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SLB.N - Q2 2022 Schlumberger NV Earnings Call

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OVERVIEW:

Co. reported 2Q22 revenue of $6.8b and GAAP EPS of $0.67. Expects full-year 2022 revenue to be at least $27b and 2H22 revenue to grow by at least high-teens YoverY.

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Schlumberger earnings conference call. (Operator Instructions) As a reminder, this conference is being recorded.

I would 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 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'll be making today are forward-looking. These matters involve risks and uncertainties that could cause our results to differ materially from those projected in these statements. I therefore refer you to our latest 10-K filing and our other SEC filings.

Our comments today may also include non-GAAP financial measures. Additional details and reconciliation to the most directly comparable GAAP financial measures can be found in our second quarter press release, which is on our website.

With that, I will turn the call over to Olivier.

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

Thank you, ND.

Good day, ladies and gentlemen. Thank you for joining us on the call. In my prepared remarks today, I will cover 3 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 14% revenue increase, the largest sequential revenue increase in more than a decade, as revenue growth exceeded rig count increases, 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: area, Divisions, land and offshore, with spending visibly higher across all customer types.

Internationally, sequential growth was recorded in all of our Middle East and Asia GeoUnits and all of Latin America, and ECA growth was pervasive across Europe, Scandinavia and West Africa. In North America, we continue to post very solid growth offshore and onshore and on increased drilling and completions activity. The rise of offshore activity, particularly deepwater, was a key driver for our second quarter sequential growth in most regions and in support of all Divisions. Globally, all 4 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 activity pipeline ahead of us. Notably, price improvement is also being reflected in Production Systems backlog, which is significant for its later cycle implication for sustained margins 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'm 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 has become increasingly apparent through the year, exacerbated by the effect of ongoing conflict in Ukraine and a notable increase in periodic supply disruptions in certain regions.

Second, supply and excess spare capacity remains very tight as recent OPEC and EIA demand outlooks for '22 and '23 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 benefiting from typically seasonally strong year-end sales. Also, and as a result of the rotation of investment towards 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 top-line 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 ambition, 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 $0.50. This represents an increase of $0.16 sequentially and $0.20 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 $0.14 gain relating to the further sale of a portion of our shares in Liberty Energy and a $0.03 gain relating to the sale of certain real estate, which brought our GAAP EPS to $0.67.

Overall, our second quarter revenue of $6.8 billion increased 14% sequentially. This represented the strongest sequential quarterly growth since 2010. All 4 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 margins 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 million during the quarter to $11 billion. This level of net debt represented a $2 billion improvement compared to the same period last year. Furthermore, we have now achieved our previously-stated leverage target of 2x 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 & Director*

Thank you, Stephane.

Ladies and gentlemen, I believe we are opening the floor to the questions.

QUESTIONS AND ANSWERS

Operator

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

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

Olivier, Stephane.

So Olivier, curious how you're thinking about the evolution of the -- specifically the international cycle as we go through the next several quarters, and really into next year? I mean where clearly -- OFS or energy is decoupling from the global economy, you're going to see some changes in probably activity levels, the mix, the pricing. It seems to me that kind of the best is still to come, I think, for the cycle. So just kind of curious of your broad outlook for International?

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

No, first, I want to reinforce that the macro environment we are facing is quite unique. It's a confluence of unprecedented low spare capacity, 8 years of underinvestment in international basins and a call for energy security that is creating a double sourcing of both oil and gas, partly international basins. So when you put that together, it creates not only a short cycling pulse on production enhancements to respond to that energy security, but also reinforce the need for expanding oil capacity, accelerating gas development and the entire set of international basins, both offshore and onshore benefit from it, as we see.

So we have seen an inflection in the sentiment of our customers, both our national oil company, international oil company and international independents, to respond to that call and turning and accelerating the investments and rotating their investment internationally visibly. So, this is certainly a multi-leg, I would call it, multiphase, both oil and gas positive environment forward. So we have seen that Latin America has been the first benefit from that inflection, and we see that continuing going forward as from Guyana to Brazil, to Colombia and as a short cycle to Argentina as a shale exposed environment. We foresee this to be continuing, including exploration offshore Colombia, our Atlantic margin in Brazil, this is set to continue going forward.

