that we should focus on or kind of an IET or backlog conversion or mix?

Lorenzo Simonelli

Definitely, Luke. And I'm really proud of what the team's been able to accomplish. As you said at 2Q, really some great results and it's a testament to the execution that we started also back in the fall of 2022, when we went from four discrete segments into two. We had numerous changes and also we started a restructuring of taking cost out, $150 million in 2023, and really streamlining processes, reducing duplication.

As you look at the segments in particular, I mean, IET is really on a process of continuous improvement, adopting lean mindset as they have a great backlog that they're continuing to churn out and we're increasing automation, the efficiencies of supply chain, the customer-centric approach and really delivering more value to our customers with what we have. And that volume is great for the future as well, and we're continuing to do more with it and getting the efficiencies from a margin perspective.

On OFSC, again, it's cost competitiveness. It's continuing to drive as you saw in the fall of '23, announcing a restructuring with taking out duplication, announcing execution, service delivery improvements, a focus on best cost country sourcing and really profitable growth as we go forward. It doesn't stop in the segments, also across the company, the structural improvements that you heard, Nancy mentioned beforehand.

We're expecting the margin expansion to continue. As you look at '24, we're going to be up about 150 basis points, which is better than what we said previously, and we're fully committed to the 20% in OFSE in 2025 and also the 20% in IET in 2026 and very confident in our ability to achieve those. A lot of things coming together and a lot of hard work by the team.

Nancy Buese

Luke, I would just add to that. As we've indicated, we're doing a lot of fundamental work. We are changing the way we work within the company. We are building sustainable improvement. You will continue to see those margins pick up over time. Just to be clear, this is the hard work from thousands of employees across the globe and every little bit matters. And so, we're really seeing the margin improvements from many, many things. There's key drivers, but it's a great effort and a testament to all the work the teams are doing across the company.

Luke Lemoine

This is somewhat related, Nancy, but you raised your EBITDA guidance by 5% this year, and we saw some of the segment detail in the slide deck. Could you walk through some of the drivers that's pushing this higher? I mean, I know some is probably the margin expansion here, but anything else that's noteworthy?

Nancy Buese

Yes. From an IET perspective, that was really the driver of the increase to guidance. So we raised the midpoint by about 12%. That's the second consecutive year of significant record EBITDA for the segment. It was really driven by stronger revenue expectations and upgrade in margins.

And so, we believe that IET revenues will increase by about 20% this year, which is 8% above our prior guidance. That's really driven by GTE and Industrial Solutions, if those are the drivers of the margin upside. Revenue comes on the back of stronger backlog conversion, Industrial Solutions on the heels of Cordant. Great improvements there.

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On the margin side, we were expecting 2024 IET margins of 16.2%, which is about 120 basis points ahead of last year and 70 basis points upgrade versus our prior outlook. Really starting to see great margin improvement on the IET side. Those are just outperforming, where we originally thought we'd be.

On the GTE side, that's that higher margin backlog that we've spoken about, stronger pull through and then the cost efficiencies really starting to come through. In Industrial Solutions, that's around supply chain optimization and higher volumes as well. I would note that, OFSC has remains unchanged, so still strong from what we had indicated earlier in the year.

But overall, we're very happy with where we are today and our technology differentiation, our portfolio versatility is really driving performance and that's what we've indicated. I would also say is that, we're really seeing sustainable improvements that we expect to extend for quite some time.

I would also note that, with the backlog that we have and the growth in the equipment base, you're going to see even more Gas Tech Services growth opportunities over the longer-term with these backlog levels. That's really the driver for the guidance increase.

Operator

Our next question is going to come from the line of David Anderson with Barclays.

David Anderson

Hi. Good morning, Lorenzo and Nancy. I want to follow on with Nancy you're just talking about and that was on the services side of Gas Tech. You had another big quarter in orders, IET backlog at another record level, up quite a bit over the last five years. How is that installed base translated to Gas Tech Equipment services side of the business?

