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Schlumberger Second-Quarter 2021 Results Prepared Remarks

Ndubuisi Maduemezia *Schlumberger Limited – VP of IR*

Good morning, and welcome to the Schlumberger Limited Second-Quarter 2021 Earnings Conference Call. Today's call is being hosted from Paris, 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 10-K 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 second-quarter press release, which is on our website. With that, I will turn the call over to Olivier.

Olivier Le Peuch *Schlumberger Limited – CEO*

Good morning, Ladies and Gentlemen.

Thank you for joining us on the call. In my prepared remarks today, I will cover three topics: our second-quarter results, the near-term industry macro environment, and the outlook for the third quarter and the remainder of the year. Finally, I will share my perspective on how Schlumberger is positioned for sustained outperformance in this macro context. Stephane will then give more details on our financial results and we will open the floor for questions.

Our second-quarter results demonstrate very broad strength in our core portfolio as we continued to fully capitalize on the short- and long-cycle activity recovery—across Divisions, operating environments, and geographies—both in North America and internationally. The combination of revenue quality, solid execution, and vastly improved operating leverage delivered our fourth consecutive quarter of margin expansion.

Let me share with you some performance highlights during the quarter:

- Internationally, the depth and diversity of our portfolio enabled us to take hold of the recovery in the second quarter, restoring margins to prepandemic levels, ahead of the anticipated acceleration in these markets. And in North America, we achieved our double-digit margin ambition, a key milestone in our 2021 financial targets.

- All Divisions fully leveraged the activity recovery to post sequential topline growth and significant margin expansion—including Production Systems, which reached double-digit margins during the quarter.

- Growth and margin expansion were led by Reservoir Performance and Well Construction, both posting growth internationally and in North America.

- Reservoir Performance growth was driven by the exploration and seasonal recovery, higher offshore activity, and new technology adoption—all of which resulted in sequential margin expansion in excess of 370 basis points.

- Well Construction accelerated its rate of growth sequentially—outpacing rig count growth both in North America and internationally, with strong contribution from offshore basins. In US land, the Division grew more than 30%, double the sequential rig count growth rate over the quarter. This does not only reflect enhanced market participation but also improving revenue quality.

- And cash flow, finally, from operations was $1.2 billion, enabling us to begin deleveraging the balance sheet this quarter.

In addition to the impact of operating leverage, there were two contributing factors to this financial outperformance—first, the offshore activity mix; and second, technology adoption.

The offshore rebound in the second quarter was led by high-single-digit deepwater activity growth, particularly in Brazil, and also included a mid-teens growth in exploration and appraisal activity across Europe and the Middle East. These market conditions presented a favorable mix and resulted in higher revenue quality for both Reservoir Performance and Well Construction. In addition, as customers commit to future offshore development activity, we received significant deepwater awards for our OneSubsea® business line, resulting in a doubling of the booking volume versus the prior quarter and a year-to-date book-to-bill ratio exceeding 1.5.

The other contributing factor is increasing new technology uptake. The rate of adoption of our latest-generation technology increased by one-third during the quarter, and included, in particular, Transition Technologies, digital, and fit-for-basin solutions—which benefited all Divisions and most basins. This is a clear recognition of the performance impact our technologies generate for our customers, and it gives us increased confidence in the contribution of technology adoption toward margin expansion in this upcycle.

In addition, we continued to advance our digital and new energy strategies—extending the reach of our digital platform with a number of key agreements and awards, as customers forge ahead with their digital transformations. And in new energy, we continued to progress all of our ventures, including the recently announced strategic collaboration with Panasonic North America to develop our new battery-grade lithium production process in Clayton Valley, Nevada.

Finally, during the second quarter, we announced our commitment to achieve net-zero greenhouse emissions by 2050. I am very proud to lead the first service company that has set a net-zero ambition that includes Scope 3 emissions.

We have laid out an approach to climate change that is science-based, aligned with the 1.5-degree Celsius target of the Paris Agreement, and is built on a comprehensive near-term roadmap to achieve our goal—with interim milestones in 2025 and 2030.

As a company that prides itself on technology innovation, we aim to net the balance of emissions we produce in 2050 with carbon-negative actions.

This plan also includes the launch of our Transition Technologies portfolio to support our customers on their journeys to net zero, such as the avoidance of flaring with Ora* wireline technology and the track-record of CYNARA* CO_2 membrane separation technology, as you have seen in this morning's release.

Our net-zero ambition and the launch of Transition Technologies is an opportunity to contribute to the decarbonization of the industry, building through innovation a resilient future that delivers higher value and lower carbon.

Overall, I am very pleased with our revenue quality, solid execution, enhanced market participation—both in North America and internationally—and most importantly, the translation of all of these elements into another successive quarter of margin expansion.

I want to thank here the entire Schlumberger team, as they continue to execute and deliver outstanding performance for our customers and our communities despite COVID impact in several parts of the world.

