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Schlumberger First-Quarter 2021 Results Prepared Remarks

Ndubuisi Maduemezia *Schlumberger Limited – VP of IR*

Good morning, and welcome to the Schlumberger Limited First-Quarter 2021 Earnings Conference Call. Today's call is being hosted from Houston, following the Schlumberger Limited Board meeting held earlier this week. Joining us on the call are Olivier Le Peuch, Chief Executive Officer, and Stephane Biguet, Chief Financial Officer.

Before we begin, I would like to remind all participants that some of the statements we will be making today are forward-looking. These matters involve risks and uncertainties that could cause our results to differ materially, from those projected, in these statements. I therefore refer you to our latest 10-K filing and our other SEC filings.

Our comments today, may also include non-GAAP financial measures. Additional details and reconciliation to the most directly comparable GAAP financial measures can be found in our first-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 first-quarter results, our progress on our performance strategy, and finally, our outlook for the second quarter and second half of the year. Stephane will then give more details on our financial results, and we will open the floor for questions.

The first quarter of 2021 was a strong step forward. The quarter unfolded as we anticipated, with acceleration in North America activity and momentum continuing to build in the international markets, aside from the usual seasonal effects. We executed very well within that context. We expanded our global operating margins for the third consecutive quarter, and free cash flow was once again solidly positive.

Here are some highlights in support of this performance:

- Well Construction sustained growth sequentially, and in North America, outpaced US land rig count—demonstrating enhanced market participation in the recovery.
- Reservoir Performance grew, when adjusted for the OneStim® divestiture.
- Digital & Integration delivered another strong quarter with resilient margins on track for our full-year target.
- In North America, execution of our returns-focused strategy drove strong margin expansion—fully aligned with our double-digit margin targets.
- And in international markets, despite severe seasonality and relative exposure in Russia and China, we continued growth across geographies.

In this environment, and as the industry prepares for an upcycle, performance matters, and decisions on contract awards and capacity allocation are increasingly driven by technology and execution. We were very pleased with the outcome of several international multiyear contract awards, specifically in Middle East and in offshore, building a pipeline that will support growth in 2022 and beyond.

We are determined to drive performance differentiation leveraging our fit-for-basin technology and digital capabilities. This combination benefited our integration performance, with our largest LSTK operations, achieving a 6% improvement in drilling efficiency during the quarter.

This strong start to the year, characterized by resilient revenue, sequential margin expansion, and positive free cash flow, positions us very well, to meet our full-year financial ambitions and to deleverage our balance sheet. I want to congratulate the entire Schlumberger team, who delivered strong execution for our customers, having positioned us for the growth that is now underway.

Next, I would like to comment on three elements of our performance strategy that present further opportunities for growth in this upcoming cycle and beyond: Digital, Sustainability, and Schlumberger New Energy.

Starting with Digital—18 months ago, we stated our ambition to lead the digital transformation in our industry and to significantly grow new digital revenue streams. I want today to update you with our progress.

Our digital strategy is a platform strategy, leveraging unique and open platforms—DELFI*, OSDU™, and Agora*. Since launching our core DELFI platform, we have significantly expanded its market reach—from Google™ Cloud, to Microsoft® Azure, and more recently, using IBM-Red Hat® technology to enable hybrid cloud and offer fit-for-basin cloud solutions—as highlighted this morning in our collaboration with Yandex.

We will continue to execute on this platform journey, to expand the choices for our customers and to support our three digital business streams—workflow, data, and operations.

First, we offer our customers the opportunity to transition their technical workflows, from the desktop to the cloud, to realize productivity gains from DELFI workflow integration, collaboration, and access to scalable cloud computing.

Our market leadership on the desktop positions us very well to capture this market. In the last 18 months, our customers have increasingly transitioned to the cloud, resulting in 50% growth in our contract backlog and a tenfold increase in full-time DELFI users. As we expand our cloud-native applications and enable additional workflows within DELFI, we expect increased adoption across our customer base, resulting in steady growth of our digital workflow revenue.