We are seeing this to rotate in ECA, as you may have seen, more than offsetting the constraints we have in Russia-Ukraine region, and creating a superb undercurrent, to call it, and all offshore basins in this region. And we have seen it in very strong in Europe, West Africa and Scandinavia with the unique tax incentive set that will start to be kicking in next year will only accelerate that trend, and East Mediterranean or Black Sea will also see continuous growth going forward.

So -- and you turn to Middle East and Asia. I think you have a combination of oil capacity commitment increase by both UAE, Saudi, and to an extent, Kuwait, that will play out. And will, in the case of KSA, create an uptick in offshore activity partly from next year. You see that the gas that is being developed at large scale in the Middle East, both for domestic and for fuel substitution, that will continue to play to our strength in Qatar and unconventional in both UAE and Saudi, if not Oman. And then you have the Asia market. That is also not shy of investments, and you see that long term into the South China Sea as well.

So I think it's multi-branched, multi-color, I would say, and it has started strong in LAM and will turn to further ECA, further Middle East with this inflection being materialized as the quarters are executed going forward.

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

Okay. Okay. Got it. That's very helpful, Olivier.

Maybe a quick follow-up from me. You have your digital event coming up here in September. I've been following kind of the list of speakers, very impressive group that you're assembling. And I'm curious where you see the industry now, where you see Schlumberger in the industry and the digitalization or the digital journey of the industry? It seems to me that we're -- we've been inflecting but we seem to be inflecting even further in digital, and certainly, the results are proving that out in your income statement as well. So curious about digital.

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

No, I think you are correct. And I think the number and the rich panels that we are assembling into this digital forum in September is there for two reasons.

First and foremost is because the industry believes in digital, that digital can add a significant step-up in efficiency that will continue to impact positively cost, cash generation and will contribute to decarbonization of operations. So that's the reason why we are seeing customers coming in high numbers, in record numbers to our digital forum.

And the second reason we have this success is our thought leadership and platform strategy that has been adopted and that has been the cornerstone of our success in digital, and we are using it to continue to transition all of our customer base towards this cloud platform. And this is a long tail, and this will certainly last all this decade and beyond, and we are looking forward to success, long success here. But also, we are using this platform and the digital capability to continue to enhance our operation, to continue to transform our digital operations, to impact our customers and our own operations for efficiency and for performance. So lifting up through efficiency, lifting up the performance and hence, getting a premium or getting an increment of market position. So it has a dual effect. But the success of the digital forum is certainly the credit to our team, but also the proof that digital is now mainstream into this industry.

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*

So going across your numbers, you grew in every region in every segment. But the one I thought was really interesting was MENA. It grew 7% this quarter, but it didn't even -- in the Middle East, it hasn't even started yet.

So I was wondering if you could just kind of start there and just help us give us a sense of kind of where you stand today in terms of project mobilization and how that region is building out? And I'm just kind of curious when do you fully expect to be up and running on the contracts you have in hand?

And I guess related to that, it's been a while since we've seen a ramp-up in activity over there. But we've often seen start-up delays and higher costs that lead up to the work. So aside from just pure execution, are there ways that you can navigate some of these risks? Are there lessons learned from past cycles? Or is it different because this is much more integrated drilling work that didn't exist in prior cycles?

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

No. I think I believe that our team has improved its execution track record. We have, as you may remember, 3 years ago, we took some action on to our underperforming contracts. And we learned and applied some best practice, best lessons and project management to technology deployment and to the discipline in our competency management deployment and use of digital to help us execute this contract in a better way. And from the way we manage the maintenance cycle of our equipment to the way we deploy and do remote operations to control and help and support our people on the ground, I think we have progressed a lot in the last few years.

And as such, the major contracts we are starting always has -- have a learning period. But I think we are accelerating this learning period by contrast to previous cycles. And I think we are set for success on all these projects before soon. And -- but we always have somewhere, somehow, in international basin, a major project start-up. And -- but we expect this to be, I would say, the background that we'll have going forward, but our execution, track record, lessons learned, use of digital best practice and disciplined organization, including our competency that we deploy, has helped us to accelerate the lesson learned and to reach maturity in terms of performance, margins on those projects faster than in previous second half.