Given the backlog and installed base, what does this mean for kind of the growth over the next few years? You did 13% sequentially this quarter, bit higher than we were modeling. Are we at a point now where we can start thinking about this as a mid-teens growth annually? Is that a reasonable expectation from here? A lot going on in maintenance and replacement cycle. It's kind of hard for us to model that.

Lorenzo Simonelli

David, as you said, it's an impressive growth rate. Over the course of the last five years, again, a 50% growth in the RPO. I think that's a testament to the portfolio that we have of equipment that goes into critical areas. It's a key differentiator. We're not just in one aspect of an industry or market. We can cut across many. Gas Tech is a full life cycle business. I think you've got to look at it from a standpoint of razor, razor blade.

We've said this before, this isn't just an equipment sale, this is the ability to stay close to the customer and be with them for 20 to 30 years. That may come later than the equipment sale, but it's there. And so, we look constantly at our installed base and look at the opportunity for that services revenue stream to come through.

You're starting to see it come through and it provides that long-term visibility and confidence in the sustained growth outlook that we see for the company going forward. It's under-appreciated right now, we feel, because, again, it's that aspect of an amazing backlog that's been built over five years, now starting to come out, and we've got the equipment being installed and you'll see that service stream continuing for many years to come and again being on a life cycle basis. Razor, razor blades, that's clearly a model here that we're taking forward.

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David Anderson

Maybe if I could just shift over on the OFSE side around Eastern Hemisphere. Latin America has been a bit of a mess this year. It's kind of hard to figure out which way the ball is going there. But, you outperformed overall, internationally, your peers 7% sequentially, Eastern Hemisphere is really strong, particularly in the Middle East.

In your guidance for high single-digit growth spending internationally for this year and then as we think into 2025, can you talk about which markets you have kind of really good lines of sight on in which you can outperform? I know Saudi is on the top of the mind. You mentioned West Africa as well. Could you just dig into that a little bit more in terms of, are these big contracts that are starting up? What gives you the confidence on that visibility over the next, let's say, 18 months?

Lorenzo Simonelli

Yes. Definitely, Dave. And as you said, we continue to see an outlook of high single-digit in the international market and very pleased with also the second quarter performance from a quarter-over-quarter being up 7%. Again, as we look at the marketplaces, there's the significant offshore as you look at Suriname, Namibia, Guyana that continues to be strong, Brazil. Again, you've got, as you mentioned, some of the dynamics that take place in Mexico, which will continue, no doubt.

With the international overall, continues to be strong. Middle East is also an area of growth for us as we continue to move forward. There's several good prospects. I would look at it from a standpoint of growth in the future at a slower pace, so positive, but again decelerating as we go forward.

We remain very optimistic about the continued aspect of international growth and also the mature assets and the opportunity around mature asset solutions that we can actually provide to the company and the customers we have, and brownfield opportunities that exist, as people continue to look at increasing production. That's a sweet spot for us. As you know, we are more on the production side. We've got the chemicals. We've got the ESPs, and we've got the solutions also from a digital standpoint that we rolled out to the marketplace.

Operator

Our next question is going to come from the line of James West with Evercore.

James West

Thanks. Good morning, Lorenzo and Nancy. Clearly from your prepared remarks and some of the comments made already in the Q&A, you guys are feeling good momentum. That's great to hear. Perhaps the first question for me, Lorenzo, if we think about the really with an unappreciated part of your business is leverage to the behind the meter.

You mentioned some of the things, but there's micro grids, obviously the off-grid solutions and of course data centers are an opportunity that we all see going forward. Could you still elaborate on the role you see Baker and your gas technologies playing in these other solutions outside of the big LNG and other projects?

Lorenzo Simonelli

Definitely, James. As you say, I think it's an area that's coming to the forefront and people are better appreciating the portfolio of capability that we have to help in an area where you need continuous power supply, the need for distributed power systems and we know that, that's just going to increase over time. I mean, you look at some of the predictions out there, you highlighted the data centers and the IEA says that by 2026, they're going to consume 800 terawatt hours, and that's basically a doubling of the consumption from 2022.