Next, I would like to share my view of the macroeconomic environment supporting our industry.

While the rise of the COVID-19 Delta variant and resurgence of related disruptions could impact the pace of economic reopening, recent market projections continue to affirm an improving global economic outlook.

Global GDP growth is now expected to approach 6% in 2021 and more than 4% in 2022, which will continue to drive a progressive recovery of oil demand. This outlook is supported by recent oil demand updates, which reflect the anticipation of a wider vaccine-enabled recovery, improved mobility, and additional fiscal stimulus in large economies through the second half of the year.

Looking farther out, the IEA projects that global oil demand will reach 100 million bbl/d and surpass pre-COVID levels by the end of 2022, in the absence of further policy change.

With oil prices at elevated levels, the supply response to this demand recovery is developing broadly, as anticipated. Indeed, this combination has resulted in a call on short-cycle production as well as an uptick in long-cycle projects—reflected in new FIDs, and the encouraging recovery in both offshore development and near-field exploration activity through the second quarter.

In North America, this supply response is reflected in the rig count and frac fleet trends, which sustained strong growth through the first half of the year.

Private operators led activity growth, which resulted from the acceleration of drilled but uncompleted (DUC) completions and increased drilling activity to replenish DUC inventory.

By contrast, the embrace of capital discipline by the public operators is highlighted by the rig count still being significantly below the Q1 2020 total, despite WTI prices exceeding prepandemic levels.

In this context, despite a solid activity growth outlook, we maintain our view that the North American market will be structurally smaller than in previous cycles, as a consequence of capital discipline and industry consolidation.

Moving to international markets, the deficit in investment needed to deliver the required oil supply presents a sustained growth opportunity, particularly in the low-cost, advantaged basins.

We remain constructive on the structural pull on international supply and the resulting activity impact. This was already visible in the second quarter, with a strong seasonal rebound and offshore recovery, despite the impact of COVID disruptions in parts of Asia and the Middle East. This also marked the second consecutive quarter of international rig count growth.

Looking farther out, we see favorable conditions for durable investment growth driven by the combination of actions by NOCs, internationally focused investment by public E&P operators, and the expectation of continued supply discipline by OPEC plus—all in response to the steady evolution of demand. The current pace of international tendering, contract awards, and increasing book-to-bill ratios support this view.

Against this backdrop, Schlumberger is extremely well positioned—both in the international markets and in North America. Our market exposure is biased to accretive growth—and with a series of new contract wins, our leading digital and fit-for-basin technology portfolio, and our performance strategy, we will create value for our customers and deliver industry-leading returns.

Turning to the third-quarter outlook, in North America, we see another quarter of growth, albeit somewhat moderating, in US land—led by private operators and horizontal oil drilling—and a seasonal recovery in Canada. North America offshore will remain resilient, albeit with the hurricane season in view.

Moving to the international markets, positive growth momentum is expected to continue through the third quarter, across all areas. Short-cycle activity will be augmented by longer-cycle project startups.

In this context, directionally, we expect our global third-quarter revenue to grow by mid-single digits, led by Reservoir Performance and Well Construction Divisions, while our pretax segment operating margins should further expand by 50 to 100 basis points.

With this outlook for the third quarter, we remain confident in achieving double-digit international growth in the second half of 2021 when compared to the second half of 2020.

As a consequence, and absent further COVID setbacks in operational recovery, we now foresee full-year revenue growth, both internationally and in North America, when excluding the impact of divestitures.

With activity recovery ahead of us through the third quarter, and strong signals of a durable recovery beyond that, we can now clearly see a path to the high end of our full-year EBITDA margin expansion guidance for 2021.

Looking farther ahead, the fundamentals remain very favorable, with a growing economic rebound, supportive oil prices, and a demand and supply outlook, all representing a set of unique conditions that will support an exceptional growth cycle. Furthermore, this cycle will be broad-based, across geographies and operational environments, land, offshore, North America, and particularly international markets. The second quarter was a strong indication of the future outlook, and a testament of our restored earnings power under these conditions.

In summary, I am very pleased with our strong second-quarter results across our entire portfolio, which demonstrates the effectiveness of our strategy in delivering our long-term financial ambitions.

I will now pass the call to Stephane.

Stephane Biguet *Schlumberger Limited – Executive VP & CFO*

Thank you, Olivier, and good morning Ladies and Gentlemen.

Second-quarter earnings per share was $0.30. This represents an increase of $0.09 compared to the first quarter of this year and an increase of $0.25 when compared to the same period of last year, excluding charges. There were no charges or credits recorded during the first or second quarters of 2021.

Overall, our second-quarter revenue of $5.6 billion increased 8% sequentially.

North America revenue increased 11% sequentially, while International revenue increased 7%, both outpacing respective rig count growth.

