Baker Hughes: Investing in the Energy Technologies of the Future
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Speakers

- Connor Lynagh; Morgan Stanley; Equity Research Analyst
- Brian Worrell; Baker Hughes Company; CFO

Participants

- Unidentified Participants

INTRODUCTION

Connor Lynagh: Thanks everybody for joining. I'm Connor Lynagh, I cover energy services and equipment here at Morgan Stanley. I'm very pleased to be joined by Brian Worrell, Chief Financial Officer of Baker Hughes.

Just a quick note for those on the line here, please note that this webcast is for Morgan Stanley's clients and appropriate Morgan Stanley employees only. This webcast is not for members of the press.

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So, thanks again, everyone. Welcome to day two of the conference here. Just a reminder for those here in the room and those on the line, we do two -- have two great panels after this, one on carbon capture, and one on the investment banking and private equity landscape in the power industry. So, both should be interesting. If you have the time, please stick around.

We do have time for audience Q&A for those in the room here at the end. And then for those on the webcast, please feel free to use the online form to submit questions. I'll leave time at the end that we can get to these things that are top of mind for you.

So, Brian, let's maybe start it at the high level here. So, investors have ratcheted up pressure on energy companies to increase their returns, focus their returns on capital one, it seems like there's sort of two main tax or areas that people are focused on investing for the future new energy technologies or returning a lot of capital to shareholders.

You guys have taken a fairly balanced approach. Can you talk about how you've balanced that, and what you see as the big priorities within that capital allocation framework?

QUESTIONS AND ANSWERS

Brian Worrell: Yes. Sure, Connor, and hey, thanks for having us here. It's great to be back in person after a couple of years. Look, we've been trying to strike that balance that you talked about.

We've got a very dynamic industry that we're in. A piece of the industry is clearly in our mind going through a nice resurgence here, but that's probably not going to be long-lived. So, what we need to do there is different than what we're doing in the other side of the business, which we think has a lot of growth potential.

So, we've just taken a step back and said, hey, we want to make sure we're striking the balance to be able to invest in areas that can drive outsized growth like New Energy. Continue to invest in the core of our business to get margin rates up and increase returns, and then have an attractive return for shareholders.

And as evidence of that, to give you how we've been executing there, last year, we returned $1.2 billion to shareholders. We converted 70% of our adjusted EBITDA into free cash flow and returned about 70% of that to shareholders in the form of dividends and buybacks.

So, if I think about it going forward, and we can dive into this more deeply if you like, we're going to continue, we want to invest in places that we can drive growth, increase returns in the core portfolio, and continue what we think is a pretty shareholder-friendly capital allocation policy.

Connor Lynagh: So, let's start on the capital return side of things because I think there's been some confusion on that part of the story recently.

Brian Worrell: My fault. Yes.

Connor Lynagh: So, let's just level set for people. What is the current shareholder returns framework that you guys are using? How should people think about it in the long term?

Brian Worrell: Yes. So right now, our dividend sits roughly in aggregate about $725 to $739 depending on where the share count ends up. We've been buying about $100 million per month in shares back since we announced our buyback program in the middle of last year.

We'll likely continue that piece of buybacks into the third quarter and that coincides when we expect GE to be down to zero in terms of their ownership. They're roughly at about 11% today so that that level seems pretty good for where we're setting.

And if you look at consensus free cash flow with what we've announced for the year, that's about a 90% return of free cash flow to shareholders. Looking beyond the third quarter, look, the way I think about capital allocation is like the dividend where it is, we were the only company in this space who did not have to cut the dividend during the pandemic, and very happy with that.

From a buyback standpoint, roughly said $200 million to $300 million per year is sort of the base level of buyback that we'd like. And so that kind of puts a floor of capital, return to shareholders roughly at about a billion dollars.

Any free cash flow in excess of that, we can certainly look at returning to shareholders by buybacks more likely than the increase in dividends at this stage or additional uses. Recently, we have made some tuck-in acquisitions.

I like those smaller acquisitions that add capability and markets for the core business things like pilot flow, onshore flexible pipes as well as the arms or liability acquisition that expands our condition monitoring into a larger asset pool or some early-stage technology like in hydrogen and CCUS, where we've done some things.