And you need a lot of these micro-grids to help. And we've got gas turbine technology that is beneficial for those, especially on the off-grid. And it's not just the data centers, it's overall, as you look at the instability of the grid and the requirements that are being placed on the grid. A lot of people, customers are looking at off-grid solutions, and that's even evident in the Permian.

And where brownouts are a regular occurrence and now we're seeing companies come to us and ask for off-grid solutions, and we've got modular capabilities. And on the small scale, again, we've got the NovaLT turbines. We've got the opportunity of steam cabins. We've got the SMR solutions. And then as we go larger scale and in the future, you've also got net power.

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And these are -- is a portfolio of capabilities that we can give to oil and gas, airports, shipping, and we see those as all key segments that need additional power going forward. And increasingly, they're going to off-grid solutions. So we're looking at the market, developing proposals, working with partners and ecosystems and see this as a tremendous opportunity going forward.

James West

Great. We certainly agree with that. And maybe, Nancy, for you. We have the new range for the year. Curious about the puts and takes on cash flow, the high end of the range versus the low end of the range. What are the key drivers to either hit the high end or be towards the low end? And I know you've always talked this year about cash flow and free cash flow, especially being back-end loaded, which looks like it's going to be. But I'd love to hear -- maybe some additional color there would be great.

Nancy Buese

Sure. And free cash flow is always lumpy from quarter-to-quarter, and that's really why we don't guide to it by quarter, but we give you the guidance of 45% to 50% free cash flow conversion. And if you look back over the last 5 years, we're very consistent with where we have landed. And remember also that Q1 really outperformed. And so I would say what you've seen for first half of the year is exactly what we would have anticipated, and we're pleased with that.

And as you mentioned, second half free cash flow is always stronger, and that's what we're anticipating again this year. It's always impacted by a few things, certainly in this quarter by timing of collections with some key customers. We always have down payments that we're not always sure when those are going to come in.

And I would just reiterate our confidence in the 45% to 50% conversion for the year and our longer-term target remains 50% plus. And right alongside that, we would also remind, James, just the returns to shareholders. So in the first half of the year, we returned almost -- sorry, almost $750 million, which is up 50% year-over-year, and that's focused on the dividend growth and the share buyback. So we will always continue to focus on those things being an alignment, but strong conviction in our ability to get there on the free cash flow conversion.

Operator

Our next question is going to come from the line of Arun Jayaram with JPMorgan Securities.

Arun Jayaram

Lorenzo, LNG has obviously been a big part of the Baker story over the last couple of years, but we're seeing now a step change in your non-LNG orders in Gas Tech. Can you talk about some of the underlying drivers of this non-LNG growth? Do you expect it to continue and perhaps your thoughts on the setup of the IET order book as we think about the back half of the year and into 2025?

Lorenzo Simonelli

Yes, definitely, Arun.

As you say, LNG has not gone away, and we anticipate it's going to be coming back and again, we've seen the pause in the U.S. But our orders continue to be strong across IET and in particular, as you look at the onshore/offshore production, as you look at gas infrastructure, and all of this plays into the ecosystem that's required around gas. And that's where we play strongly from a compression standpoint. We play strongly with the turbines that we provide.

And so as you look at the first half, $6.4 billion booked, and we see that even the second half going to be strong again. And we're affirming, as you heard from Nancy, the range. And as I look at the year, we should be around $12 billion to $12.5 billion from orders perspective. As we go forward, we'll start to see LNG come back. So this isn't an aspect of the backlog or also the industry shifting and going away.

We're going to continue to see robust orders as we continue also into 2025. And it's the breadth of the portfolio that we have and the capability of having the right equipment to be installed at the right time. So we feel very good about the way in which the differentiation of the technology comes through here.

