SLB Third-Quarter 2023 Results Prepared Remarks

James McDonald—*SVP of Investor Relations & Industry Affairs*

Thank you, Leah.

Good morning, and welcome to the SLB, Third Quarter 2023, Earnings Conference Call.

Today's call is being hosted from New York City, following our 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—*CEO*

Thank you, James. Ladies and gentlemen, thank you for joining us on the call today.

In my remarks this morning, I will begin by reviewing the third-quarter financial results we presented in today's earnings release. Then, I will discuss the progress we are achieving across our three engines of growth and the macro environment supporting them. And finally, I will share our outlook for the fourth quarter and the full year.

Stephane will then provide more details on our financial results, and we will open the line to your questions.

Third Quarter Performance

Our third quarter results have built upon the positive momentum we established in the first half of the year and firmly position us to achieve our full-year financial ambitions. We continued to grow revenue and adjusted EBITDA both sequentially and year on year, and we generated free cash flow of $1 billion for the second consecutive quarter.

Internationally, we continued to seize the cycle. We achieved our highest international revenue quarter since 2015 by growing revenue in this market for the ninth consecutive quarter year-on-year. This was particularly visible in the Middle East & Asia, where we posted 22% year-on-year revenue growth, led by significant growth in Saudi Arabia, the United Arab Emirates, Kuwait, and Egypt.

Our strong international activity was further augmented by resilient investment in the offshore markets, notably in Africa, Brazil, and Scandinavia. Offshore continues to offer many opportunities for our business, and I will shortly discuss how the recent closing of our OneSubsea Joint Venture with Aker Solutions and Subsea7 will help us to expand our footprint in the market moving forward.

And in North America, although revenue decreased sequentially due to lower activity, we continued to grow year on year, outperforming the rig count.

Once again, our focus on the quality of our revenue combined with the differentiated value we deliver through technology drove margin expansion. Our EBITDA margin reached a new cycle high of 25 percent and our pretax segment operating margin expanded for the 11th consecutive quarter year on year.

These are very positive results and I want to thank the entire SLB team for delivering this strong performance.

Our Three Engines of Growth

Next, I would like to share some updates about our progress across our three engines of growth: Core, Digital, and New Energy.

Core

Let me begin with the Core. The oil and gas sector continues to benefit from a broad, durable, and resilient multiyear growth cycle that is being supported by long-cycle developments, production capacity expansions, exploration and appraisal, and the recognition of gas as a critical fuel source for the energy transition. These market fundamentals remain very compelling for our Core business, which has grown 22 percent year to date and has materially expanded margins.

This strong performance is being driven by the diversity of our portfolio, our industry-leading technology, and our unique integration capabilities. Reservoir Performance achieved exceptional results with stronger evaluation activity; Production Systems achieved its highest level of margins in the cycle led by Subsea, Surface, and Artificial Lift; and Well Construction maintained impressive results through new technology innovations and differentiated performance. All in all, this was a very strong quarter across our Core divisions.

The supportive macro environment is also leading operators to make long-cycle investments offshore, where advances in efficiency have significantly improved project economics. We have visibility into FIDs extending well beyond 2025, and there could not be a better time to join forces with Aker Solutions and Subsea7 to drive a new era for subsea.

Today, SLB is recognized for its unique ability to handle large, complex, and fully integrated offshore projects from subsurface development to midstream processing. Through our OneSubsea joint venture we will further enhance this offering by bringing new levels of technology and partnership to the market.

Together, our companies are the clear leader in subsea multiphase boosting and subsea gas compression, and we will provide electrification and digital solutions to further enhance the business. This partnership approach will also create a more flexible customer offering through scale, increased capacity, and life of field services.

Collectively, this will drive meaningful change to subsea asset performance as we partner with customers to help them unlock their reserves, drive efficiency, reduce cycle times, and reduce emissions in the deepwater market.

Digital

Now, let me turn to Digital. On our call last quarter, I shared an update on the emerging digital trends shaping the industry. These included the adoption of cloud computing, the power of data and AI at scale, and digital operations gaining maturity.

