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Schlumberger Third-Quarter 2021 Results Prepared Remarks

Ndubuisi Maduemezia *Schlumberger Limited – VP of IR*

Good morning and welcome to the Schlumberger Limited Third-Quarter 2021 Earnings Conference Call. Today's call is being hosted from the Schlumberger Doll Research Center in Boston, 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*

Good morning, Ladies and Gentlemen. Thank you for joining us on the call. In my prepared remarks today, I will cover three topics: our third-quarter results, our view of the near-term macro, and the exceptional growth opportunity ahead of us. I will then share some insights on the Middle East and offshore markets, and finally, a first view of the 2022 growth outlook.

Stephane will then give more details on our financial results, and we will open the floor for questions.

The third-quarter results further emphasize our returns focus, consistent execution, and the advantaged mix of our portfolio. Growth momentum was sustained, and we delivered a fifth consecutive quarter of margin expansion—achieving the highest pretax operating margin since 2015—and cash flow from operations in excess of $1 billion.

Let me share with you some performance highlights from the quarter, across our core, digital, and new energy. In our core:

- First—margin expansion was led by Well Construction and Reservoir Performance where we fully seized the sequential growth opportunity—driving operating margins in both these Divisions above mid-teens—the highest levels in the last three years. Revenue quality improved, boosted by favorable activity mix and higher new technology uptake that delivered strong margin expansion.

- Second—Internationally, we recorded growth in all three areas, with revenue up 11% year-on-year—consistent with our ambition of double-digit revenue growth compared to the second half of 2020. International margins further expanded—exceeding prepandemic levels—and are the highest since 2018.

In North America, revenue growth was sustained, albeit impacted by transitory supply and logistics disruptions. Margins also continued to expand, with operating margins firmly at double digits.

- Finally—we are pleased with the very sizeable activity pipeline secured during the quarter, through competitive tenders, direct awards, and contract extensions—some of which include net pricing improvement—building on our differentiated performance, integration capabilities, and technology. These wins enhance our market position, creating a long tail of activity and a platform to further new technology adoption and digital deployment, strengthening our leadership as we enter an exceptional growth cycle.

We are delivering on the promise of our performance strategy, which is increasingly impacting our top- and bottom-line results—both in North America and internationally. As the cycle accelerates, we will leverage our advantaged platform to capture the exciting growth and outperform the market in our core going forward.

Moving to Digital, we continued to progress our platform strategy this quarter, expanding our offering through the acquisition of Independent Data Services and a strategic investment in DeepIQ to further advance our digital technology offerings and the adoption of AI solutions in our industry.

In digital production operations, we announced a partnership with AVEVA to expand powerful edge and IoT solutions to the field, complementing our Agora* platform and Sensia solutions.

And in digital drilling, we successfully completed the first fully automated section drilled offshore at the Hebron platform for ExxonMobil in Canada, as you have seen in this morning's earnings release. This achievement is a significant step for our industry—particularly offshore—and signals a momentous opportunity to apply digital technology to create a step change in well construction safety, performance, and carbon footprint.

As shared recently, we are seeing the adoption of digital solutions accelerate in our industry, and whilst we are in the early innings, we are excited about the prospect of transitioning the majority of our software customer base—of over 1,700 companies—to our digital platform during the next few years. This growing adoption will generate an expanding set of digital revenue streams over a long horizon, as we transition every customer to new digital solutions for their data, workflows, and operations.

Moving to New Energy, we advanced our portfolio by taking a position in stationary energy storage through our strategic investment in EnerVenue, a company with differentiated metal-hydrogen battery technology. This represents a new opportunity set and an expansion of total addressable market in a sector with significant growth opportunities.

In geoenergy, following the success of the pilot in our technology facility in France, Celsius Energy has secured five commercial contracts in Europe. This is a significant achievement in the commercialization roadmap for Celsius as a low-carbon solution for heating and cooling buildings—contributing to global efforts in reducing emissions.

To conclude on this quarter's performance, we once again demonstrated excellent progress in our strategic execution across our portfolio, supporting outstanding results—and I want to thank the entire Schlumberger team, not only for delivering another strong quarter, but for their unwavering efforts to create enduring value for our customers and our shareholders.

Now I would like to turn to the near-term macro and the growth opportunity ahead of us.

The market fundamentals have improved steadily throughout 2021, especially over the last few weeks—with oil and gas prices attaining recent highs, inventories at their lowest levels in recent history, a rebound in demand, and encouraging trends in the pandemic containment efforts. These strengthening industry fundamentals, combined with the actions of OPEC+ and continued capital discipline in North America, have firmly established the prospects of an exceptional multiyear growth cycle ahead.

In the international markets, all regions are set to benefit from this highly favorable environment, something not seen internationally since the last supercycle. This expansion will occur at different paces—across different basins, operating environments, and customer groups—resulting in a sustained, multipronged growth cycle. Our broad exposure across these different dimensions puts us in an advantaged position to fully seize this growth opportunity.