Pretax operating margins were 14.3% and have now increased four quarters in a row. This represents the highest margin since the fourth quarter of 2015.

Notably, margins expanded sequentially across all four Divisions. This performance was driven not only by the seasonal rebound in the Northern Hemisphere, but also a favorable revenue mix as a result of increased offshore activity, new technology adoption and increased exploration and appraisal activity.

Company-wide adjusted EBITDA margin of 21.3% for the second quarter increased 118 basis points sequentially and is the highest since the third quarter of 2018.

I am very pleased with this margin performance, which reflects the benefit of significant operating leverage we have created through the combination of the high-grading of our portfolio and our cost reduction program. This performance also gives me the confidence that we will continue to increase margins in the third quarter and beyond. Let me now go through the second-quarter results for each Division.

Second-quarter Digital & Integration revenue of $817 million increased 6% sequentially while pretax operating margins increased 147 basis points to 33%.

These increases were primarily driven by strong digital solutions sales.

Reservoir Performance revenue of $1.1 billion increased 12% sequentially. This revenue growth was entirely driven by higher international activity, which resulted in international revenue increasing by 13%.

Margins expanded 373 basis points to 13.9%, largely due to the seasonal recovery in the Northern Hemisphere and increased offshore and exploration activity, as well as favorable technology mix in the Middle East and Africa.

Well Construction revenue of $2.1 billion increased 9% sequentially while margins increased 209 basis points to 12.9%. These improvements were driven by strong performances both in North America and internationally.

US land revenue grew by over 30%, significantly outpacing the increase in rig count. International activity increased beyond the seasonal rebound, as many countries experienced double-digit revenue growth.

Finally, Production Systems revenue of $1.7 billion increased 6% sequentially and margins increased 146 basis points to 10.2%. These increases were primarily driven by higher activity in Europe, Africa, and North America.

Now, turning to our liquidity:

During the quarter, we generated $1.2 billion of cash flow from operations and positive free cash flow of $869 million, despite severance payments of $72 million. These amounts included the receipt of a $477 million US federal tax refund relating to prior years. This refund helped support our deleveraging efforts during the quarter.

In this regard, our gross debt decreased by $861 million during the quarter. We have begun to execute on our commitment to deleverage, as demonstrated by the early redemption in June of all $665 million of notes that were coming due in September. We also repaid $236 million of commercial paper during the quarter.

Net debt decreased sequentially by $632 million to $13 billion, the lowest level since the fourth quarter of 2017.

During the quarter, we made capital investments of $351 million. This amount includes capex, investments in APS projects, and multiclient.

For the full-year of 2021, we are still expecting to spend between $1.5 to $1.7 billion on capital investments.

In total, during the first half of 2021, we generated over $1.6 billion of cash flow from operations and over $1 billion of free cash flow. These amounts are fully expected to increase in the second half of the year, consistent with historical trends.

As a result, we remain confident in our ability to achieve double-digit free cash flow margin for the full year of 2021, and beyond. This will allow us to continue to deleverage the balance sheet and provide us with flexibility in our capital allocation.

One last item worth highlighting is that during the quarter, we replaced our €750 million credit facility with a new, three-year €750 million sustainability-linked revolving credit facility. The terms of this facility are aligned with the interim emissions reduction targets disclosed as part of our net-zero emissions commitment announced this quarter. This is a first for Schlumberger and further demonstrates our commitment to fully participate in the decarbonization of the industry.

I will now turn the conference call back to Olivier.

Olivier Le Peuch *Schlumberger Limited – CEO*

To conclude the call, I would like to leave you with few key takeaways:

First, the second-quarter results clearly demonstrate both the strength of our market position—particularly internationally, with sequential growth in all Divisions and Basins—and our significant operating leverage, resulting in more than 200 basis points of operating margin expansion internationally, with all Divisions contributing significant fall-through.

Second, the activity and customer trends observed during the quarter reinforce our conviction in an increasingly favorable outlook, with a broad recovery across all basins and operating environments, and with a much-improved contribution from new technology adoption.

Third, and absent further COVID setbacks impacting activity or economic rebound, we are confident that the momentum for this upcycle—both in North America and internationally—will continue during the second half of 2021 and will lead to another quarter of growth and margin expansion.

As a consequence, we remain confident in our second-half guidance shared previously for international growth and have increased our confidence in our full-year margin expansion and cashflow generation.

Finally, as we look farther ahead, the conditions are set for an exceptional growth cycle, in response to the call for supply in 2022 and future demand growth in subsequent years. This will increasingly favor international supply impacting land and offshore, short and long cycle globally.

Ladies and Gentlemen, our returns-focused strategy, international footprint, digital, decarbonization, and new energy strategic initiatives are highly differentiated and will support our outperformance ambition throughout the cycle and beyond—as we continue to write a new chapter for the company. Thank you very much.