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Schlumberger Second-Quarter 2022 Results Prepared Remarks

Ndubuisi Maduemezia *Schlumberger Limited – VP of IR*

Thank you, Leah.

Good morning everyone, and welcome to the Schlumberger Limited Second-Quarter 2022 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 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 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*

Thank you, ND. Good day, ladies and gentlemen. Thank you for joining us on the call. In my prepared remarks today, I will cover three topics—starting with our second-quarter results and our latest view of the macro environment. Thereafter, I will conclude with our outlook for the second half of the year, and its compelling attributes, which are very supportive of our raised guidance for the full year.

The second quarter was a defining moment in the overall trajectory of the year, with significant growth in revenue, margin expansion, and earnings per share. Our execution was solid, and directionally, all trends were positively in our favor—strong international activity growth and steady drilling momentum in North America, sustained offshore recovery, and the broadening impact of improved pricing.

We leveraged the power of our Core, our global footprint, and differentiated technology to seize widening industry activity, demonstrating our ability to capture growth in every land and offshore basin—from North America to most remote international basin.

This was reflected in the broad dimension of growth in our second-quarter results, as customers stepped up activity with a focus on increased performance and production. Above all, we effectively harnessed these positive dynamics and delivered very strong sequential quarterly revenue and earnings growth.

In addition to the details provided in our earnings press release this morning, let me reiterate some performance highlights from the quarter:

- We recorded a 14% revenue increase, the largest sequential revenue increase in more than a decade, as revenue growth exceeded rig count increase both internationally and in North America. Year-on-year revenue growth accelerated to 20%, further sustaining robust growth momentum, with a visible inflection in international markets, at 15% growth over same period last year.

- Growth was very broad across all dimensions—areas, Divisions, land, and offshore—with spending visibly higher across all customer types. Internationally, sequential growth was recorded in all of our Middle East & Asia GeoUnits and all of Latin America. And in ECA, growth was pervasive across Europe, Scandinavia, and West Africa. In North America, we continue to post very solid growth offshore and onshore, on increased drilling and completions activity.

- The rise of offshore activity—particularly deepwater—was a key driver for the second quarter sequential growth in most regions and in support of all Divisions.

- Globally, all four Divisions posted double-digit revenue growth and expanded margins sequentially, resulting in the highest quarterly operating margins level since 2015.

- In addition, another feature of the quarter was broadening pricing improvement—impacting all Divisions, geographies, and operating environments.

- Finally, the quarter also marked a number of new contract wins and an increase in backlog for Production Systems and our rig equipment business—another leading indicator of the strength of the activity pipeline ahead of us. Notably, price improvement is also being reflected in Production Systems backlog, which is significant for its later-cycle implications for sustained margin expansion on an overall portfolio basis.

To sum up, the second quarter emphasizes our clearly differentiated operational performance, strategic execution, and financial results—both in North America and internationally. We have very strong momentum and have secured a solid pipeline of activity ahead of us. I am very proud of the entire Schlumberger team for delivering these exceptional results and demonstrating our unique value proposition for both our customers and our shareholders.

Turning now to the macro.

First, energy security and urgency to establish more diverse and reliable sources of oil and gas supply have become increasingly apparent through the year, exacerbated by the effects of ongoing conflict in Ukraine and a notable increase in periodic supply disruptions in certain regions.

Second, supply and excess spare capacity remain very tight, as recent OPEC and [IEA†] demand outlooks for 2022 and 2023 remain constructive—continuing to suggest a call on supply from North America and a more significant call on supply from the international basins.

Third, despite near-term concerns of a global economic slowdown, the combination of energy security, favorable break-even prices, and the urgency to grow long-term oil and gas production capacity, will continue to support strong upstream E&P spending growth.

Consequently, we are witnessing a decoupling of upstream spending from potential near-term demand volatility, resulting in resilient global oil and gas activity growth in 2022 and beyond.

Additionally, the factors supporting pricing tailwinds, more specifically the tightening service supply capacity both in NAM and increasingly in international markets, will continue to represent a defining characteristic of this upcycle and will support both revenue growth and margin expansion, more than offsetting inflation.

Looking more specifically at the second half of the year, we see very robust activity dynamics characterized by distinct acceleration of investment in the international basins and the continued strengthening of offshore activity, as all operators—including IOCs—step up spending.

The energy security situation continues to drive structural activity increase resulting from the increased focus on short-term production and the mid- to long-term capacity expansion—across oil and gas plays.

In addition, we also expect further exploration and appraisal activity and the pricing dynamics experienced so far, to add further support to both the growth trajectory and the margins performance during the second half.

These positive undercurrents will lead to an attractive mix and an increase in short- and long-cycle international projects complementing already robust short-cycle activity in North America.

Directionally, during the second half of the year, we expect a strong continuation of growth in the Core, led by Production Systems through the rest of the year, with Digital & Integration benefitting from typically seasonally strong year-end sales. Also, and as a result of the rotation of investment toward international basins, we anticipate the highest growth rate during the second half to occur internationally, setting up a very nice backdrop for 2023 outlook.

Based on this, we expect our H2 revenue this year to grow by at least high-teens compared to the same period last year. Full-year revenue growth will, therefore, be in the high teens, resulting in revenue of at least $27 billion for 2022. Furthermore, our adjusted EBITDA, in absolute dollar terms, will increase by at least 25% for the full-year of 2022 when compared to 2021.