So I'm positive. And as I said, there is an inflection building up in Middle East activity that will materialize in 2 or 3 countries visibly into the second half, and will accelerate next year as we will see more offshore shallow activity partially into the GCC environment in Middle East led by the Saudi oil major development that they're accelerating for oil capacity increase towards their 2027 1 million barrels. This will translate into activity. So further activity increase will materialize, and we will benefit from it. The industry will certainly have a large ramp-up going forward. So it's the early cycle of growth in Middle East.

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

The offshore market was actually my second question there. You're -- the really -- the offshore markets are really tailormade for your technology profile. Exploration, drilling, subsea boosting, so -- and recognizing what you did that, there's a ramp-up on the shallow water side and the jackups in the Middle East. Is it too soon to say an overall kind of offshore inflection is here? We noticed a lot of your -- Yes. We saw a lot of your oil offshore, Gulf of Mexico, it's not too soon? Okay.

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

No, it's not too soon. In the second quarter, International offshore was accretive to our growth, international visibly, and you can see it into the ECA growth. And I think if you read some of the reports published by EIA and others, I think you see that -- you see that the outlook for 2022, 2025 on offshore investments and FID activity will outpace visibly the 2016-2019 cycle.

So we have early innings of this offshore cycle, but it's quite interesting. And it includes more exploration and more appraisal activity than we could have anticipated considering the -- some of the macro, but we are seeing it from Namibia to Colombia to Asia. We are seeing interesting exploration happening to north of Brazil in the Atlantic Margin. We are seeing acceleration of appraisal and exploration that combine and increase the beneficiary mix, I would say, that we are seeing in the offshore environment.

So yes, we are very well exposed as we recently commented during a conference in June. We were -- we believe that the average revenue intensity that we collect from an offshore environment is -- can be up to 5x or more what we collect in the land environment. And the scope that we have is quite unique from, as you said, from subsea to exploration, from data licensing to integrated rig well construction. So it's quite unique, and we'll benefit increasingly on that offshore outlook.

Operator

Our next question is from Chase Mulvehill with Bank of America.

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

I guess I want to come back to the topic on international, and maybe follow up a little bit on James' question.

Obviously, we've now seen kind of 3 of the diversified service companies, international results. I mean, they've all surprised to the upside, so it feels like that activity may be a little bit higher than kind of what we all thought kind of heading into 2Q. But could you talk about the fundamental

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tightness that you're seeing across the international market, and whether you're seeing kind of broad-based pricing at this point? Or is it just kind of more pockets of pricing increases? So just a little bit on pricing across the international side.

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

No, it's definitively broadening. As activity continues to ramp up and includes an offshore mix that typically has more pull on equipment, considering the backup and considering the length of assignment of this equipment on the offshore rigs, this is creating a pinch on the supply capacity that results into a broadening pricing pressure and pricing uplift that we are seeing in all environments, I would say. Both from existing contracts where we have the opportunity to negotiate and offset more than offset inflation as a new tender, and/or direct award where customers want to secure future capacity, they want to secure technology. They want to secure performance, and as such, are accepting and are directly negotiating pricing increments on existing scope.

So we are benefiting from this. The pricing environment is definitely broadening and improving. And we believe that going forward, as we see the inflection of international investment that has started to accelerate in the second half as we anticipate second half international rate of growth will outpace the North America rate of growth, we see that to generate more floor and uplift for the pricing environment going forward.

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

Yes, all makes sense, and we agree with you there.

Can we -- as a kind of a related follow-up, can you expand on kind of, I guess, maybe your ultimate earnings power of the company? Obviously, you gave us some EBITDA guidance here. And when we think about the earnings for this year, you'll surpass last cycle's peak. But how should we be framing kind of the earnings power of Schlumberger this cycle? And then maybe just kind of weave in the discussion around EBITDA margins and your confidence in maybe hitting the 25% mid-cycle margins that you had kind of guided as a target for kind of year-end '23. Do you think you can kind of hit that a little bit earlier now, given that you're outperforming on the margin side?

