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CORPORATE PARTICIPANTS

Ndubuisi Maduemezia *Schlumberger Limited - VP of IR*
Olivier Le Peuch *Schlumberger Limited - CEO & Director*
Stephane Biguet *Schlumberger Limited - Executive VP & CFO*

CONFERENCE CALL PARTICIPANTS

Arun Jayaram *JPMorgan Chase & Co, Research Division - Senior Equity Research Analyst*
Chase Mulvehill *BofA Securities, Research Division - Research Analyst*
J. David Anderson *Barclays Bank PLC, Research Division - Director and Senior North America Oilfield Services & Equipment Analyst*
James Carlyle West *Evercore ISI Institutional Equities, Research Division - Senior MD*
Luke Michael Lemoine *Piper Sandler & Co., Research Division - MD & Senior Research Analyst*
Neil Singhvi Mehta *Goldman Sachs Group, Inc., Research Division - VP and Integrated Oil & Refining Analyst*
Roger David Read *Wells Fargo Securities, LLC, Research Division - MD & Senior Equity Research Analyst*
Scott Andrew Gruber *Citigroup Inc., Research Division - Director, Head of Americas Energy Sector & Senior Analyst*

PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. Welcome to the Schlumberger Earnings Conference Call. (Operator Instructions) As a reminder, this conference is being recorded.

I would now like to turn the conference over to the Vice President of Investor Relations, ND Maduemezia. Please go ahead.

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 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 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 & Director***

Thank you, ND. Good morning, ladies and gentlemen. Thank you for joining us on the call. In my prepared remarks today, I will cover 3 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.

The 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] (added by company after the call) 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 3 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 multiyear contract 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 CO2 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 road map for hydrogen and CCUS.

Recent policy [enactments] (corrected by company after the call) in the U.S. 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'm 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 multiyear upcycle as we are on the cusp of yet another year of growth. Despite concerns over the slowdown of 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 bring -- 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 operation -- 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 breakeven prices and supportive commodity prices. Growth will be simultaneous in North America and in 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 U.S. 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-20s 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 3 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'm 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 $0.63. This represents an increase of $0.13 sequentially and $0.27 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 margins 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 exploration data 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 1.6x, 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 & Director***

Thank you, Stephane. And ladies and gentlemen, I think we are ready for the Q&A session.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of James West with Evercore ISI.

James Carlyle West ***Evercore ISI Institutional Equities, Research Division - Senior MD***

So Olivier, I wanted to touch on the biggest business right now, which is your Core and the fact that it's strengthening so significantly, but it's also a -- the Core has changed over the last several years. And I'd love to hear kind of your thoughts on how the next -- maybe not the next quarter, but the next couple of years should play out for the Core business, given where the cycle is going, how it's heading internationally, how it's heading offshore and how Schlumberger has positioned itself for where the increased capital spending will be.

Olivier Le Peuch ***Schlumberger Limited - CEO & Director***

No, I think I would like to comment qualitatively on the strength and the power of the Core. First and foremost, I think it's built on the 2 critical foundations. One is performance. Performance matters in this industry, and performance gives us differentiation. And I think here from our technology reliability, from the competency of our people and the way we remote digitally control and monitor operations, we are leading and we are recognized as such in the industry.

The second is our customer intimacy. Our customer intimacy coming from the geographical basins and engagement we have that give us opportunity to deliver this fit-for-basin technology that are creating a unique differentiator and creating loyalty with our customers. So I believe these are the foundations.

Now the delivery comes from our integration, our technology and our people competency and field operation. When you combine this, and we have done that for decades, but I think -- and when the market comes with a higher revenue intensity in offshore markets and in unique projects where integration matters and technology mix and impact and create value for the customer, we see more adoption of our technology. We see more market share consolidation, and we see and recognize more pricing premium.

So we see this trend to continue as the international market, the offshore market, the Middle East is the next leg of growth internationally. And we believe that the adjustment we did in our portfolio, the high-grading we did in North America to tune the portfolio to be fit and focused on the capital-light and technology differentiation and this, combined with international footprint and strength we have retained, I think, give us a unique set of benefits as the market continues to unfold going forward.

James Carlyle West ***Evercore ISI Institutional Equities, Research Division - Senior MD***

Okay. Great. That's very helpful, Olivier. And then maybe a follow-up from me on the Digital side of your business, obviously, a successful forum in Lucerne recently. I kind of have my own kind of takeaways, I guess, from the event and the things that were announced during the event. But I'd love to hear kind of your takeaways of the level of success, how you think it went, how you see the adoption playing out of Digital?