So, I'd say that's how we're thinking about it in terms of investing in growth, but we will priority on returning capital to shareholders. And I'd say, when I step back and look at it more broadly in companies that I think have pretty good policies and where they are, that 60% to 80% of free cash flow being returned to shareholders through dividends and buyback feels about the right place for where we think we can be and continuing to invest in the business to drive growth, especially in the new energy areas.

Connor Lynagh: Thank you. Very clear. So, I think that's a good segue. So, you guys recently announced the creation of climate technology solutions and industrial asset management. So, help us understand, I think, these are exciting areas that most of us following the story were broadly aware of.

Connor Lynagh: But putting a name on it certainly suggests you're more focused. So, how should we think about what this means for your business?

Brian Worrell: Yes. So, we talked about it on September of last year about how we we're going to think about the business in two broad areas, so the upstream space and industrial energy technologies because of the different dynamics in those businesses, different capital allocation priorities, interactions with customer is different, and investment profile a bit differently.

And as we continue to work on how we're going to capitalize on those businesses, it became clear that we needed some more focus and attention, particularly around climate technology solutions and industrial asset management.

So those groups are going to work for Rod Christie, who runs TPS. And the way I think about those is their organizations that are being put together to really drive product development, offering development, and being very agile and nimble to react to a marketplace that's changing incredibly quickly.

So, the way to think about climate technology solutions, it's really bringing together our capabilities in carbon capture, hydrogen emissions management, and cleaned and integrated power solutions.

And so, they will work across the portfolio because we've got offerings in different pieces of the portfolio that serve those segments. And getting those to customers in a way that we can react quickly, deploy quickly, and grow market share as these markets develop is going to be really important.

Industrial asset management is similar. It brings together capabilities that we had really in Bently Nevada, turbomachinery, and some of the new acquisitions that we've -- that we bought into the portfolio to really get at helping our customers, run their operations better, and ultimately reduce emissions and drive better cost positions.

Connor Lynagh: Yes. So, I mean, you guys have been, I think, notable within the group of sharing very, shall we say, achievable targets. But you've put out a $60 to $70 billion addressable markets. Is that what we should think of for the new energy? So, is that what we think of as being the opportunity set for CTS or how would you characterize the opportunity before that?

Brian Worrell: Yes, look Connor, it's a good start. So, the $60 billion to $70 billion is really around carbon capture and hydrogen. And like I said, in CTS, we've got emissions management, which is a much smaller market, but an attractive market. And then, we're still working through our role in clean and integrated power solutions primarily in the industrial space.

But if I take a step back and look at what we think it takes to win in that marketplace, we've invested in some, like I said, some small tuck-in M&A, but some early-stage technologies, particularly around carbon capture and hydrogen to be able to play in the different pieces of the value chain for those markets.

Carbon capture. Number one thing that's going to happen in carbon capture is the economics have got to get worked out, right? What are the policies going to be, what's going to be the incentive or the penalty, the incentive to capture and do something with it, or the penalty if you don't do something with it. So, there's a lot of regulatory framework that needs to work out.

In any of those scenarios though, the cost to capture carbon needs to come down. So, we've invested in some technology that we think once it's commercialized can potentially have the cost of capturing carbon.

We've invested in technologies that can work in different scenarios. The cost and the technology that's used to capture carbon really depend on the concentration of carbon within the gas that you're trying to capture it from.

So, we have placed that in different pieces of that technology so we can play across that value chain. And we're participating in about 40 pilots globally right now to really prove out some of that technology, and ultimately, decide what we will industrialize and take forward.

So, we think with our core compression technology as well as some of these early-stage technologies that we bought. And we think we're really well-positioned in the carbon capture space.

The hydrogen side is quite interesting as well. I mean, we've been working with hydrogen, since the 1960s, we've got over 2,000 compressors and applications in hydrogen today.

We understand the gas. We understand these properties. So, we know how to deal with hydrogen applications. There has got to be a lot of infrastructures that's got to be invested as it's cost-prohibitive today.

We've also made some technology investments around turquoise hydrogen. And again, our core capabilities around compression are going to be what's going to propel that growth for us in the near term.

So, what I'd leave you with here is we've got some really strong technology today in these spaces. So, it's not a huge leap for us to grow in both carbon capture and hydrogen. We've invested in some emerging technology that we think is pretty promising, and we'll work with our customers to develop the infrastructure to make this work but there's got to be a lot of policy things on top of that.

