



## Schlumberger Third-Quarter 2022 Results Prepared Remarks

**Ndubuisi Maduemezia** *Schlumberger Limited – VP of IR*

Thank you Leah.

Good morning everyone, and welcome to the **Schlumberger Limited, Third-Quarter 2022** Earnings Conference Call. Today's call is being hosted from **Houston**, following the Schlumberger Limited Board meeting held earlier this week. Joining us on the call are Olivier Le Peuch, Chief Executive Officer, and Stephane Biguet, Chief Financial Officer.

Before we begin, I would like to remind all participants that some of the statements we will be making today are forward-looking. These matters involve risks and uncertainties that could cause our results to differ materially from those projected in these statements. I therefore refer you to our latest 10K filing and our other SEC filings.

Our comments today may also include non-GAAP financial measures. Additional details and reconciliation to the most directly comparable GAAP financial measures can be found in our **third-quarter** press release, which is on our website.

With that, I will turn the call over to Olivier.

**Olivier Le Peuch** *Schlumberger Limited – CEO*

Thank you, ND. Good morning, ladies and gentlemen. Thank you for joining us on the call. In my prepared remarks today, I will cover three topics—starting with our third-quarter results and our latest view of the macro environment. Thereafter, I will conclude with our outlook for the remainder of this year.

This second half is developing to be one of the most exciting times for the company in the recent past.

We started with solid results led by the international market and we continued to execute at a very high level—delivering another quarter of double-digit revenue growth with earnings per share and EBITDA at their highest levels since 2015.

In addition to the details captured in our earnings release this morning, I would like to take a moment to reflect on some of the key highlights for the quarter:

- To start, year-on-year revenue growth accelerated to 28%, the highest growth rate since 2011, more than a decade ago.

Internationally, all areas grew, and the pace of growth increased to 13% sequentially and 26% year over year. Activity and revenue trends confirm the onset of another phase in the global growth cycle—one that will be increasingly driven by the international and the offshore markets. Through our breadth and technology integration we are optimally positioned to benefit strongly from the acceleration of activity that is expected in the quarters and years ahead.

In our Core, all Divisions continue to execute very well and the impact of operating leverage and improving net-pricing was reflected in our results. All Divisions in our Core posted margin expansion, led by Well Construction—our biggest Division—which posted over 400 bps sequential improvement.

- We also held our Digital Forum in Lucerne, Switzerland bringing together captains of industry in energy and information technology—over 1,000 thought-leaders, partners, and customers. This year's forum was our biggest yet and marks an inflection point for digital. Our long-term competitiveness as an industry depends on our ability to effectively harness technology, data, and deeper collaboration. During the three days of active engagement, it became increasingly clear to all participants that through digital, we enter the future better equipped to deliver higher value in terms of performance and decarbonization.
- In parallel, we also continued to strengthen our Core portfolio, increasing our opportunity-set in lucrative offshore markets. We announced an agreement to form a joint venture with Aker Solutions and Subsea 7. This agreement will bring together a complementary portfolio of technologies and unmatched integration capabilities to help customers increase production, improve efficiency, and meet their decarbonization goals.
- In the Core and in Digital, our technologies are increasingly being adopted and are positively impacting our customer performance. We secured several significant multi-year contracts wins during the quarter and continue to build a solid pipeline of activity for the future.
- And finally, in New Energy, we continue to make significant advances building partnerships, investing, and developing new capabilities. We announced an agreement with RTI International to accelerate the industrialization and scale up of innovative nonaqueous solvent CO<sub>2</sub> capture technology. We also made an investment in ZEG Power to accelerate the development of technology for clean hydrogen production from natural gas. Both of these are advancing our roadmaps for hydrogen and CCUS.

Recent policy enactments in the US and Europe are supportive of our selected New Energy domains, technology-led approach, and market growth opportunities. We expect to announce additional progress in the coming weeks and months, as we continue to position the company for long-term participation across the entire energy value chain.

To sum up, we entered the second half of the year with expectations for strong growth momentum and raised our revenue guidance for the full year. This was predicated on a robust international outlook, the strengthening of offshore activity, and the broadening impact of service pricing improvements.

I am very pleased with the evolution of these dynamics and our execution thus far—both of which continue to result in differentiated operational performance and solid financial results.

I would like to thank the entire Schlumberger team for delivering another exceptional quarter.