Olivier Le Peuch ***Schlumberger Limited - CEO & Director***

I think it was, obviously, as we said, not only the biggest yet, but the most successful yet event on the back of multiple factors. The first, the quality and level of the audience that did participate to this on both our strategic partners and our customers that made the effort to attend and engage to the event. And all agreed that this event was a defining moment for them and, they believe, for the industry as it created an inflection point in recognizing the value of digital in performance impact, in decarbonization and in the efficiency going forward for the industry, building as a factor of resiliency and performance for the long term for the industry. So I think that's the highest takeaway.

Now the other key ability we have is -- and we had is that we had a product acknowledgment from the customers that were attending and from the customers that were watching while it was happening that our platform and our ecosystem with the partners we have created around our platform is becoming very mature and is delivering value and has already been proving its worth for many, many customers. So the buzz around the success of the platform and the value from subsurface to surface to remote operation or digital operation has been recognized, and this will call for more success.

So I believe we're at an inflection point in the adoption, and we are seeing it through the different contracts, and you have seen some of them that are coming through in the press release. And you will see more coming in the coming months and quarters that reflect the adoption at scale of our solution. And it's not only subsurface, it's not only this domain, it's expanding. It's expanding. And I think the announcement we made with Microsoft to offer an Enterprise Data Solution and the first commercial solution, on OSDU, is making an impact.

Similarly, the announcement we made with Aker on the Cognite data foundation to expand and provide the only subsurface to operation, integrated ecosystem for workflows and interoperability is unique. So the adoption is about to scale. And finally, you have seen that we also announced that the power of our platform has attracted the commitments and the collaboration with Saudi Aramco to go beyond upstream and to create a platform for carbon management. So I believe the table is set for success, if I may, going forward. And you will start to see this, this quarter and in the years to come.

Operator

Our next question is from David Anderson with Barclays.

J. David Anderson ***Barclays Bank PLC, Research Division - Director and Senior North America Oilfield Services & Equipment Analyst***

I want to ask you about service intensity. Something that jumped out in the release to me was you said that international revenue is already exceeding 2019 levels, but on a 25% lower rig count. Kind of my question is, what's changed so much over the last 3 or 4 years? It seems to be increasing service intensity. I don't think it's pricing, at least not yet. So is it more technology being used? Is it reversal of efficiency gains? And where is this most prevalent in your business? Is it Well Construction where it's most prevalent? Just help me understand the service intensity patterns you're seeing.

Olivier Le Peuch ***Schlumberger Limited - CEO & Director***

You are correct. And I think the -- as part of the mix as well, the international has made a comeback ahead of other basins. And you will see the next leg of growth coming from Middle East activity in the coming quarters, but I think that's one factor.

But I think technology, to deliver performance, our customers are more focused on critical assets where they want execution and they want performance enhancements and higher return on their capital, lower cost, higher return, but this translates into higher adoption of field technology, adoption of digital technology and the power of integration.

So when we have the power of integration technology adoption and are increasingly being recognized for performance and some of it through contracts that are performance-based, I think we are gaining recognition and we are, in effect, creating a net increase in the intensity of service, but also a net pricing impact. And I think that pricing has many, many dimensions. It comes from a mix of adoption of technology. It comes from the performance that -- for which we are getting commercial contracts recognized and share the value of the performance it creates.

And it comes from pricing, catalog pricing, as I would say, the combination of which is creating a net effect that we have been benefiting from. And indeed, particularly in Well Construction where, I think, the breadth of capacity we have that is unique across the industry, the track record of benchmark of performance, the competence of our people, the digital operation transformation we did, all have impacted our cost of service delivery, for one; have impacted the performance we have created for our customers and, as such, has created the service intensity that is creating higher earnings.

J. David Anderson ***Barclays Bank PLC, Research Division - Director and Senior North America Oilfield Services & Equipment Analyst***

And then just sticking on the Well Construction business, you also said, and you noted in the release, that a lot of the growth so far this year has come out of North America and Latin America. It was interesting that Middle East, Asia has actually lagged.

With everything you're talking about with the Middle East, should we be expecting this trend to kind of reverse next year? Should we expect Well Construction to be sort of the leader -- I'm sorry, should Middle East be the leader in Well Construction next year? And you hit another level of margins this quarter. Should we expect those margins to continue to go higher as this mix shifts more into the Middle East?