And then, around emissions management, we have some offerings today. And again, I think as more and more customers look to reduce emissions, 90% of the world economies that signed up for net-zero, at some stage, I think that's going to be an opportunity that will develop over the next decade for sure.

Connor Lynagh: Makes sense. Can you -- can you just walk through in a little more detail; how do you think about the necessary organic investment need? Are there areas of the value chain that you see right now that you need to do more inorganic or how should we think about a capital deployment in that business over the next few years?

Brian Worrell: Yes. Look, like I said, we've made some small tuck-in acquisitions, and we've invested in some early-stage technologies. And there are some things that we need to do to our current products to make them ready for either hydrogen or carbon capture. So, I look at it in three big buckets.

There's a technology that exists today that just needs a little bit of work on it, very light capital deployed to do that, more integrating it into a project or the infrastructure. There's a technology that we have today that needs a decent amount of work like what we've done around the gas turbine.

So, we have a gas turbine portfolio, and some of our gas turbines can run on 100% hydrogen. That took engineering work. That took an investment in R&D to make that work. I'd say we're largely through a lot of that core technology development. But we are going to be spending a little bit more in that space.

And then, there are areas where the technology is early stage, it needs more development, less from the feasibility standpoint in terms of does the technology work more from the industrialization of it, and can it be deployed at a larger scale.

So, we have said that we would be stepping up our R&D spend, particularly in turbomachinery to address these areas. But again, it's all within the framework that we've laid out. And it's nothing that we're betting the farm on if you know what I mean.

And that's what I like about the approach that we've taken is we've invested in multiple technologies knowing that some are going to work, some are going to be less successful than others. But we think that the portfolio approach given the early stage of this market development is the right way to go,

Connor Lynagh: Right. Makes sense. So, let's pivot to the industrial asset management because that's a bit newer and it's one that I haven't fully gotten my head around. So how do you think about what that business is going to look like over the next several years? And basically, one thing that we're always trying to understand is who ultimately are you going to be competing against in the service offering?

Brian Worrell: Yes. Look, that's a market that I'd say is still clearly evolving. And we haven't put any numbers out on this to say exactly what we think our target area is and it's because it is still evolving. And the good news is we're not starting from zero.

So, we have a very, very solid position today and condition monitoring primarily around rotating equipment. We've got world-class sensors that detect temperature and vibration.

It takes all that data, puts it into a platform that is ours, tells an operator what's going on with that equipment that then flows up to a higher level and whoever's operating the facility whether it's a refinery, an offshore platform, an LNG facility, an automotive plant that's got rotating equipment, what's going on, and does there need to be an intervention. All right. And how can you operate that equipment more efficiently and better.

With some recent acquisitions, we've added capabilities that our arms reliability acquisition basically brings a database of other failure modes and how other equipment operates, so you get sensing and data from that.

So now, you've got your critical equipment that you're monitoring here, and you've got balanced equipment around the rest of the facility that you can integrate into that. We made a 10% stake in a company called Augury that adds more data points, more sensing, and more equipment to that as well, integrates that in, leverages an AI product that is Augury specific, we can marry that with what we've done with C3, and you suddenly have a lot of data around an entire facility.

And the ultimate goal here is to, one, optimize how you're running it to drive costs down, to be more efficient, make sure you don't have unplanned downtime and maintenance.

And oh, by the way, I've been very, very vocal in terms of one of the best ways to reduce carbon emissions is to sweat the assets that you have today better. So, a huge opportunity here to apply it to emissions as well, and figure out how you can run your facility, your process with much lower emissions.

I wish I could tell you exactly how that's going to develop, and what the market for that is going to be. We know that we have been working with customers and in putting this together and deploying an early outlook is pretty good.

We've got like I said that core business in rotating equipment that we've been incredibly successful with. We've got a good ecosystem of partners here. And we will continue to pull that together. And that's what this IAM team is going to do is how do you take that to customers, and how do you drive more of a software as a service and more of a recurring revenue stream versus just selling sensors, and reports, and things of that nature which historically is how some of the businesses were on.

We do have other things that we'll be integrating with that we've got an iCenter Turbomachinery that monitors our equipment 24/7 around the world. We've got other capabilities and digital solutions for more sensing and monitoring, and we've shown that we can integrate all that into some of our C3 applications and bring that together.