Second, recognizing that data is the key to unlock the industry digital transformation, we worked with the industry OSDU Forum to open source and contribute the underlying DELFI data ecosystem, helping to establish OSDU as the industry standard—an essential step to liberate data at scale for AI applications and to enable multivendor interoperable workflows. In this context, we recently partnered with Microsoft to offer Azure customers access to our OSDU enterprise data management solution. We will augment this offering with additional AI capabilities and will also expand our geographical reach. The market potential for this data business stream is very significant, as it underpins every customer digital transformation—as exemplified by our recent announcement with Equinor.

Third, our customers' operations represent a unique opportunity to realize the promise of asset and field digital solutions. We designed an open IoT platform—Agora—to enable edge applications, complementing our DELFI platform operational workflows and integrating with our partner, Sensia. Using Agora and DELFI, we are deploying digital operation solutions—for drilling and production—both with our customers and as part of our integrated projects. This digital offering can significantly impact our own operations, as was demonstrated this quarter in the Ecuador project and in our main LSTK operations, and also greatly benefit our customers. Our ambition is to establish critical market share in this white space and accelerate collaboration with industry partners to further its adoption.

These three digital business streams—workflow, data, and operations—built on open platforms, are supporting our digital growth ambition. We are very pleased with the progress on our platform foundations, with the adoption by a broad set of customers, and are confident in the success of each business stream as we execute our roadmaps.

Moving now to sustainability—we are strengthening our commitment to action, particularly as the industry faces a decarbonization mandate and world leaders have reaffirmed commitments or advanced stronger goals in recent days. As it relates to climate action, this goes beyond reducing our own greenhouse gas emissions, as we believe there is a significant opportunity for our technology and operating practices to decisively impact and accelerate the industry's decarbonization efforts, as well as contribute toward emission reduction goals around the world.

Our technology portfolio includes solutions that help our customers eliminate flaring, reduce fugitive methane emissions, and leverage automation and digital surveillance to reduce environmental impact. This technology focus on low-carbon impact will be an increasing element of differentiation for Schlumberger in the future.

An example that resonates with our customers is the complete electrification of offshore production systems, as outlined in our earnings release with the bp project for subsea electrification. This is the next offshore frontier, and it will also pave the way to full digital enablement.

Beyond our industry, our carbon capture and storage (CCS) partnership with LafargeHolcim and the bioenergy CCS project in Mendota, California are examples of cross-sectors initiatives aligned with climate actions.

Specifically, in Schlumberger New Energy, we reached milestones in the sectors where we are participating across the energy transition: hydrogen, lithium, CCS, geothermal, and geo-energy. During the quarter, we established and accelerated new ventures, formed strategic partnerships, and gained market exposure, and are progressing in de-risking technology for upscaling.

We will continue to build out the New Energy portfolio throughout the year, and we will keep you updated on our progress. We are extremely proud of the tangible results we have realized in only a short time, as it clearly outlines the power of the Schlumberger brand and the potential of this new chapter for the future of the company.

Turning to the outlook—upward revisions in global economic growth forecasts by the IMF and positive demand forecast adjustments by both IEA and OPEC reinforce the transition into a demand-led recovery, which will strengthen through the second half of 2021—absent new setbacks on vaccination rollouts or easing of lockdowns.

Against this backdrop, we are increasingly confident in our full-year activity outlook.

In North America, in the second quarter we see sustained activity growth in US land and the seasonal rebound of North America offshore being partially offset by the Canada breakup. As our first-quarter results have shown, particularly in Well Construction, our new mix and sizeable exposure in the North America market will increasingly contribute to our results.

Moving to international markets, activity growth will broaden in the second quarter, with the seasonal recovery in Russia and China augmenting the continued growth in Africa and the Middle East, while Latin America should remain resilient. In addition, the offshore recovery will continue in the second quarter, including the gradual return of exploration and appraisal in key international markets.