For example, this growth inflection is already visibly underway in Latin America, sparked by the resumption of exploration and the initiation of long-cycle development campaigns. Activity has strengthened throughout 2021, and revenue in this market is already at 2019 prepandemic levels. Year-to-date revenue growth in Latin America is at 30%, with broad activity growth across multiple countries, including Argentina, Brazil, Ecuador, and Guyana. This growth is expected to strengthen further in the coming years due to ongoing long-cycle development campaigns.

By contrast, in the Middle East, where activity has been more subdued in 2021, the market conditions are set for a material uptick of activity in the coming quarters. The combination of short-cycle activity to meet supply commitments, strategic oil capacity expansion, and the acceleration of gas development projects, will result in a significant increase in investment throughout 2022 and beyond. Our recent success in tender awards, as detailed in our earnings release, strengthens our market position, and with our strong presence and commitment, we will benefit the most from the exciting outlook in the region.

In the offshore markets, we are also set for a strong resurgence this cycle. Rig activity grew for the third sequential quarter internationally and is expected to build on the notable increase in development FIDs in the coming year. Advances in new technology, digital, and integration are driving performance impact offshore—from discovery to well construction, production, and recovery—and are creating the conditions for offshore operators to reinvest with confidence in this cycle.

In North America, the imminent resumption of lease sales in the Gulf of Mexico—where we have significant market presence—will drive additional offshore growth, as operators capitalize on the advantages of this prolific basin and its existing takeaway infrastructure and extract more value from their core upstream positions through exploration and tiebacks.

Taking these factors together, a broad offshore resurgence will result from IOCs building on their advantaged hubs, independents fast-tracking development of their recently acquired assets, and NOCs unlocking their gas and oil reserve recovery potential. Our technology, digital enablement, and integration capabilities are critical advantages in this market environment and are resulting in significant new contract awards—both internationally and in North America.

Finally, we are extremely pleased with customer reception of our Transition Technologies* portfolio, and the accelerated adoption of these technologies that reduce the carbon impact of oil and gas operations. This portfolio is focused on fugitive emissions, flaring, and electrification, and is already helping customers decarbonize operations—advancing our net-zero ambition and strengthening our sustainability leadership in the industry. Some examples of this impact are cited in our highlights.

Turning to the fourth-quarter outlook:

Directionally, we anticipate another quarter of growth, with an ambition for growth across all Divisions. Growth will be led by Production Systems and Digital & Integration, benefiting from a year-end sales uplift—tempered by typical seasonality in Reservoir Performance and Well Construction. This should result in an overall sequential growth rate similar to the prior quarter.

With this fourth-quarter outlook, we expect to reach our double-digit international growth ambition for the second half of 2021, when compared to the second half of 2020. It will also translate into full-year revenue growth, both internationally and in North America, after adjusting for the effect of divestitures.

Building on third-quarter operating margins at recent highs, our ambition is to sustain this level of margin performance in the fourth quarter. Consequently, on a full-year basis, we remain confident in attaining the high-end of our guidance of 250 to 300 bps EBITDA margin expansion, an excellent foundation for expansion in the year ahead.

Now, I would like to close my prepared remarks with our earliest views on 2022.

Against the backdrop of the constructive environment I described earlier, our confidence in the onset of an exceptional growth cycle is reinforced. At this early point in the planning cycle, and absent a setback in economic and pandemic recoveries, we anticipate very strong global upstream capital spending growth. This growth will impact all basins, every operating environment, short- and long-cycle activity, and all customer groups.

In North America, we anticipate capital spending growth to increase around 20%, impacting both the onshore and offshore markets. Internationally, growth momentum will strengthen, and early indications point to strong capital spending growth in the low to mid-teens, driven by both short-cycle activity and the onset of multiyear capacity expansion plans.

Through our performance strategy, we have strengthened our position across multiple dimensions. In North America, we have enhanced our market positioning and are now biased to accretive growth onshore and will benefit from strong growth offshore in the Gulf of Mexico. And in the international markets, we have built a multiyear pipeline of strong activity in the most prolific basins that will lead the supply response, both in oil and gas.

More importantly, we have enhanced our earnings growth potential significantly, as demonstrated by multiple quarters of margin expansion. In North America, our operating margins are primed to exit the year at the highest levels since 2015, which—combined with the favorable market position I have just described—is an excellent platform for margin expansion. Internationally, we are also set for peer-leading margin expansion, as we exit 2021 with margins above prepandemic levels. The combination of strong activity growth and operating leverage will support durable margin expansion.

Additionally, through our Fit-for-Basin and Transition Technologies, and capacity tightening, we see favorable conditions for broader net pricing net gains in the coming year, in both North America and the international markets.

Finally, as a result of our digital platform strategy and growing customer adoption, we anticipate an acceleration of our digital journey, resulting in accretive revenue and earnings growth.

Consequently, we expect margins to expand further in 2022, supporting material earnings growth potential and are increasingly confident in achieving our mid-cycle adjusted EBITDA margin ambition of 25% or higher and sustaining a double-digit free cash flow margin throughout the cycle.