At a recent investor conference, I discussed how SLB is capitalizing on this opportunity with our platform strategy comprising of a workflow platform that serves as the backbone for our customers' planning and operations and our data and AI platform that unlocks data at scale for digital transformation.

Today, we are seeing increased digital adoption across the industry. Delfi continued its year-over-year growth momentum with a 49 percent increase in users and an 86 percent increase in compute hours compared to the third quarter last year. Additionally, our customers are embracing our connected and autonomous drilling solutions, with 1.9 million feet of automated drilling completed in the third quarter, an increase of 60 percent year over year. As a result, SLB's platforms—representing our new digital technology offering – sustained growth at a CAGR rate of about 60%.

The benefit of these technologies is clear, and you can see this illustrated in our earnings press release this morning, with our Shell/AWS collaborative agreement and the Kuwait Energy Basra Limited digital oilfield contract serving as just two recent examples of customers choosing SLB Digital technology to reimagine their workflows across the E&P value chain.

New Energy and Decarbonization

And finally, let me quickly discuss some of the exciting opportunities in our New Energy business and Transition Technologies™ portfolio.

As we address the energy trilemma, our industry has an imperative to decarbonize operations. Two of the most immediate opportunities to do this are reducing methane emissions and scaling CCUS as a solution for mitigating climate change.

Regarding methane, we have opportunities to address fugitive methane and flaring through better monitoring and leak detection. A few weeks ago, we launched a new IOT-enabled methane point instrument for continuous monitoring that seamlessly connects to our methane digital platform for insights and analysis, eliminating the need for intermittent site visits and enabling operators to quickly scale up across their operations. This and other solutions are available today to help clients abate their methane emissions.

And in CCUS, momentum is building across the industry, both in oil and gas as well as in other hard-to-abate sectors. SLB is actively involved in more than 20 CCUS projects globally and we are investing in capture technology, as underscored by the partnership with TDA Research-highlighted in our earnings release.

Overall, we are pleased with our pipeline of technology and projects, and we have confidence that by establishing ourselves as a leader in this space, we will create yet another avenue for diversified long-term growth.

Full Year and Fourth Quarter Guidance

Now, I will turn to our outlook for the fourth quarter and the full year.

In the fourth quarter, we expect continued sequential revenue growth driven by year-end Digital sales and seasonal product and equipment sales in Production Systems. The quarter will also reflect the results of the OneSubsea joint venture. As a result, we expect overall sequential revenue growth to be in the high-single digits.

With our continued focus on the quality of revenue, harnessing operating leverage, and further technology adoption, we expect to maintain global pretax segment operating and EBITDA margins at their highest levels in the cycle, in line with our third-quarter performance. Stephane will provide additional color on the net contribution of the OneSubsea joint venture on our fourth-quarter guidance.

Turning to the full year, we expect to achieve the financial ambitions we shared back in January. Excluding the effects of the OneSubsea joint venture, we expect to conclude the year by increasing revenue more than 15 percent and growing EBITDA in the mid-twenties, with recent North American headwinds being more than offset by strong international growth. With these strong full-year results, we will remain well positioned to continue returning value to our shareholders.

I will now turn the call over to Stephane.

Stephane Biguet—*Executive VP and CFO*

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

Third-quarter earnings per share was 78 cents. This represents an increase of 6 cents sequentially and 15 cents when compared to the third quarter of last year.

We did not record any charges or credits during any of those periods.

Overall, our third-quarter revenue of $8.3 billion increased 3% sequentially. International sequential revenue growth of 5% was led by the Middle East and Asia—which increased 8%—while North America revenue decreased 6%.

Sequentially, pretax segment operating margin increased 73 basis points, which resulted in incremental margins of 48% largely due to the high-quality international revenue.

Company-wide adjusted EBITDA margin for the third quarter reached 25%, the highest level since 2015.

On a year-on-year basis, third-quarter revenue increased 11% as international revenue grew 12%, while North America revenue increased 6%. The strong international performance was led by broad-based growth across the Middle East and Asia and offshore markets.

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

Third-quarter Digital & Integration revenue of $982 million increased 4% sequentially with margins decreasing 2 percentage points to 32%.