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

No. I think as we have said before, I think there are 2, 3 reasons why we are confident about our margin trajectory, earnings power going forward.

First is that we have high graded our portfolio in North America that has lifted our margin in North America to deliver that we are comfortable now, that we are competing and accretive. Secondly, we have created a significant reset in our operating leverage less than 2 years ago that is paying off and paying off at the time we are expanding and growing. And third, we believe that a combination of a tight supply already very visible in North America and broadening, as I said, in international, combined with performance, technology performance, integration performance differentiation, is creating a further premium that will fall through to our earnings.

So we have a probable mixed outlook that includes offshore. We have differentiating technology and integration performance, and we have the foundation, the operating reset that we have done and the high-grading we did forward. So you combine this with the upside that digital brings to this, and you get all in a significant upside that we have in our margin. And we had anticipated 25% EBITDA margin sometime next year, and I think we are still very confident about that target.

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

Okay. Perfect. I'll turn it back over.

Operator

Next, we have a question from Arun Jayaram with JPMorgan.

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

Olivier. Obviously, some concerns around Russia kind of heading into the print. But I was wondering if you could provide more color on the drivers of the 20% sequential top line growth that you saw in Europe/CIS/Africa that manifested despite a decline in Russian revenue?

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

I think it's built on multiple GeoUnits in West Africa and Europe and Scandinavia, to a lesser extent, that has been benefiting from project timing from -- particularly in the production system that you have seen has benefited from a significant sequential growth. A large portion of that was in Europe.

The same in offshore environment. I think we have offshore environment is picking up in that region. And this has been very beneficial to us, including some explore into other performance. So you combine all of this, and we have had a fairly substantial growth, and we don't see this necessarily abating a lot in the coming quarters. So I think we see a lot of further offshore and activity both in Africa, Europe, Scandinavia accelerating, as I said, next year, and that will more than offset the risk we are facing in the Russia outlook.

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

Great. Great.

And just my follow-up, Olivier, you mentioned how Schlumberger is hosting an Investor Day in November. I was wondering if you could talk about some of the objectives of that upcoming event? And what do you hope to showcase and highlight to investors at that time?

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

I think we commented on this during the last call. And I think it is an event where we invite investors and analysts to update them on our view first on the cycle, our strategy to execute on this cycle, and our long-term ambition we have for the company, building on our Core and our digital and our new energy investment that will go forward. So that's where. And you will see technology, you will see I think elements of our strategy, and we will expose all of you to the view we have on the macro and the long-term ambition for the company.

Operator

And 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*

Team. Olivier. First question was just around your Canada APS assets, and how are you thinking about that? Are you still considering the sale? Or has the thought process changed given the macro environment? And alongside that, the monetization of the Liberty position as well. Should we be thinking that Schlumberger will look to continue to exit?

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

[Arun], it's Stephane here.

So look, on Palliser in Canada, or our asset for APS, we are quite happy with the performance of this asset. Actually, it's generating very strong cash flows. So it's a great asset, and we are making the most of it at the moment.

As it relates to Liberty, you have seen that we decided to monetize a large part of our investment in the second quarter when the market conditions were favorable. So we now hold only 12% of the equity. We will simply -- we'll continue to monitor our investment going forward, and we'll decide further monetization based on market conditions like we did earlier.

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

Okay. That's good. That's helpful color.

And then the second is a philosophical question. Schlumberger is now getting to the point where the business is generating a decent amount of free cash flow on visibility for that free cash flow to grow. How do you think about return of capital? And as you think about the preferred methodology to return that capital, do you think a buyback or a dividend is the most effective way to get that cash back to shareholders?

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

Sure. Look, first, as you know, we increased our dividend by 40% starting with the July payment, so this was a first step in increasing returns to shareholders in this growth cycle.

Now, as earnings and cash flows indeed continue to grow over the cycle, we will review opportunities constantly to increase returns to shareholders. And it will be either in the form of increased dividends or share repurchases. We will also see exceptional cash proceeds from our continuous portfolio high-grading program, so this will give us further optionality. We will decide between dividends and share repurchases in due time. Dividend, of course, has to be sustainable, affordable for the long term, but share repurchases will be part of the equation as well.