Indeed, 2022 is shaping up to be an outstanding year for Schlumberger. The power of our Core, our digital and decarbonization leadership, and the expansive attributes of this upcycle enable us to leverage a focused North America business with an unparalleled international breadth—the combination of which favorably exposes Schlumberger to durable topline growth, earnings, and further margin expansion potential that is unmatched in the sector.

Beyond this, the momentum we are building through the second half of the year and the exit rates that we will achieve bode very well for our 2023 outlook and financial ambitions—both of which we will share in more details at our Investor Conference in November. I look forward to seeing many of you in person at this 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.

Second-quarter earnings per share excluding charges and credits was 50 cents. This represents an increase of 16 cents sequentially and 20 cents when compared to the second quarter of last year. This also represented the highest quarterly earnings per share since the fourth quarter of 2015.

In addition, during the first quarter we recorded a 14-cent gain relating to the further sale of a portion of our shares in Liberty Energy and a 3-cent gain relating to the sale of certain real estate, which brought our GAAP EPS to 67 cents.

Overall, our second-quarter revenue of $6.8 billion increased 14% sequentially. This represented the strongest sequential quarterly growth since 2010. All four Divisions experienced double-digit increases. Changes in foreign currency exchange rates had virtually no impact on the sequential revenue increase.

Pretax operating margins expanded 212 basis points sequentially to 17.1% and EBITDA margins increased 157 basis points to 22.6%. These increases largely reflect the seasonal rebound in activity, a favorable technology mix, particularly on higher offshore activities, and strong exploration data licensing sales in our Digital & Integration Division.

Margins also increased significantly as compared to the second quarter of last year. Pretax segment operating margin increased 279 basis points year-on-year, while adjusted EBITDA margins increased 133 basis points year on year.

This margin performance is even more notable considering the inflationary headwinds we continue to face. This demonstrates our ability to manage inflation through our supply chain organization as well as through pricing adjustments from our customers.

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

Second-quarter Digital & Integration revenue of $955 million increased 11% sequentially with margins increasing 570 basis points to 39.7%. These increases were primarily due to higher exploration data licensing sales, including $95 million of transfer fees.

Reservoir Performance revenue of $1.3 billion increased 10% sequentially beyond the impact of the seasonal rebound in activity, driven by growth both on land and offshore. Margins improved 143 basis points to 14.6% primarily as a result of the seasonal recovery and higher offshore and exploration activity.

Well Construction revenue of $2.7 billion increased 12% driven by strong growth and improved pricing, both internationally and in North America. Margins increased 134 basis points to 17.5% due to the higher activity combined with a favorable technology mix and improved pricing.

Finally, Production Systems revenue of $1.9 billion increased 18% sequentially and margins increased 190 basis points to 9%. Global supply chain and logistics constraints started to abate, resulting in higher product deliveries and backlog conversion. International growth outpaced North America growth and was particularly strong in the Europe/CIS/Africa area.

Now turning to our liquidity.

During the quarter, we generated $408 million of cash flow from operations and negative free cash flow of $119 million.

Working capital consumed $936 million of cash during the quarter, largely driven by higher receivables due to the significant revenue growth. However, our DSO improved sequentially. Inventory also increased as we continue to manage lead times in anticipation of continuous growth in the second half of the year, particularly in our Production Systems Division.

Consistent with our historical trends, we expect our working capital and cash flow generation to significantly improve over the second half of the year.

During the quarter, we made capital investments of $527 million. This amount includes capex and investments in APS projects and seismic exploration data.

Although it is reflected outside of free cash flow, our overall cash position was enhanced by the further sale of a portion of our shares in Liberty, which generated $430 million of net proceeds. We currently hold a 12% interest in Liberty.

During the quarter, we also sold certain real estate, which resulted in proceeds of $120 million.

As a result, our net debt improved by $406 [billion‡] million during the quarter to $11.0 billion. This level of net debt represents a $2 billion improvement compared to the same period last year.

Furthermore, we have now achieved our previously stated leverage target of two times net-debt-to EBITDA. We expect our leverage to continue decreasing throughout the rest of the year on a combination of higher earnings and improved free cash flow, allowing us to further strengthen our balance sheet. This will provide us with the financial flexibility required to continue funding growth and increase returns to shareholders throughout the cycle.

I will now turn the conference call back to Olivier.

Olivier Le Peuch *Schlumberger Limited – CEO*

Ladies and gentlemen, to conclude, let me share with you three key takeaways.

Firstly, as our second quarter results demonstrate, our differentiated global market position, our industry-leading performance, and our technology portfolio are uniquely matched to the market dynamics of this cycle.

Secondly, the market fundamentals continue to support significant investment growth in our sector, with an anticipated decoupling and resilience against the uncertainty of the pace of future demand growth. At the same time, the market conditions are increasingly supportive of net pricing impact onto current and future contracts, both in North America and internationally.

Finally, our confidence in the activity mix outlook for the second half, particularly the rotation of investment internationally, combined with pricing tailwinds, has led us to revise our full-year expectations for both the revenue and earnings growth. This bodes extremely well for our future beyond year-end, as we continue to secure significant service and equipment backlog to support our ambition in this upcycle.

Ladies and gentlemen, I believe there is no better time for Schlumberger, as we continue to execute with much success our returns-focused strategy and are set to continue to outperform in a market increasingly aligned with our strengths.

Thank you very much.

† On the conference call, the speaker mistakenly stated IEA. The correct source is the Energy Information Administration (EIA).
‡ On the conference call, the speaker mistakenly stated billion and corrected to million.
*Mark of Schlumberger.