So, look, we're really trying to change the face of Baker Hughes as you look at these areas where we think there's a lot of growth outside of the core oil and gas space, and I think we can drive a higher return profile and a better revenue profile.

Connor Lynagh: Yes. So, obviously, there still is the other side of the business, the oilfield services, and equipment. I think maybe a good place to start here, certainly, you and many of your peers have reigned in capital spending.

There's a lot of areas that you're not investing in. But let's talk about where you are investing. Where are the returns potential over as we look at this coming cycle?

Brian Worrell: Yes. Look, since we come together in 2017, we've been very vocal about where we want to prioritize higher capital and getting out of some areas where we've had lower returns and where we know the returns aren't going to be able to hurt our internal threshold.

So, since 2017, we've sold businesses or investments roughly worth a little more than a billion dollars. We've redeployed that billion dollars back into areas that we think can have higher growth returns like these new energy areas.

We have a 5% stake in ADNOC Drilling that recently went public. That's what we use to buy a stake in C3.ai. So, all of that has been pretty capital neutral, and we think that's been a good use of resources there.

So, let's take a step back and look at the upstream space. We recently did the joint venture with Akastor for blowout preventors. So that's a great example of taking some great technology in a space that we don't see as core to our portfolio and monetizing that in a way still owning a stake of it with the potential to drive upside.

If I look at areas that we have been focused on, Connor, it's really been around directional drilling and drill bit. So, drilling services, very strong franchise, very good returns, 60% of our portfolio is more production-based [in North America], so ESPs as well as production chemicals.

And then, finally, hiring completions are areas that we think we have a really strong advantage, great technology, and can deliver strong returns. In addition to that, we really focus on areas in the world that are more cost advantage for a production standpoint.

So that's really been the key focus of moving the cloud in the business. And as you've seen, we've really done a lot to improve returns in that space and have some more work to do.

Connor Lynagh: Yes. So, I would say, taking the conservative route in our modeling would have been the right answer for the past three or four years, you guys have consistently surprised to the upside on margins thus far this cycle.

So, you've laid out a 20% EBITDA margin target, it seems relatively achievable. Can you just walk the audience through, A, how you plan to get there in the near term? But B, how you're thinking about the profitability of the business in the long term?

Brian Worrell: Yes. Look, I'm glad we surprised to the upside. And that's been through a lot of hard work and coordinated effort across the portfolio. So, if I look at how the business performed last year, we talked about our chemicals business and some particular issues and chemical around inflation as well as some supply chain issues because of a fire at a supplier's facility.

The chemical's business had about a 150-basis point drag on OFS margins in the fourth quarter. And then, with some of the supply chain things that we saw because of the disruption that was going on move things around a bit. So, I used the dreaded word adjusting for that. We were pretty much at the 20%. And then those two things will normalize.

So, I'd take a step back and look at the core fundamentals of the business, the team has pretty much gotten to the mark of 20%. And we're not done. We still have a lot of self-help story.

So, we've been seeing inflation across the portfolio. We've been driving a lot of cost out to offset that. That's why it hasn't come through. Like it has for some others, we're still working on the facility's rationalization that we talked about.

As you know, we've closed well over a 150 facilities since the merger. We've got some more work to do in terms of optimizing, manufacturing in supply chain, including our supply base.

And the other thing that we're continuing to work on is our services, productivity, and how we actually deliver services for our customers. We've done a lot around remote drilling. We've had a lot of redundancy built into that.

We're continuing to demand some of our operations to drive to drive better performance. And we're doing more work around engineering to get more product cost out. So, we think we've got a lot of runway ahead, so when we hit that 20%, we're pushing the team to continue to do more.

And so, with the volumes coming in, with how we'd expect them to come in over the next year, 18 months, I would not be surprised to see us continue to do more and margins creep up above those levels.

Connor Lynagh: Yes. So that obviously segues nicely into the conversation on pricing. And it certainly seems like there's a lot of optimism in the industry. You've got some questions here on the webcast about it.

So, I guess the question is what do you see as the outlook for industry-wide pricing? Where are some potential areas that still need to recover? Where are you seeing some optimism right now?

