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SLB.N - Q3 2023 Schlumberger NV Earnings Call

EVENT DATE/TIME: OCTOBER 20, 2023 / 1:30PM GMT

OVERVIEW:

Company Summary

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. Welcome to the SLB Earnings Conference Call. (Operator Instructions)

As a reminder, this conference is being recorded. I would now like to turn the conference over to the Senior Vice President of Investor Relations and Industry Affairs, James McDonald. Please go ahead.

James R. McDonald *- Schlumberger Limited - SVP of IR and Industry Affairs*

Thank you, Leah. Good morning, and welcome to the SLB Third Quarter 2023 Earnings Conference Call. Today's call is being hosted from New York City following our Board meeting held earlier this week. Joining us on the call are Olivier Le Peuch, Chief Executive Officer; and Stephane Biguet, Chief Financial Officer.

Before we begin, I would like to remind all participants that some of the statements we will be making today are forward-looking. These matters involve risks and uncertainties that could cause the 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 & Director*

Thank you, James. Ladies and gentlemen, thank you for joining us on the call today. In my remarks this morning, I will begin by reviewing the third quarter financial results we presented in today's earnings release. Then I will discuss the progress we are achieving across our 3 engines of growth and the macro environment supporting them. And finally, I will share our outlook for the fourth quarter and the full year. Stephane will then provide more details on our financial results, and we will open the line to your questions.

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

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

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

And in North America, although revenue decreased sequentially due to lower activity, we continued to grow year-on-year, outperforming the rig count. Once again, our focus on the quality of our revenue, combined with the differentiated value we deliver through technology drove margin expansion. Our EBITDA margins reached a new cycle high of 25%, and our pretax segment operating margin expanded for the 11th consecutive quarter year-on-year. These are very positive results, and I want to thank the entire SLB team for delivering this strong performance.

Next, I would like to share some updates of our progress across our 3 engines of growth: core, digital and New Energy. Let me begin with the core. The oil and gas sector continues to benefit from a broad, durable and resilient multiyear growth cycle that is being supported by long cycle developments, production capacity expansions, exploration and appraisal, and the recognition of gas as a critical fuel source for the energy transition. These market fundamentals remain very compelling for our core business, which has grown 22% year-to-date and has materially expanded margins.

This strong performance is being driven by the diversity of our portfolio, our industry-leading technology and our unique integration capabilities. Reservoir Performance achieved exceptional results with stronger evaluation activity. Production Systems achieved its highest level of margins in the cycle led by subsea, surface and artificial lift. And well construction maintained impressive results through new technology innovations and differentiated performance. All in all, this was a very strong quarter across our core divisions.

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

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

Together, our companies are the clear leader in subsea multiphase boosting and subsea gas compression, and we will provide electrification and digital solutions to further enhance the business. This partnership approach will also create a more flexible customer offering through scale, increased capacity and life of field services. Collectively, this will drive meaningful change to subsea asset performance as we partner with customers to help them unlock their reserves, drive efficiency, reduce cycle times and reduce emissions in the deepwater market.

Now let me turn to digital. On our call last quarter, I shared an update on the emerging digital trends shaping the industry. These included the adoption of cloud computing, the power of data and AI at scale and digital operations gaining maturity. At a recent investor conference, I discussed how SLB is capitalizing on this opportunity with our platform strategy, comprising of a workflow platform that serves as the backbone for our customers' planning and operations, and our data and AI platform that unlocks data at scale for digital transformation.

Today, we are seeing increased digital adoption across the industry. Delfi continued its year-over-year growth momentum with a 49% increase in users and an 89% -- 86% increase in compute hours compared to the third quarter last year. Additionally, our customers are embracing our connected and autonomous drilling solutions with 1.9 million feet of automated drilling completed in the third quarter, an increase of 60% year-over-year.

As a result, SLB's platforms, representing our new digital technology offering, sustained growth at a CAGR rate of about 60%. The benefit of these technologies is clear, and you can see this illustrated in our earnings press release this morning with our Shell-AWS collaborative agreement and the Kuwait Energy Basra Limited digital oilfield contract, serving as just 2 recent examples of customers choosing SLB digital technology to reimagine their workflows across the E&P value chain.

And finally, let me quickly discuss some of the exciting opportunities in our New Energy business and Transition Technologies portfolio. As we address the energy trilemma, our industry has an imperative to decarbonize operations. Two of the most immediate opportunities to do this are reducing methane emissions and scaling CCUS as a solution for mitigating climate change.

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

And in CCUS, momentum is building across the industry, both in oil and gas as well as in other hard-to-abate sectors. SLB is actively involved with more than 20 CCUS projects globally, and we are investing in capture technology as underscored by the partnership with TDA Research highlighted in our earnings release. Overall, we are pleased with our pipeline of technology and projects, and we have confidence that by establishing ourselves as a leader in this space, we will create yet another avenue for diversified long-term growth.