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Arun Jayaram

Great. And just a follow-up, Lorenzo, you and the team have booked a couple of large orders on the gas infrastructure side, in Algeria this quarter and in Saudi in 1Q. Thoughts on how this could progress, again, over the same time table over the balance of the year and into next year?

Lorenzo Simonelli

Yes, Arun, we've often said it's the age of gas, and this is the time for natural gas. It's a plentiful resource. We know it's merits again, from an emissions perspective being lower than coal. And we think that gas has a lot of growth potential going forward. And we're seeing that also from the developments of gas infrastructure around the world as energy demand continues to be there and also people are looking for lower carbon intensity and gas is the solution.

So as we go forward, we're seeing that gas production being a positive for Baker Hughes. You mentioned and highlighted the Master gas system free that was booked earlier this year. Again, there are going to be other Master gas systems required. You mentioned also Algeria Hassi R'Mel. There's going to be other countries that need that same gas infrastructure.

As I talk to customers, as I go around the world, there's a common theme around gas infrastructure being needed, and we're going to have that opportunity to leverage our portfolio into that marketplace.

Operator

Our next question is going to come from the line of Stephen Gengaro with Stifel.

Stephen Gengaro

You've given us a lot of good detail around 2024. And I was curious, as we look into next year, given the IET backlog at record levels and what appears to be international oilfield service strength continuing. Can you give us some thoughts on sort of the pluses and minuses we should be thinking about heading into '25?

Lorenzo Simonelli

Yes, I'd say, Stephen, it's a little early to provide full detail. And obviously, it's something that we continue to monitor. As we think about it at a macro level, more of the same. And as you think about Baker Hughes, continuing to grow positively and also focus on the margin trajectory that we've laid out.

As you think about it from an OFSE perspective, again, we've got the focus on the 20% EBITDA margins. As you look at international, we continue to see robust international growth, again, positive growth at a slower pace, but positive, and I think North America, still early days, but we do anticipate a rebound in at least the second half of '25 and from the area that it is today.

On the IET side, again, a focus on the margin improvement. We've laid that out and that continues to be the case. And order momentum continuing. You've got LNG that, again, from the U.S. perspective has been dampened in '24, just given the pause, we anticipate that, that will reverse, and we'll see those LNG opportunities come back. Also, the international opportunities continue to be there.

And as I just mentioned to Arun as well, the gas infrastructure, onshore, offshore production, the FPSOs and New Energy. Let's not forget the growth that we continue to see in New Energy, and we highlighted being at the upper end of our guidance on the New Energy at the $800 million to $1 billion range, and we continue to see positive momentum as we go into '25. So feeling very good, again, early days. And we'll be able to give more as we get later into '24.

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Stephen Gengaro

And just as a follow-up, you mentioned New Energy orders. Can you just give us a quick recap of the key technologies and areas that are driving the New Energy orders?

Lorenzo Simonelli

Definitely. And the great thing about our portfolio, Stephen, is we're able to go across many of these New Energy projects really from the sub-surface all the way to the actually reducing the CO2 and being able to store it and being able to move it. So if you think about our capability and you look at Wabash, for example, and I highlighted Wabash in the prepared remarks.

You've got compression pumps, you've got valves, you've got instrumentation, condition monitoring. You've got, on the OFSE side, the sequestration, feasibility analysis, well construction, you're able to measure and verify. And we have a portfolio of capabilities, both across IET and OFSE that really allows us to play a differentiated role in these projects such as Wabash.

And as you look at the New Energy orders that we booked so far this year, about 50% have been on the CO2 side. And we see CCUS continuing to be a key theme as we go forward. So feel good about New Energy and the continued momentum there, and we're uniquely positioned.

Operator

That was our last question. I will hand you back to Mr. Lorenzo Simonelli, Chairman and Chief Executive Officer, to conclude the call.

Lorenzo Simonelli

Thank you to everyone for taking the time to join our earnings call today. We look forward to speaking to you all again soon.

Operator

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

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