Brian Worrell: Yes. Look, I'd say in general because of everything going on with supply and demand and its basic economics pricing is stabilized a little bit, not true everywhere around the world. I'd say a lot of the larger deals as you would expect that are multiyear in nature tend to be a little more sporty, but I'd say in general versus where we've been, pricing is certainly much better than it has been since I've been back in the space, which was since about 2014, so.

Connor Lynagh: Roughly coincides with my 10-years in the space as well.

Brian Worrell: Timing is everything, Connor. Timing is everything.

Connor Lynagh: Yes. Exactly. So, let's move over to the oilfield equipment side of the house. So, you referenced some creative things you guys were doing on that front. You know what, what is your outlook in terms of that business, and what it means for your portfolio? As a courier business, are you interested in exploring other solutions like the JV you've entered into already? How should we think about that?

Brian Worrell: Yes. Look, it's the business core. It's good to have that business in the portfolio customers like us being in that space, they like us being able to offer that full suite. And there are certainly times, not every project, but there are times where we are working across the portfolio on a project and it's good from a customer's perspective.

Saying all that, if the business can't generate the returns that it needs to, we're going to have to look at a different business model. I think what we did with Akastor and the HMH JV is a great example of us not standing still in a very challenging environment.

I think it shows that we are open to different business models and different structures that allow us to get what we need from that piece of the business in a structure that is more beneficial and has higher returns.

So as far as the outlook for that business, look, we definitely see growth this year in subsea trees. Our flexible pipe business has done incredibly well. The onshore wellheads, we see growth there.

Is the tree growth enough in the subsea production systems to make a huge difference at this stage? Not really. We still see it in the single-digit margin range. And for that business to be where it needs to be, it needs to be double digits, which you'd need to see a higher volume. So, we are always looking at different business models in different ways to be able to improve returns there.

In the meantime, we've taken a lot of cost out. I love what Neil and the team are doing from a focus and operational efficiency standpoint. So, we're trying to drive the right balance. It's not an area where there's going to be a lot of capital deployed though for obvious reasons.

Connor Lynagh: Yes. Makes sense. I've got one more here, but we will open it up to you guys in one second here. But obviously, we'd be remiss not asking about the situation in Russia. And obviously, our hearts go out to those affected by the current circumstances. But in terms of the impact on your business, how should investors think about that?

Brian Worrell: Yes. Look, we're, obviously, like everyone watching the tragedy unfold, and are very concerned about what's going on there. The first and foremost thing for us is the safety of our employees. And I'm happy to say that Ukraine is a very small business for us, but our employees are safe.

People who aren't Ukrainian who wanted to leave are certainly out. And we'll continue to make sure we help them as much as we can. If you look at Russia for Baker, it depends on the year, Connor, so what's going on and how big it is. But it's roughly it ranges between 3% and 6% of total revenue. Oilfield services represents about half of that.

When I look at everything that's going on, obviously, things are changing daily as you know. So, I would expect some like anything like this some short-term discontinuity in aggregate though, over time, it's certainly manageable in terms of the size it is to Baker and how we deal with that.

So, we clearly are monitoring things. We're obviously complying with all the laws like we have and are really just focused on doing what's right for our employees and our customers.

Connor Lynagh: Right. And just as a point of clarification because we do get this question, just what is your ruble versus USD or other types of currency; how should we think about how you're getting paid within the country?

Brian Worrell: Yes, look, everybody gets paid in a lot of things. I get USD, I get pounds, I get euros. Rubles are probably a little bit less than half of what the exposures and we obviously have ruble cost as well in the country too. So, it's again, in the grand scheme of things, it's relatively small at the total Baker level.

Connor Lynagh: Right. Right. All right. Let's open it up to the audience here. Any questions? Don't be shy.

Brian Worrell: We either answered everything or we're really boring.

Connor Lynagh: Yes.

Unidentified Participant: Given what's been going on recently in global gas markets, what's your sense on the opportunity set for LNG going forward and that sort of investment?

Brian Worrell: Thank you very much. Look, we have been bullish on LNG and are even more bullish on LNG. I mean, you saw last year, we saw a number of, or not a number, we saw some of the projects that we didn't think with FID until this year, a bit later this year to pull in. I think I could see a scenario where that happens again this year.

We said roughly LNG orders will be flat year over year for us, but I do see a scenario where they could actually be up just given everything that's been going on recently. So, Germany just said they're going to accelerate the investment into regasification terminals.