Olivier Le Peuch ***Schlumberger Limited - CEO & Director***

That's a fair hypothesis going forward. I think the Middle East has been lagging the growth and the rebound primarily due to the some of the constraint on the short cycle over the last 18 months due to OPEC+. But I think the 4 or 5 countries that have set some new expansion plans have initiated this expansion plan in the second half and are set to accelerate their expansion plan going forward. I think it includes Saudi, it includes UAE, Kuwait, Iraq and what has been the first to expand, which is Qatar, on the LNG commitment towards 2027 will continue to expand as well. So I think the combination of this will create a new leg of growth next year internationally, and we will be set to benefit from it across all the divisions.

Operator

And our next question is from Chase Mulvehill with Bank of America.

Chase Mulvehill ***BofA Securities, Research Division - Research Analyst***

I guess maybe a follow-up -- a quick follow-up to Dave's question around pricing or, I guess, maybe some of your earlier comments around pricing. I'd like to flesh that out a little bit more and think about kind of international pricing and the potential momentum that this could see this cycle. And me, personally, I think that investors are underestimating the potential pricing momentum that international could see this cycle. I think that people forget what discipline in market consolidation and higher barriers to entry can actually do for pricing. And obviously, international ticks all those boxes.

And then we haven't invested in international, our OFS companies haven't in almost a decade. So it seems like there's a recipe for rather quickly tightening of fundamentals in a real pricing cycle in international. So I'd just kind of be curious of your thoughts, what you're seeing on pricing and kind of as we look forward over the next couple of years, what are your expectations on fundamental tightness that could drive some real pricing momentum?

Olivier Le Peuch ***Schlumberger Limited - CEO & Director***

Well, I think we are seeing this already today. And I think we have -- pricing impact started, as I said, 2 years ago, 1.5 years ago in North America and has been broadening, has been very visible internationally in the last quarter. So the -- all the fundamental elements for -- are in place, indeed. First and foremost, I think the capital discipline that we have in our organization is remaining firmly in place. Capital stewardship is clear to us, and we deploy an asset in the contract and in the market to be accretive to our returns.

The service intensity also, considering the deployment of more offshore rigs, is also increasing the pull on the existing net pool of resource technology that is getting further stretched on the demand of supply in our capacity. And finally, as I said earlier, the performance factor on the base foundation of our operations, be it our core performance, be it technology that are fit for basin and are creating a performance premium for our customers, or digital -- operation of digital portfolio that we are rolling out are all creating a performance impact that the customers are looking for.

Customers are willing to develop and are keen to develop their assets, provided that we develop them -- if we help them develop them efficiently at a lower capital intensity and with beating the curve and creating new performance benchmark. And I think this has a price, and I think we differentiate in this environment. So we expect the future, indeed, internationally to support this pricing and these market conditions.

Chase Mulvehill ***BofA Securities, Research Division - Research Analyst***

Okay. Awesome. I appreciate the color. Unrelated follow-up, if we can kind of go to the subsea business and just kind of maybe a state-of-the-union update, just kind of general market outlook, pricing is starting to move. Maybe I don't know if there's any updates on kind of where margins -- subsea margins are today. And how much margin expansion you might be able to see over the coming year or 2?

Olivier Le Peuch ***Schlumberger Limited - CEO & Director***

No, as we commented earlier and we commented in making of our subsea JV, and we addressed some of this as in previous communication, we are very constructive into the deepwater market going forward. The recent pipeline of FID that has been blessed in recent months, the pipeline that is set in 2023 according to WoodMac is at $170 billion of FID, that will be the highest in the last 10 years, since 2011.

And the mobilization of projects across the different deepwater basins continues. There are some critical and very positive trends in Brazil, in Norway, Guyana continue to be and that Latin America basin with still some appraisal, both from the Colombia gas offshore or the Suriname will be complemented by further activity in Africa and also in Asia. So we are positive on the outlook.

The number of trees is growing and has grown visibly to now exceed 300 trees. And these are -- this is setting the market condition for supporting higher price and, again, linked to performance in life cycle reduction, performance emerging in reservoir recovery using boosting and processing technology that are becoming increasingly critical. And hence, we believe the conditions are set to be positive for deepwater partly for subsea market.

Chase Mulvehill ***BofA Securities, Research Division - Research Analyst***

All right. Perfect. I appreciate the color. I'll turn it back over.

Operator

Next, we go to Arun Jayaram with JPMorgan.