Operator

Our next question comes from Scott Gruber with Citigroup.

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

Yes. So as you mentioned there's growing recession fears in the broader market, and that's weighed on oil and it's weighed on your stock. But Olivier, as you mentioned, there seems to be great resiliency here to the growth outlook. But I am curious, roughly at what oil price do you think the multiyear double-digit recovery could be in peril? It just seems like there's a pretty big buffer between the current price and where that price could be. I'm wondering your thoughts on -- I think it's important.

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

I think -- first, I think we are living through a supply-led unbalance. I think it's quite unique, and it will take time before it recovers towards a demand supply balance. So I think the quarters to come will be definitely quarters to be replenishing and securing enough spare capacity to avoid the exposure, the overexposure to risk on the energy supply.

And -- but you have the undercurrent that is on energy security that is creating a double sourcing, that is a new attribute of demand that -- and supply, sorry, on supply that is doubling down. So I think the buffer is pretty wide, in my opinion. And hence, the short term and some of the risk on the slowing and/or inflection into the demand growth going forward, there is a decoupling and there is resilience into the investment cycle that we are seeing as we speak.

So whether this lasts, it's very difficult to say how long it will last. But I think we see that this cycle is stronger, longer and pricier than we had anticipated because of those unique conditions that the security supply has just added a new dimension to it. So I think there is a lot of space in my opinion.

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

Yes, we agree. And a follow-up on exploration, I know you touched on it and touched on it's benefiting mix. But I'm curious just how you see the recovery here on the exploration side, this cycle? The general assumption coming in was that exploration would lag. But just given a deep downturn in exploration activity and given a renewed focus on energy security, should we now be assuming that exploration activity will actually rise in excess of the general recovery as it usually is? Is that possible here?

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

No. What we are witnessing actually is that below the radar screen, if I may use that expression, is that we are seeing a lot of exploration and appraisal programs that have been -- that are being initiated with some good supply that we are seeing in the new frontier, call it, in the Namibia, call it in Colombia, all the place. And we are seeing program and support for new exploration in Asia as well.

So yes, we are cautiously optimistic that indeed, the exploration cycle is back to a scale that I think will be accretive to our mix, and will be giving us the unique exposure from our exploration data licensing and/or from our reserve performance portfolio and digital also as we typically have a lot of license and digital solutions that address the exploration geoscience workflows. So we see this as a mix that is accretive to our future, and that is coming a little bit ahead of what we could have anticipated in this cycle.

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

Appreciate that color.

Operator

Our next question is from Roger Read with Wells Fargo.

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

Yes. Yes, what I would like to maybe understand, and focusing on kind of the back half and the exit this year on the EBITDA guidance, you didn't really raise that despite the stronger Q2, obviously, some positives on pricing. I was just wondering what you see to keep you, I don't know if cautious is the right term, but let's just say conservative in terms of EBITDA guidance relative to revenue guidance? Is that Russia or something else that's flowing through?

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

I think first, let me reiterate the guidance we provided. We provided the guidance that revenue will be a full year of $27 million dollars at least, and we provided a guidance that our EBITDA in dollar terms will grow by at least 25% year-on-year throughout from 2021. So if you use this, you see that it goes up above the current consensus and have been adjusted for the actual EBITDA that we had in the second quarter. So we foresee a raise in the EBITDA dollar for the full year with this guidance that I just shared.

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

Yes. I understand that. I guess I was just really coming at the sort of 24 -- the up 200 basis points from Q2 -- Q4 of '21 to Q4 of '22. Given the seasonality and other things should help.

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

Yes. This is still our ambition, and I think this ambition is based on the seasonal impact that we anticipate through a particularly digital year-end sales that will follow our digital forum and the mix that we believe will be favorable. So we include international and offshore that are accelerating in the second half. So this is still the ambition we have set for the team, and this is the reason why we have guided to the 25% full year EBITDA growth in dollar terms or higher.