I think some of the latest estimates have come out and confirmed what we said is that by 2030, we think 600 million tonnes per annum is going to be the demand. If that's the case, you're going to need another 150 or so million tonnes per annum to be FID’d in the next few years to be able to meet that demand.

And I think demand could actually go higher than that, based on everything we're seeing. I mean, Spot purchases last year, as a percent of total, we're up, I think about 500 basis points.

In terms of imports, China overtook Japan as the number one importer of LNG last year and signed up a bunch of long-term contracts. The offtake agreement activity and even in talking with our potential customers, there's been a lot of activity in that space.

So, I'm pretty bullish on LNG and how it looks. And as you know, given our position, we have a good per view of what's out in the world and ready to move forward. And there's certainly an opportunity to fill that 150 million tonnes per annum need that's going to need to FID in the next few years, so an ample opportunity.

Connor Lynagh: Other questions? One -- there we go.

Unidentified Participant: Hey, thanks. Can we just go a level deeper on the LNG side and the TPS side, and maybe could you just talk about the components of your revenue streams in the TPS business kind of breaking out the services versus product component there?

Brian Worrell: Yes. Sure. Sure. Absolutely. So, in terms of machinery, again, through the cycle equipment ends up being about 45% of revenue services, about 55% over time, obviously, that can vary year over year and have an impact on the margin rate because of the mix of business.

We make money on equipment. Margin rates are higher on services. If I look at our services portfolio, about a third of it today is contractual services and most of that is related to LNG.

The vast majority of LNG installations have a long-term service agreement associated with it. And that's where we'll get in and work with the customers around what needs to happen when outages occur, inspections incur, replacement of parts incur, and we take some risk associated with that and have a bonus / malice structure in place but very long track record there. That's about a third of TPS.

Another third represents what I call traditional services, and that's primarily outside of LNG. So that's more brake / fix, spare parts, safety stock, field engineers going out doing plant inspections, and those sorts of things that typically should grow in the single-digit range given everything else being equal.

And then the other third of the business is primarily around upgrades, and repairs of pumps, and valves. And the upgrades act a lot like an equipment business, and that they're large projects where you're going in and sometimes grading one piece of equipment, or you can do an entire fleet at a customer to drive better performance as well as emissions reductions.

So, I think that's an area, I think, in the medium to long-term that's got a lot of growth potential and maybe it's under-penetrated today, the upgrade piece of that. As I said earlier, sweating the asset is better. It's a great way to drive emissions reduction.

So, within services, and one thing to point out with TPS is with the projects that are being built and are going to be commissioned now, our install base is going to grow by about a third roughly by 2025 in terms of what we'll need to be serviced at that stage.

So that grows that pie of opportunity there on the services side. In addition to that, we've had quite a bit of orders in the onshore and offshore production part of the business as well as the midstream and downstream to particularly onshore and offshore production that installed base is going to be commissioning here in the next or those orders are going to be commissioning in the next 18 to 24 months.

And that too is going to drive up install base and more services opportunity. So really strong fundamentals on the services side of turbomachinery. Even if you see a little bit of a pullback on the equipment side, you've got some growth that's naturally built-in there from the services side of the house.

Connor Lynagh: Maybe let's just stay with that for a minute because I think one of the things that you're talking about earlier that I found pretty interesting is the content mix if we do move towards more of a hydrogen economy. What does that mean for your turbomachinery business? I think you were alluding to the challenges of metallurgy and corrosion and so on.

Brian Worrell: Yes. Look, I mean a couple of things, one, if you're going to run more hydrogen through a gas turbine, you're going to have to replace more parts. Right. It's more corrosive, it uses parts. So, it's going to be more inspections, more parts.

Now, of course, there'll be technology that comes in to try to offset some of that, but that's going to take time. So that's clearly an opportunity in the hydrogen economy.

Our compression technology, again, you know, over 2,000 compressors in hydrogen applications today, a huge opportunity for us to continue to deploy compression technology.

The other area that we haven't talked about a lot is we've got a pipeline inspection business, and we also inspect tanks. Small piece of the business does that as well. As you move more to hydrogen, even as you build out carbon capture projects, there's going to be a lot of infrastructure that needs to be built.