Arun Jayaram ***JPMorgan Chase & Co, Research Division - Senior Equity Research Analyst***

I wanted to -- perhaps if you could elaborate a little bit more on Well Construction. Your margins grew 400 basis points sequentially. Maybe you could elaborate on just the drivers of the margin expansion and help put some of the results at Well Construction into historical context with the top line at above $3 billion in terms of 3Q.

Olivier Le Peuch ***Schlumberger Limited - CEO & Director***

I think it's a combination where we are obviously extremely pleased with the performance of Well Construction during the last quarter, but not only during the last quarter. I think it has been a division that has been on a journey for the last few years where we realized that we had the opportunity to put together the best and the biggest portfolio and the most comprehensive breadth of capabilities across the technology portfolio for Well Construction.

We adjusted and changed the structure and the organization to combine all of this in one division less than 3 years ago and about two years ago, and we are reaping the benefit from this, both from a technology adoption, from performance in integration and from customer intimacy, giving us opportunity to expand our market access and expand our success and then critically creating the pricing impact and the earnings impact we want.

So part of this, we have fit-for-basin technology that have created a unique performance impact and recognized as such. We have digital operations that we are increasingly using to impact the performance and the accuracy of our well placements and the efficiency of our operations, as such, reducing our cost of service delivery. And we continue to introduce, as we said, technology that are making an impact and a difference on the market.

So we are positive for the outlook. It's the biggest division. It has and will continue to lead in the core going forward. And we remain very, very optimistic about the outcome, and we believe that the customers recognize the performance and look forward using and adopting Well Construction.

Arun Jayaram ***JPMorgan Chase & Co, Research Division - Senior Equity Research Analyst***

Great. Just a follow-up. One of the sources of upside versus our model was the revenue growth in Europe/CIS/Africa. I was wondering if you could help us understand, I think, an over 20% increase in sequential revenues, drivers of 3Q and thoughts as we enter into fourth quarter in terms of that broader region.

Olivier Le Peuch ***Schlumberger Limited - CEO & Director***

I think it was mostly offshore. It was driven by significant contracts that we have been executing in an offshore environment, in Europe, in the Black Sea, in Norway, in Africa, a rebound of operations. I think the mix has been highly favorable, and this is the power of our Core and including Well Construction that has been played out very well. We have many contracts that we have announced and we have been communicating earlier like the Ormen Lange project. I think we had some progress there. We have our Black Sea deepwater project, and we have more that have been combining to create much impact on Production Systems and Well Construction during the quarter.

Operator

Our next question is from Neil Mehta with Goldman Sachs.

Neil Singhvi Mehta ***Goldman Sachs Group, Inc., Research Division - VP and Integrated Oil & Refining Analyst***

And looking forward to seeing you here in a couple of weeks. I guess we'll talk a lot about strategy then, so maybe some tactical questions for you. As you think about fourth quarter considerations, it sounds like margins and top line are going to be improving. But can you just give us any color on how you think about the sequential 3Q to 4Q across business lines as it comes to earnings? And then the follow-up is on working capital. You had made a comment that you expect it to accelerate into the fourth quarter. Any comments there would be great.

Olivier Le Peuch ***Schlumberger Limited - CEO & Director***

I think, first, I think I've been sharing in my prepared remarks some guidance that's comparing fourth quarter to the fourth quarter of last year with mid-20s revenue growth and 200 bps EBITDA expansion. And I think from the geography of business lines, I would only comment that we see an uptick in Middle East to materialize, and we expect digital to further accelerate and to reflect the year-end sales that we typically have. So it's a positive outlook, continued growth both internationally and in North America, and margin expansion to set to continue its very successful journey.

Neil Singhvi Mehta ***Goldman Sachs Group, Inc., Research Division - VP and Integrated Oil & Refining Analyst***

And then on working capital, you start to see some of that release come up in this quarter. But just how should we think about that here over the next couple of quarters?

Stephane Biguet ***Schlumberger Limited - Executive VP & CFO***

Yes. Neil, as you saw, indeed, the working capital improved quite a bit in the third quarter. This is how we predicted, and it resulted into strong free cash flow. Going into Q4, you will see this accelerate as we typically see at the end of the year. So working capital will continue to unwind, and free cash flow will continue to increase. We have typically, at the end of the year, higher customer collections. We have the effect of higher product deliveries, reducing inventory. So this is what we expect.

Operator

Next, we go to Scott Gruber with Citigroup.