Turning now to the macro. We have strengthened our view in a multi-year upcycle as we are on the cusp of yet another year of growth.

Despite concerns over a slowdown in global growth rates and the potential for recession, the fundamentals for energy as a critical resource remain very constructive.

**First**, in the near term, a seasonal uptick in demand as winter approaches is pitted against a very intricate supply landscape—for both oil and gas—through the end of the year. This situation is exacerbated by the ongoing energy crisis in Europe.

Looking further out into the horizon, the demand-supply picture remains delicate—with this imbalance amplified by geopolitics, increased instances of supply disruptions, and limited spare global capacity.

**Second**, the growing necessity of energy security and supply-source diversification will also drive urgent increases in energy investment. A significant step-up in investment is required to create supply redundancies, rebalance markets, and rebuild global spare capacity to levels that provide for sustainable economic growth.

**And third**, recent OPEC+ decisions and the extension of its framework for cooperation through 2023 are additional factors that will enable operators to invest with a higher degree of confidence in their commodity price assumptions.

Taken together, these dynamics will result in a supply-led upcycle characterized by resilient upstream investment that is decoupled from near-term demand volatility.

We expect investment growth will be durable, reinforced by: the long-term demand trajectory; multi-year capacity expansion plans; lower operating break-even prices, and supportive commodity prices.

Growth will be simultaneous in North America and the international markets. This started first in the North America market, and we are already witnessing the next phase of growth with an acceleration in pace in the offshore and international markets that was very visible in the third quarter.

In the US Land markets, we are participating more profitably in the more accretive and lower capital-intensive market segments where our technology, performance premiums, and our technology access business model are driving solid revenue and margins growth.

In the International and offshore markets, we have increased market access and enhanced our participation across the value-chain through a combination of portfolio actions, fit-for-basin technology, and higher "wallet-share" on account of our performance and integration capabilities.

The next phase of global market inflection is expected to be driven by increasing activity in the Middle East.

Looking ahead to the fourth quarter, we expect another quarter of sequential revenue growth and EBITDA margin expansion to close the year. Sequential growth will reflect historical seasonal trends.

The international markets will be driven by a sequential uptick in the Middle East activity as capacity expansion projects begin to mobilize. Global offshore activity will continue to strengthen, offset by the approaching seasonality in the Northern Hemisphere, while North America land activity is expected to moderate its growth trend.

This combination will result in fourth-quarter year-on-year revenue growth in the mid-twenties and 200 bps EBITDA margin expansion when compared to the fourth quarter of 2021.

Against this backdrop, we will visibly surpass our previously raised revenue guidance for the full year. This updated outlook will wrap up what is set to be an outstanding year for the company.

Looking further ahead, we have increased our conviction on our strategy and the growth opportunities across our three engines—the Core, Digital, and New Energy. Constructive oil and gas market fundamentals, energy security, and the need to accelerate the energy transition will support increased investment—in both clean energy technology development and lower carbon oil and gas production. We have positioned the company to outperform in the long term, with multiple technology-led opportunities across the entire energy value chain. These opportunities cover oil and gas, industrial decarbonization, and new energy systems—all supported by digital transformation.

We are ready to apply our technology, global scale, and industrialization capabilities to lead in this energy landscape and deliver outstanding value for our customers and shareholders.

And finally, we will hold our Investors Conference in New York in a couple of weeks where I look forward to seeing most of you. During this event, we will articulate our ambition for the future, including our near-term goals for 2023. As part of this year's Investors Conference, you will also have an immersive opportunity to see and touch some of our exciting new technologies and meet with members of our expanded management team. I am truly excited about this upcoming event.

I will now turn the call over to Stephane.

## Stephane Biguet *Schlumberger Limited – Executive VP & CFO*

Thank you, Olivier, and good morning, ladies and gentlemen.

Third-quarter earnings per share excluding charges and credits was 63 cents. This represents an increase of 13 cents sequentially and 27 cents when compared to the third quarter of last year. This was the highest quarterly earnings per share, excluding charges and credits, since the fourth quarter of 2015.

Overall, our third-quarter revenue of \$7.5 billion increased 10% sequentially. We witnessed a clear acceleration of growth during the quarter, as evidenced by the 28% year-on-year revenue increase.