So, there's going to be a lot of inspections that need to happen on existing infrastructure. There'll be retrofits that need to happen or they're going to be new pipelines and tanks that are going to have to be commissioned. That's great for the inspection business.

So, I think we've got quite a few vectors here to be able to capitalize on existing technology in the hydrogen economy. And then, like I said, we've invested in some other areas particularly around turquoise hydrogen that could be a nice growth opportunity as that develops in the second half of this decade.

Connor Lynagh: Yes. As you look at these newer business streams, how far along are you and your thinking of the business model you're going to use in the sense of LNG has had many years to develop; how you contract with customers and manage the equipment. Where are you in that phase with these?

Brian Worrell: We're still in the development phase. We have the model on my whiteboard how I know it would like to work out. I don't know that that's how it will work out. But listen, I like the business model where we're providing critical technology that makes a difference for the customers so we can command some premium in terms of returns.

I think there are going to be differentiated business models, particularly in carbon as you look at all the logistics that have to go from capture to storage or ultimate usage. I think there are opportunities along that value chain for us. Some I think, it can be a recurring services stream, some I think can be selling equipment, some can be a combination in partnering with larger companies to provide a larger percentage of a project like we've done with our product.

So, we're looking at various things, Connor, and I think that's the important thing here. We're going to have to remain agile, and responsive here, sticking close to our core risk management, but that's why I like having CTS and IAM because I've got people who are living, breathing that every day they can pull on the entire company.

And we've got that chain of command and decision-making is pretty lean around that getting to the right people pretty quickly. And look, with hydrogen and CCUS, and what we're looking at a new energy, we've said that we could, by the end of the decade, have a business the size of TPS, so create another TPS inside of Baker Hughes. So, we're pretty excited about where we are and that's the focus of capital deployment.

Connor Lynagh: Yes. Any other questions from the audience here? Let's address one that you guys talked about exploring a potential split of the two sides of the business; how should investors interpret your messaging around that? Is this something that you strongly think is a possibility? Is this something you're just exploring as an option? What's the right way to think about how management is conceiving of this?

Brian Worrell: Well, as I said before, it comes back to where we're focusing on driving total shareholder return. And we wanted to signal that we understand that our markets are moving in different directions, and that may have implications for the broader structure of the portfolio, and that we are working through how we address those markets, how we go after them, and how we drive higher returns. Right.

And talking about IET and the upstream is one piece of that. CTS and IAM are a natural evolution there. When I take a step back and look at it today, if I go across all of our different product companies, even in both areas, the top 15 customers are the same. They might be in a different order, but they're the same customers.

I look at some of the technology across the portfolio. There's some synergies in the technology spend that we're doing in oilfield services and turbomachinery and OFE, and MDS, there's a lot of infrastructure that the entire company leverages. Right.

So being together today makes a lot of sense. I think we're better for it. We just got to continue to improve returns and get what we believe is the right recognition and valuation for the portfolio that we have.

So, I think, ultimately, the market will decide what those levels are. And we'll continue to be flexible and look at the corporate structure as that evolves. Today, don't see it as a hindrance, you got to look at would there be any friction costs, how markets would receive two separate companies, but a lot goes into that. But I'd say we are looking at the business areas, how to drive returns, better margins, and structure will ultimately fall out of that.

Connor Lynagh: Yes. Understood. Final chance for questions from the audience here. All right. One last one, just on the oil services business because it's near and dear to my heart. As you look at the big geographies in the world. There's actually a decent divergence in some of the large service companies opinions on offshore/onshore, U.S. shale, Middle East, what are you most excited about over the next two to three years here?

Brian Worrell: Look, we have made no secrets about investing in the Middle East and believing that they're going to continue to develop their fields, they're going to continue to be an important player. We've moved capabilities and capacity there, but we're opening up a chemical facility in the Kingdom.

We've got the ownership of ADNOC Drilling. We've moved more resources there. So, I'm really excited about what's going on. And there are other markets that I'm excited about where we're deploying capital. But if you'd made me choose one of those, I'd say, we're really excited about our position there, our growth there, and the opportunities there.

Connor Lynagh: I could be aligned with you on that.

Brian Worrell: Okay.

Connor Lynagh: All right. Good place to end. Thanks, everyone, for joining. Those on the webcast, don't forget to stick around for the other panels we have. Thank you, Brian.

Brian Worrell: Great. Thanks, Connor.