The depth and diversity of our international franchise gives us great exposure to this market expansion, especially in Well Construction and Reservoir Performance, which will lead in the second quarter.

More broadly, we anticipate all Divisions to grow sequentially at different pace, and margins expansion to be led again by Reservoir Performance and Well Construction.

In light of this, directionally, we expect total second-quarter revenue to grow in mid-single digits, and our operating margins to further expand by 50 to 100 basis points.

Looking farther into the second half of 2021, in North America, the pace of growth is expected to moderate on budget exhaustion and seasonal effects but could surprise to the upside, resulting in full-year growth, when excluding the impact of divestitures.

In the international markets, our confidence in the second-half outlook has been strengthening, based on the latest international rig count trends, capex signals, and customer engagements. International activity will broaden and accelerate in the second half, impacting short- to long-cycle—both on land and offshore—including deepwater activity in the most advantaged offshore basins.

The magnitude of these leading indicators, combined with upward revisions to global economic growth and demand recovery, present the potential for an even stronger inflection than initially anticipated for the second half of the year.

Therefore, we have greater confidence in the previous guidance of a double-digit increase in international revenue in the second half when compared to the same period last year—and, absent of a setback in postpandemic recovery—we foresee an upside for full-year growth internationally, resulting in a stronger footing as we enter 2022.

In the context of this topline growth and the steps we took to reset the earnings power, we are confident that we will fully realize our operating leverage, to deliver our full-year ambition of 250–300 bps margin expansion year-over-year.

We expect to continue expanding margins during the recovery to support increasing cash flow throughout the year, which will provide subsequent deleveraging opportunities.

Now, I would like to pass the call to Stephane.

Stephane Biguet *Schlumberger Limited – Executive VP & CFO*

Thank you, Olivier. Good morning ladies and gentlemen.

First-quarter earnings per share was $0.21. There were no charges or credits recorded during the first quarter of 2021. Excluding the charges and credits recorded in the previous periods, this represents a decrease of $0.01 sequentially and $0.04 when compared to the first quarter of last year.

Overall, our first-quarter revenue of $5.2 billion decreased approximately 6% sequentially. However, if we adjust for the OneStim and artificial lift low-flow divestitures, which were completed during the fourth quarter of last year, revenue was essentially flat sequentially despite the first-quarter seasonality.

Excluding the impact of divestitures, North America revenue increased 10% sequentially, reflecting a significant activity increase on land, partially offset by lower product sales offshore.

International revenue declined only 3% sequentially despite the effects of the extended winter period we experienced in Russia and the usual seasonality in the Far East.

Pretax operating margins were 12.7% and have now increased for three quarters in a row. In addition, pretax operating margins were 230 basis points higher compared to the same quarter of last year. This represents the highest margin since the third quarter of 2019.

This strong margin performance reflects the significant operating leverage we have created through the combination of the high-grading of our portfolio and our cost-out program, which is now essentially complete.

Company-wide adjusted EBITDA margins of 20.1% for the first quarter were flat sequentially as the positive impact of the OneStim divestiture was offset by the seasonal effects we typically experience in the first quarter. EBITDA margins were 203 basis points higher compared to the same quarter of last year.

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

First-quarter Digital & Integration revenue of $773 million decreased 7% sequentially driven by seasonally lower sales of digital solutions and multiclient licenses.

Margins only decreased by 37 basis points to 32% as the effects of the digital solutions and multiclient revenue declines were largely offset by improved profitability from Asset Performance Solutions (APS) projects.

Reservoir Performance revenue of $1 billion decreased 20% sequentially. However, excluding the impact of the divested OneStim business, revenue increased 3%, despite seasonally lower revenue in Russia and China. The revenue growth was driven primarily by higher activity in Latin America and the Middle East.

Margins increased 261[†] basis points to 10.2% largely due to the divestiture of the OneStim business that was dilutive to the Division's fourth-quarter margins.