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

Okay. And then this is a little more of a -- especially given the commentary earlier about best quarter since back in '15, and this is a cycle where a lot of the E&P companies, integrateds, are being conservative in terms of their pace of spending increase relative to what we see in the commodity prices.

I was just wondering, as you look at this cycle of this part of the recovery so far, what you can see in the back half of this year, thinking about next. What looks the same, what looks different? I mean, obviously, you expect the exploration recovery to continue. But if we just look at the, call it, development side, are we leaning more heavily into that? Is the mix more positive than in some other cycles? Or should it ultimately look a lot like any other cycle, just -- it's going to be stronger in one place, weaker in other?

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

No. I think what is quite characteristic of the cycle is the broad nature of this cycle. We see it -- we are growing across the 4 divisions. We are growing across the 4 areas, and we are seeing this set to continue. So we see, as I said, a strong inflection in international that will outpace in terms of rate of growth in North America from the second half. We see also offshore, the return of offshore being a characteristic that will only expand going forward.

The -- if you were to just look at the -- in terms of numbers, the number of jackups being operating in shallow waters is actually on par higher than it has been for the previous cycles, more than 300, and deepwater is starting to catch up.

So I think we have a -- we have a mix of signals that are clearly broadening the activity outlook. Hence, if I want to differentiate, it's more the supply-led and tightness of the market, creating pricing condition that is unique in this cycle in addition to the broad nature of growth across almost all countries in this -- in the coming quarters.

Positive in all -- Yes. It's positive in all dimensions, I will say. Customers, geographies and division business lines. So that's what we foresee is unique, and it's broad. It's production enhancement, it's some appraisal acceleration, and it's a development program, both oil and gas.

Operator

Next, we move on to Connor Lynagh with Morgan Stanley.

Connor Joseph Lynagh - *Morgan Stanley, Research Division - Equity Analyst*

We've been talking a lot about pricing, but I wanted to maybe just put a finer point on something.

One of the big investor concerns on both Schlumberger and the broader oil services industry is the degree to which you'll be able to extract pricing or improve margins not just in some of the less core geographies, but also with some of your big national oil company customers. So I'm curious, based on how broad-based your comments have suggested pricing is, are you already seeing pricing or margins improve in some of your biggest regions with some of your biggest customers? Are your conversations indicating that more is to come? Just curious if you could address that.

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

No. As I commented before, it's broad. It's happening today, and it's expanding. So now is it in -- for every contract, for every customer, and that's what we are working on. But the customer understands, the customers realize that the market is becoming tight. The customers care for performance. The customer wants to secure capacity for their future plan. And hence, we are seeing success into our engagement with all of our customers into a positive response and adjustment of our price in the existing contract or into new contract. Into, as I said, a contract extension that are negotiated one-on-one and with pricing increments or -- and into tender environment where the pricing is seen being lifted.

So it's broad, and it will continue to happen. And I think while -- a year ago, it was mostly in North America with [inaudible] internationally. I would say that it's very established in North America, and it's broad now in International across all customers. And yes, some will take more time to materialize and some we'll face at a later date, but we are confident that the momentum has started and the market we support going forward.

Connor Joseph Lynagh - *Morgan Stanley, Research Division - Equity Analyst*

Got it. Maybe pivoting a little bit here. We've talked tangentially about Russia, but I was wondering if you could just clarify what your expectations are for the country, for your operations there? And effectively, what the wind-down might look like relative to your plans to cease investment in the new contracts there?

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

No, I think I would just reiterate what we said earlier and bring a little bit of clarity. But our position is unchanged since we communicated earlier this year at the onset of this crisis, and we have suspended new investment and technology deployment into Russia.

However, our structure gives us the flexibility to have operations in country in full compliance with international sanctions. So at the same time, we continue to monitor the situation very, very closely, very carefully. And we always put the safety of our people and assets as a first priority. So we cannot and will not comment on the future, but we have taken a disposition to support.

Operator

And ladies and gentlemen, we have time for one last question. That is from Keith MacKey with RBC Capital Markets.