Scott Andrew Gruber ***Citigroup Inc., Research Division - Director, Head of Americas Energy Sector & Senior Analyst***

I had a question also on digital. On digital, one aspect that appears to be underappreciated is just the time required to migrate onto the DELFI system. While you get paid for the migration process, I imagine that the margins are definitely better than the deployment phase. So is it accurate to say that after a few years of selling the platform and undertaking the migration process for customers, are you coming upon an inflection point just in terms of getting customers utilizing the system and transitioning to the data consumption phase? Kind of where are we at in that process?

Olivier Le Peuch ***Schlumberger Limited - CEO & Director***

I think it's a very good observation. I think we expect, indeed, that the journey of digital transformation for our customers will take time. And I think it's a long tail of transformation. We expect that will impact our results for a decade to come, I would say. However, we are indeed observing an inflection point that is reflecting onto the maturity of that platform and to the acceptability of this platform as the most effective platform that the customers have seen in terms of impacting their life cycle reduction, impacting the productivity of their asset team and providing them access to cloud computing resources and to digital operation capability that is not available to them today.

So we are seeing the adoption of our customers. We mentioned in the past that we have a baseline of 1,500 customers that are currently using our digital solution and our previous software suite of products. And we believe that we are today between 200 and 300 of those customers, about 20% of these that have already adopted and have started to move and transition onto the platform. And we expect this to accelerate both in number of customers, but also into the expansion these customers are using -- the way they are using our platform and expanding the workflows, expanding the scope, indeed, adding the data enterprise solution as a necessity to go and reset and transform their data infrastructure and then adopting workflows from subsurface workflows to operational workflows. So there are multiple dimensions, complete intensity dimension, workflow dimension and customer -- number of customer dimension that we are set to benefit for the years ahead.

Scott Andrew Gruber ***Citigroup Inc., Research Division - Director, Head of Americas Energy Sector & Senior Analyst***

Great. I appreciate all that color. And then switching gears to the New Energy portfolio and decarbonization. You guys have been active in building out that New Energy portfolio, while at the same time developing solutions and partnerships to help drive decarbonization of the oil and gas industry itself. Olivier, can you just compare the commercial opportunity of the 2? I would surmise that the commercial opportunity on the decarbonization front is greater over the next 5 years versus New Energy, but I wanted to hear your perspective.

Olivier Le Peuch ***Schlumberger Limited - CEO & Director***

I think it's both. We believe that there is a compelling event and accompanying need and utmost priority for the oil and gas to decarbonize itself. It comes into the engagement we have and the success we're having with energy transition technology portfolio to reduce the carbon footprint or the Scope 1 and 2 of our customers. It comes in bright lights with the portfolio we have created, the SEES portfolio, end-to-end emission management for methane, in particular, and getting more traction and more success with this portfolio.

So I believe that this is happening at scale. And our customers are turning into a clear, I would say, initiative -- set of initiatives to reduce the oil and -- the carbon footprint of their operations and to target a lower-carbon oil and a lower-carbon gas production. So this is the first trend and this is happening at scale, and this will include CCS opportunities that we are developing as well in parallel.

On the side of this, there is a lot happening into the clean energy. And I believe that the -- you have seen some announcement in the IRA. You have seen some announcements in the REPowerEU that are aligned with the domains we have selected, the -- be it the geoenergy for efficiency, be it the critical mineral to lithium or be it the hydrogen with getting credits at large and, obviously, CCS with the 45Q improving to help us address not only the CCS opportunity to -- that are close to our oil and gas customers, but also the ones that are close to hard-to-abate sectors. So I believe that I will not try to contrast both. I will more recognize that both represent huge opportunity of growth, existing customers and with new customers and that we are set to grow and build opportunity on both.

Scott Andrew Gruber ***Citigroup Inc., Research Division - Director, Head of Americas Energy Sector & Senior Analyst***

Got it. I appreciate the color.

Operator

Next, we go to Roger Read with Wells Fargo.

Roger David Read ***Wells Fargo Securities, LLC, Research Division - MD & Senior Equity Research Analyst***

Congratulations here on the quarter. Look forward to seeing you all in a couple of weeks. I guess what I wanted to ask is 2 different things. One, as you look at the margins, and obviously, that's one of the positives here and we compare -- I'm just going to say EBITDA margins, but you can choose whichever you want. We look back over time, you've gotten back in the right kind of neighborhood here for what we would expect Schlumberger to deliver.