The sequential revenue growth was primarily driven by increased APS revenue and increased digital revenue, including higher sales of exploration data licenses. Margins declined sequentially as lower profitability in APS more than offset improved digital margins.

Reservoir Performance revenue of $1.7 billion increased 2% sequentially while margins improved 190 basis points to 20.5%. These increases were due to strong international growth, a favorable technology mix and improved pricing.

Well Construction revenue of $3.4 billion increased 2% sequentially led by strong growth in the Middle East and Asia which was partially offset by lower revenue in North America. Margins of 22.1% increased 38 basis points driven by the international markets.

Finally, Production Systems revenue of $2.4 billion increased 2% sequentially as international revenue increased 7% led by the Middle East and Asia and Latin America. North America revenue decreased by 8% due to lower subsea activity.

Margins expanded 147 basis points to 13.5% representing the highest margin since we began reporting results for the division. This expansion was primarily driven by higher sales of completions, artificial lift and surface production systems as well as pricing improvements.

Now turning to our liquidity.

During the quarter, we generated $1.7 billion of cash flow from operations and free cash flow of just over $1 billion.

As a result of this strong cash flow performance, our net debt reduced sequentially by $731 million to $9.4 billion. Our net debt to trailing 12-month EBITDA leverage ratio of 1.2 is at its lowest level since 2015.

Capital investments, inclusive of capex and investments in APS projects and exploration data, were $640 million in the third quarter. For the full year, we are still expecting capital investments to be approximately $2.5 to $2.6 billion.

We repurchased 2.6 million shares of our stock during the quarter for a total purchase price of $151 million. We continue to target to return $2 billion dollars to our shareholders this year between dividends and stock buybacks.

Before closing, I would like to add some color to the Q4 outlook that Olivier just provided. We are expecting sequential fourth quarter revenue growth to be in the high-single digits with pretax margins remaining at the same high level we achieved in the third quarter.

As Olivier highlighted, this outlook includes the contribution from the recently acquired Aker subsea business, which will be consolidated under our Production Systems division starting in the fourth quarter. The Aker subsea business is expected to contribute approximately $400 million to $500 million of incremental revenue in the fourth quarter with pretax operating margins in the low teens.

Therefore, excluding the effects of the acquired Aker subsea business, SLB's fourth quarter sequential revenue growth is expected to be similar to the sequential revenue growth we experienced in the third quarter.

SLB's organic pretax operating margin, again excluding the effects of the acquired Aker business, is expected to continue expanding sequentially.

After considering the impact of 'below the line' items relating to this joint venture such as amortization of intangibles, taxes, and noncontrolling interest, this transaction is expected to be slightly accretive to our fourth quarter earnings per share, excluding charges and credits.

In closing, we are very excited about the prospects of this venture, which strengthens our offshore portfolio and has the potential to deliver more than $100 million of net annual synergies starting year three after closing.

I will now turn the conference call back to Olivier.

Olivier Le Peuch—*CEO*

Thank you, Stephane. Ladies and gentlemen, we will now open the line for your questions.

Olivier Le Peuch—*CEO*

Thank you, Leah.

Ladies and gentlemen, as we conclude today's call, I would like to leave you with the following takeaways:

First, the ongoing oil and gas cycle continues to display the unique attributes of breadth, resilience, and durability that are closely aligned with our business strategy. In this environment, our unparalleled offerings in our Core, our ability to enhance value through Digital, and our investments in New Energy have us positioned to win both today and tomorrow.

Second, our international reach continues to drive our financial performance. As investment momentum has shifted internationally and offshore, our business is well positioned for sustained growth and will be further supported by our OneSubsea joint venture.

Third, after posting an impressive nine-month year to date performance and with visibility into the fourth quarter and 2024, we remain confident in our full-year and through-cycle financial targets.

This is an exciting time for the energy industry, and SLB is ideally positioned for success across all time horizons. This is an excellent environment to continue delivering value to our shareholders.

I remain fully confident in our strategy and look forward to another successful quarter and close to the year.

With that, we will conclude our call this morning. Thank you, and good day everyone.