Keith MacKey - *RBC Capital Markets, Research Division - Analyst*

Just would like to dig into a little bit more on the cash flow and free cash flow expectations for the second half of the year. Stephane, you mentioned that you expect that to improve. Just curious if you can put some color or magnitude around that? And is a double-digit free cash flow margin for the second half of the year in the cards?

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

Sure, sure. So look, first, let me come back to the second quarter to put some color. Our free cash flow was indeed slightly negative, even though the cash flow from operations improved sequentially. So as you have seen, it's all in the working capital. And to give a bit more details, 2/3 of the sequential working capital increase was due to an increase in receivables. But as I mentioned earlier, our DSO improved sequentially. So really, the increase in receivables is due to the significantly higher activity we experienced in the quarter.

Also, the inventory has increased, as I mentioned. We are preparing to fulfill our growing backlog, particularly in our Production Systems Division. We mentioned this is the fastest-growing division, so we want to seize all the opportunities there. So really, the working capital buildup we saw this quarter is to support the accelerated growth we are experiencing.

As it relates to the rest of the year, we do expect the same pattern we see every year in the second half, where working capital gradually improves on higher customer collections. When we have lower inventories due to higher product sales towards the second half. So we fully expect our free cash flow to significantly improve in the second half as per historical trends. And clearly, we maintain our ambition to generate double-digit free cash flow margin over the cycle for sure.

Keith MacKey - *RBC Capital Markets, Research Division - Analyst*

Got it. Okay. And maybe just a follow-up on capital. It looks like you moved to the top end of your $1.9 billion to $2 billion range. Can you talk about where this was? Is it activity driven versus inflation driven? It's ultimately where you think you'll land for the year under your $27 billion revenue guidance.

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

So just -- yes. Just to confirm, we are expecting our total capital investments, which include the CapEx, exploration data cost and APS investments for the full year, be approximately $2 billion.

As Olivier highlighted, clearly, we are seeing higher demand for technology and equipment mostly in our core service divisions. This is where the most of the CapEx goes, Well Construction and Reservoir Performance. They are recording very strong year-on-year growth, so this is expected to continue. So we will continue, of course, to maintain discipline in the way we deploy any additional resource, allocating those to the countries and contracts with the best returns in accordance with our capital stewardship framework.

So just one note, the CapEx portion of our total capital investment remains at the low end of our target range of 5% to 7% revenue, and we fully intend to maintain that commitment throughout the growth cycle.

Operator

And I do understand we have time for one more. That is Marc Bianchi with Cowen.

Marc Gregory Bianchi - *Cowen and Company, LLC, Research Division - MD & Lead Analyst*

I wanted to ask first on Russia, just to follow up. I think last you updated, Russia was about 5% of total company revenue, but at the time, the ruble had significantly devalued. We've seen an appreciation in the ruble since. Can you comment on where that revenue mix is today?

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

Yes. Marc, sorry. Russia, throughout the first 6 months of 2022, is actually -- is about 5% of our total worldwide revenue.

Marc Gregory Bianchi - *Cowen and Company, LLC, Research Division - MD & Lead Analyst*

Got it. Okay. Stephane. As we look at the back half of the year, perhaps you could provide a little more color on the segments. I understand you mentioned D&I and Production Systems driving the improvement, but the D&I benefit would be largely fourth quarter, which is typical with seasonality. But there was an exceptional second quarter, so maybe you could just provide a little more color on the progression as we move through third quarter for the business?

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

Yes, we have indeed a very strong quarter in D&I due to some very strong data exploration sales. But at the same time, I think we will see indeed the D&I coming back to restoring its usual margin to low to mid-30s and to progress through the H2 to finish on a strong end of the year through the effect of digital year-end sales as we have experienced in previous years.

So while it was very strong, I think it's still in the 30s, and we expect to keep it in the 30s, if not in the mid-30s going forward. So we will see the uptick in the end of the year.

Marc Gregory Bianchi - *Cowen and Company, LLC, Research Division - MD & Lead Analyst*

Very good.

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

Time to close indeed, thank you. So ladies and gentlemen, to conclude, let me share with you 3 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 expectation for both the revenue and earnings growth. This bodes extremely well for 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.

Operator

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