If we look at what you're doing in terms of better market expansion, service intensity you've mentioned, pricing power and the digital, should it be the kind of situation where we can start thinking about margins getting back over the next several years to levels you've seen when business is truly firing on all cylinders? Or is that a little too optimistic here?

Olivier Le Peuch ***Schlumberger Limited - CEO & Director***

I think we -- first, we will look forward to see you at the event in 2 weeks and indeed comment on this and give you more color. But it's clear that we are seeing and we are very positive on the outlook, both on the market fundamentals that are in place to support our ambition for growth across the Core, Digital and New Energy for the reasons mentioned before and discussed during this Q&A.

And also, we believe that the investment we have done and the performance we are delivering for customers is giving us indeed the earnings power that will continue to translate into margin expansion going forward. So this is set, and I think we'll comment more and give you more color on our ambition forward.

Roger David Read ***Wells Fargo Securities, LLC, Research Division - MD & Senior Equity Research Analyst***

No, that's fair. I knew that was kind of a leading question on that, but I thought I'd try it. The other one is, and this might be getting a little ahead of what you want to talk about in a couple of weeks, but can you remind us where you want to take the balance sheet in terms of fee? Are you comfortable enough with where your overall debt structure is and where we would think about more of a continuous or somewhat reliable way to think about dividend increases or anything else you would do with free cash?

Stephane Biguet ***Schlumberger Limited - Executive VP & CFO***

So Roger, first, we are quite happy with the progress we've made in deleveraging the balance sheet. We have not set a new target, a new leverage target at this stage. But as I mentioned earlier, we do continue to see the balance sheet continue to increase.

As it relates to the uses of capital, as you saw, we made the first step in increasing returns to shareholders by increasing our dividend by 40% starting with the July payment. And in the future, as cash flows grow over the cycle, clearly, there will be opportunities to continue improving returns to shareholders. And clearly, as well, we will provide you more details in -- on [November 3] (corrected by company after the call) in New York.

Operator

And our last question will come from Luke Lemoine with Piper Sandler.

Luke Michael Lemoine ***Piper Sandler & Co., Research Division - MD & Senior Research Analyst***

Olivier, maybe to attack Roger's question just a little different way. I wanted to see if you could touch on this multiyear international cycle, how it's unfolding? And can you talk about how you see that versus 2005 to 2008 when pricing was very strong?

Olivier Le Peuch ***Schlumberger Limited - CEO & Director***

I think it's always difficult to compare and make analog between bidding cycles. But I think I will more focus on what is unique about this cycle. I think the conditions are set, and it includes a few critical, I would say, factors that I think -- I don't think can be comparable and will lead to a unique cycle.

One, I would say, is the global gas market is uniquely constrained and is structurally imbalanced. And I think this will lead the gas market both offshore, onshore, unconventional and conventional to continue to have a long growth cycle independently of the, I would say, some headwinds on the economic market.

Second is offshore. Offshore has indeed started. Offshore, we have conditions from a breakeven price that are with all FID below $60, if not $40, that are set to support a very strong offshore environment for oil and in the gas environment, obviously, and this is very visible both in deepwater and in Middle East. Middle East will have one of the highest growths in the offshore environment with more than 30 rigs. We are just contracted in the last 6 months by Saudi for oil development offshore.

And last, I would say that the Middle East is set to have a combination of factors that include the maximum sustained capacity commitments or the enhanced capacity that had been committed by many countries in excess of forming and buying between 2025 and 2030. And we'll not be surprised to see this commitment to be accelerated forward so that the Middle East is the swing producer of and expands the capacity.

And the result of this, because Middle East is also growing in its gas ambition and not only because of the LNG commitment from Qatar to exceed 120 MTPA by 2027, but also because the unconventional and conventional resources are being exploited for domestic and for regional markets. And all that combined, the oil capacity expansion, the gas will result into the largest-ever investment cycle in Middle East. And this is starting, and this will be happening in the next 2 or 3 years. So 2 or 3 years, Middle East will benefit from the largest investment cycle that we have seen.

So you have unique characteristics that can and cannot be compared with the past. So I just want to focus on getting the best of this future market, positioning ourselves using our performance attributes, using our unique technology and preparing the team to participate at scale and being successful for our customers in this environment.

Thank you. So I believe that this will -- we will close this call. So ladies and gentlemen, I think to conclude, let me summarize with key takeaways that 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 multiyear 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 3 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 3 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.

Operator

Ladies and gentlemen, that does conclude your conference for today. Thank you for your participation. You may now disconnect.