I will now pass the call 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 $0.36. This represents an increase of $0.06 compared to the second quarter of this year and an increase of $0.20 when compared to the same period of last year.

In addition, we recorded in the third quarter a $0.03 gain relating to a start-up company we had previously invested in. This company was acquired during the quarter and, as a result, our ownership interest was converted into shares of a publicly traded company.

Overall, our third-quarter revenue of $5.8 billion dollars increased 4% sequentially.

Pretax operating margins improved 120 basis points to 15.5% and have now increased five quarters in a row. Margins expanded sequentially in three of our four Divisions, with very strong incremental margin in both Reservoir Performance and Well Construction. This performance was due to a favorable geographic mix, driven by continued international revenue growth, as well as a favorable technology mix, with increased exploration and appraisal activity and new technology adoption.

Company-wide adjusted EBITDA margin of 22.2% in the quarter increased 90 basis points sequentially.

It is worth noting that this margin expansion was achieved despite the well documented disruptions in global supply chain systems and inflation in select commodities and materials as well as in logistics. Through our global supply chain organization, we are successfully engaging with our suppliers and customers to jointly navigate inflationary trends. We are collaborating with our customers to optimize planning and, where applicable, make the necessary adjustments through existing contractual clauses or negotiation. As a result, so far, we have largely been able to shield ourselves from the inflation effects.

As the growth cycle accelerates, we will continue to be proactive, dynamically adjusting sourcing strategies, and leveraging our diverse global manufacturing footprint and supply network.

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

Third-quarter Digital & Integration revenue of $812 million was essentially flat sequentially as lower sales of digital solutions were offset by higher APS revenue. Pretax operating margins increased 154 basis points to 35% largely as a result of improved commodity pricing in our Canada APS project.

Reservoir Performance revenue of $1.2 billion increased 7% sequentially. This revenue growth was entirely driven by higher international activity. Margins expanded 202 basis points to 16%, largely due to higher offshore and exploration activity, as well as accelerated new technology adoption.

Well Construction revenue of $2.3 billion increased 8% sequentially due to higher land and offshore drilling, both internationally and in North America. Margins increased 230 basis points to 15.2% due to the higher drilling activity and a favorable geographical mix.

Finally, Production Systems revenue of $1.7 billion was essentially flat sequentially while margins decreased 27 basis points to 9.9%.

Now turning to our liquidity:

Cash flow from operations was once again strong as we generated $1.1 billion of cash flow from operations and free cash flow of $671 million during the quarter. This represented a significant sequential increase when adjusting for last quarter's exceptional tax refund of $477 million.

We paid $42 million of severance during the quarter. Excluding these payments, the working capital impact on our cash flow was neutral despite the revenue increase. This was driven by a very strong DSO performance.

We expect the fourth quarter to show another quarter of strong free cash flow generation, which positions us favorably to achieve our ambition of delivering full year double-digit free cash flow margins. As a result of this strong cash flow performance, net debt decreased sequentially by $588 million to $12.5 billion.

During the quarter, we made capital investments of $399 million. This amount includes capex, investments in APS projects, and multiclient. For the full-year 2021, we are now expecting to spend approximately $1.6 billion on capital investments.

In total, during the first nine months of the year, we have generated over $2.7 billion of cash flow from operations and $1.7 billion of free cash flow. As a result, we have been able to progress significantly on our commitment to deleverage the balance sheet. This is evidenced by the fact that gross debt has decreased by almost $1.5 billion since the beginning of the year. Net debt has reduced by $1.4 billion during this same period.

Overall, I am very pleased with our cash flow performance and the progress we are making towards strengthening the balance sheet. This will provide us with greater flexibility in our capital allocation.

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, during the third quarter, our growth momentum was sustained—both internationally and in North America—and drove peer-leading margin expansion, reflecting our operating leverage, advantaged market positions, and increased technology adoption. We also generated sizeable free cash flow, allowing us to materially reduce our net debt.

Secondly, our performance in execution, our proven integration capabilities, and our differentiated technology and digital portfolio, are increasingly resonating with our customers, and have resulted in sizeable awards during the quarter, across Middle East, offshore, and in gas development, in particular—all critical markets as the upcycle unfolds.

Thirdly, we are confident that the momentum of this upcycle will continue, allowing us to close this year with another quarter of revenue and earnings growth, resulting in full-year sequential growth internationally and proforma North America, and full-year margin expansion on the high end of our guidance.

Finally, with the backdrop of strengthening demand in the energy markets, the macro conditions are increasingly set for an exceptional multiyear growth cycle, unfolding broadly during 2022, both internationally and in North America, and resulting in significant earnings growth potential for Schlumberger.

Ladies and Gentlemen, I could not be more satisfied with our strategy execution progress to date, the enthusiasm of our entire team, and the elevated trust of our customers. I look forward to the coming quarters with increased confidence.

Our returns-focused strategy execution has created the conditions for unique outperformance in our core and digital offering at the onset of this upcycle, whilst elevating our sustainability commitment and accelerating our new energy strategic initiatives.

Thank you very much.