Well Construction revenue of $1.9 billion increased 4% sequentially and margins increased 103 basis points to 10.8% due to increased activity in North America land and Latin America. This growth was partially offset by the seasonal slowdown in drilling activity in Russia and China.

Production Systems revenue of $1.6 billion decreased 4% sequentially. International revenue declined 4% while North America was down 3%.

Despite the revenue decline, margins only decreased 71 basis points to 8.7% as a result of cost measures as well as improved profitability in midstream production systems due to higher activity.

Now, turning to our liquidity:

During the quarter, we generated $429 million of cash flow from operations and positive free cash flow of $159 million, despite severance payments of $112 million and the increase in working capital requirements we always experience in the first quarter due to the annual payout of employee incentives. Our cash flow will improve throughout the rest of the year, consistent with our historical quarterly trends.

Our net debt at the end of the first quarter was $13.7 billion, a decrease of $207 million when compared to the end of the previous quarter.

During the quarter, we made capital investments of $270 million. This amount includes capex, investments in APS projects, and multiclient.

For the full-year 2021, we are still expecting to spend between $1.5 to $1.7 billion on capital investments.

On that note, let me take the opportunity to provide you with a quick update on our capital stewardship program. Optimizing the allocation of our capital investments will be critical to maximize the benefits of the ongoing activity recovery, which is poised to accelerate in the next few quarters. As part of the Company's reorganization, we implemented a new capital allocation framework that governs all types of investments. The underlying principle behind the framework is that investment opportunities are prioritized based on returns and cash flow before any other metric.

At the corporate level, this framework allows us to critically assess our technology portfolio and rationalize our offering to reduce capital intensity and maximize returns. At the Division level, we have strengthened our processes to ensure that new assets, as well as existing assets, are deployed where they will generate the highest returns. We are also leveraging this capital discipline to drive commercial behaviors and improve the quality of our revenue.

With this in place, we remain confident in our ability to achieve double-digit free cash flow margin for the full year of 2021, and beyond. This will allow us to deleverage the balance sheet, which remains a top priority for us.

It was worth noting that during the quarter, the two major credit rating agencies confirmed our long-term credit ratings of A2 and A, respectively. Both cited our expected strong cash flow profile and our commitment to deleveraging.

I will now turn the conference call back to Olivier.

Olivier Le Peuch *Schlumberger Limited – CEO*

Thank you. To conclude, I would like to offer three takeaways:

First, the macroeconomic and activity outlook are increasingly supporting an attractive industry upcycle, characterized with an inflection in international activity, a consolidation of short-cycle activity and a return of advantaged offshore plays, all playing to our core strengths. In particular, we are increasingly optimistic about the international growth trajectory during the second half of the year, which, absent of a setback in pandemic recovery, will result in full-year international growth. As a consequence, we have reinforced our confidence in our 2021 financial targets on margins expansion and free cash flow generation.

Second, we are convinced that our performance strategy is aligned with the new industry landscape and is increasingly resonating with our customers, as performance matters critically in this environment. This is translating into market wins, particularly in Middle East and offshore basins, and will support our ambition to outperform through the cycle. In addition, the steady progress in our Digital strategy will translate, over time, in expanding new revenue streams and accretive margins.

Third, the margins expansion realized this quarter, both sequentially and year-on-year, is reflecting the impact of both our capital stewardship and restructuring programs and will translate into substantial operating leverage as the year progresses and activity strengthens in all basins. We anticipate the upcoming quarters to further this margin expansion with broad contribution from our Basins and Divisions.

Finally, our commitment toward both sustainability and New Energy is materializing into a growing portfolio of technologies and ventures that will contribute to the global climate actions and to the future of the company.

Ladies and Gentlemen, this year represents a unique opportunity for the new Schlumberger to execute on its new performance journey and outperform the market within an increasingly attractive outlook. Thank you very much.

*Mark of Schlumberger or a Schlumberger company.

Other company, product, and service names are the properties of their respective owners.

†On the conference call, the speaker unintentionally stated 260 bps. The intent was for the statement to refer to 261 bps.