Consistent with our expectations, activity shifted towards the international markets, particularly offshore. As a result, we experienced international sequential revenue growth of 13%, which significantly outpaced North America.

Although we experienced volatility in certain foreign currency exchange rates across the world, the overall net effect on our revenue was negligible, both sequentially and year on year.

Turning to our profitability, pretax segment operating margins expanded 161 basis points sequentially to 18.7% and adjusted EBITDA margins increased 91 basis points to 23.5%.

Margins also increased significantly as compared to the third quarter of last year with pretax segment operating margin increasing 320 basis points year on year, while adjusted EBITDA margins increased 133 basis points.

This significant margin expansion illustrates the benefits of the operating leverage and pricing momentum we have, as well as our ability to manage inflationary headwinds.

Let me now go through the third-quarter results for each Division.

Third-quarter **Digital & Integration** revenue of \$900 million decreased \$55 million sequentially while margins were down 586 basis points to 33.9%.

The effect of increased digital sales was offset by the absence of \$95 million of transfer fees that we recorded last quarter.

**Reservoir Performance** revenue of \$1.5 billion increased 9% sequentially while margins improved 209 basis points.

These increases were driven by higher intervention and stimulation activity, both on land and offshore.

**Well Construction** revenue of \$3.1 billion increased 15% sequentially driven by strong activity growth both internationally and in North America as well as improved pricing.

Margins expanded 403 basis points to 21.5% due to higher offshore activity, a favorable technology mix, and solid pricing improvements.

Finally, **Production Systems** revenue of \$2.2 billion increased 14% sequentially primarily driven by higher product deliveries and backlog conversion as supply chain logistics constraints continued to ease. The revenue increase was led by international markets which grew 17% sequentially.

As a result, margins returned to double digits, increasing sequentially by 142 basis points to 10.4%, their highest level since the third quarter of 2019.

Now turning to our liquidity.

During the quarter, we generated \$1.6 billion of cash flow from operations and free cash flow of \$1.1 billion. This performance represents a significant improvement compared to the first half of the year as working capital started to unwind during the quarter, despite the sequential revenue growth.

Consistent with historical seasonal patterns, we expect this trend to accelerate in the fourth quarter, resulting into free cash flow improving sequentially.

During the quarter, we made capital investments of just over \$500 million. This amount includes capex and investments in APS projects and exploration data.

For the full year of 2022 we are expecting capital investments to be approximately \$2.2 billion, as we continue to support very strong revenue growth, particularly in our Well Construction and Reservoir Performance divisions.

Net debt improved by \$1.3 billion during the quarter to end at \$9.7 billion. This level of net debt represents a \$2.7 billion improvement compared to the same period last year.

Our net debt to EBITDA leverage is now down to 1.6 times and we expect it to drop even further during the fourth quarter on a combination of higher earnings and improved free cash flow.

I will now turn the conference call back to Olivier.

## Olivier Le Peuch *Schlumberger Limited – CEO*

Ladies and gentlemen, to conclude, let me summarize with key takeaways I would like you to remember.

Firstly, Q3 results represent another quarter of outstanding execution and financial outperformance in our returns-focused strategy. This was achieved through the combined effects of significant international activity inflection, technology adoption, operating leverage, and pricing premiums. These results give us confidence in our ability to deliver upon our promise and exceed our revised guidance for full year 2022.

Secondly, we are witnessing a decoupling of upstream investment from uncertainties in the near-term economic outlook. Constructive market fundamentals, reinforced by the energy crisis, are decisively aligning in support of a multi-year upcycle. Furthermore, the activity mix and investment trends continue to evolve very favorably in alignment with our strengths, both geographically and across the breadth of our portfolio.

Finally, the secular trends of digital transformation and decarbonization continue to gain momentum, for a higher value and lower carbon future for our industry—whilst at the same time, the global urgency on climate actions is resulting into an acceleration of clean energy investments. This is creating a unique combination of opportunities we are set to pursue at scale, through our three engines of growth—Core, Digital, and New Energy.

Ladies and gentlemen, I could not be more satisfied with our performance to date, and with our outlook for the full year, to close a sequence of three years with remarkable progress against a very challenging backdrop.

We are ready to further this success and continue our journey towards a bright future for the company.

Thank you very much.

\*Mark of Schlumberger.

Other company, product, and service names are the properties of their respective owners.  
Copyright © 2022 Schlumberger. All rights reserved.