Now I will turn to our outlook for the fourth quarter and the full year. In the fourth quarter, we expect continued sequential revenue growth driven by year-end digital sales and seasonal product and equipment sales in production systems. The quarter will also reflect the results of the OneSubsea joint venture. As a result, we expect overall sequential revenue growth to be in the high single digits.

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

Turning to the full year. We expect to achieve our financial ambitions we shared back in January. Excluding the effects of the OneSubsea joint venture, we expect to conclude the year by increasing revenue more than 15% and growing EBITDA in the mid-20s, with recent North American headwinds being more than offset by strong international growth. With these strong full year results, we'll remain well positioned to continue returning value to our shareholders.

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. Third quarter earnings per share was $0.78. This represents an increase of $0.06 sequentially and $0.15 when compared to the third quarter of last year. We did not record any charges or credits during any of those periods. Overall, our third quarter revenue of $8.3 billion increased 3% sequentially. International sequential revenue growth of 5% was led by the Middle East and Asia, which increased 8% while North America revenue decreased 6%.

Sequentially, pretax segment operating margin increased 73 basis points, which resulted in incremental margins of 48%, largely due to the high-quality international revenue. Company-wide adjusted EBITDA margin for the third quarter reached 25%, the highest level since 2015. On a year-on-year basis, third quarter revenue increased 11% as international revenue grew 12% while North America revenue increased 6%. The strong international performance was led by broad-based growth across the Middle East and Asia and offshore markets.

Let me now go through the third quarter results for each division. Third quarter digital and integration revenue of $982 million increased 4% sequentially, with margins decreasing 2 percentage points to 32%. The sequential revenue growth was primarily driven by increased APS revenue and increased digital revenue, including higher sales of exploration data licenses. Margins declined sequentially as lower profitability in APS more than offset improved digital margins.

Reservoir Performance revenue of $1.7 billion increased 2% sequentially while margins improved 190 basis points to 20.5%. These increases were due to strong international growth, a favorable technology mix and improved pricing. Well construction revenue of $3.4 billion increased 2% sequentially, led by strong growth in the Middle East and Asia, which was partially offset by lower revenue in North America.

Margins of 22.1% increased 38 basis points, driven by the international markets. Finally, Production Systems revenue of $2.4 billion increased 2% sequentially as International revenue increased 7% led by the Middle East and Asia and Latin America.

North America revenue decreased by 8% due to lower subsea activity. Margins expanded 147 basis points to 13.5%, representing the highest margin since we began reporting results for the division. This expansion was primarily driven by higher sales of completions, artificial lift and surface production systems as well as pricing improvements.

Now turning to our liquidity. During the quarter, we generated $1.7 billion of cash flow from operations and free cash flow of just over $1 billion. As a result of this strong cash flow performance, our net debt reduced sequentially by $731 million to $9.4 billion. Our net debt to trailing 12-month EBITDA leverage ratio of 1.2 is at its lowest level since 2015.

Capital investments inclusive of CapEx and investments in APS projects and exploration data were $640 million in the third quarter. For the full year, we are still expecting capital investments to be approximately $2.5 billion to $2.6 billion. We repurchased 2.6 million shares of our stock during the quarter for a total purchase price of $151 million. We continue to target to return $2 billion to our shareholders this year between dividends and stock buybacks.

Before closing, I would like to add some color to the Q4 outlook that Olivier just provided. We are expecting sequential fourth quarter revenue growth to be in the high single digits, with pretax margins remaining at the same high level we achieved in the third quarter. As Olivier highlighted, this outlook includes the contribution from the recently acquired Aker subsea business, which will be consolidated under our Production Systems division starting in the fourth quarter.

The Aker subsea business is expected to contribute approximately $400 million to $500 million of incremental revenue in the fourth quarter with pretax operating margins in the low teens. Therefore, excluding the effects of the acquired Aker subsea business, SLB's fourth quarter sequential revenue growth is expected to be similar to the sequential revenue growth we experienced in the third quarter.

SLB's organic pretax operating margin, again excluding the effects of the acquired Aker business, is expected to continue expanding sequentially. After considering the impact of below-the-line items relating to this joint venture such as amortization of intangibles, taxes and noncontrolling interests, this transaction is expected to be slightly accretive to our fourth quarter earnings per share, excluding charges and credits.

In closing, we are very excited about the prospects of this venture, which strengthens our offshore portfolio and has the potential to deliver more than $100 million of net annual synergies starting year 3 after closing.

I will now turn the conference call back to Olivier.

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

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question is from the line of James West with Evercore.

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

Olivier, I know you recently returned from ADIPEC and most likely met with all of the major oil producers in the region. Curious to hear your thoughts on the Middle East and how we should think about the Middle East with respect to Schlumberger over the next several years, because it looks like it's going to be a huge driver of growth.

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

No. Thank you, James. I hope everybody could catch your question relating to Middle East. Indeed, I've been -- I had the privilege to be there for about a week and not only went to the conference and met a lot of our customers in the region but also had the benefit to go to our operation in Saudi and visit the customer itself over there. So great insights.

Just to set up, this is clearly the largest investment cycle is clearly now underway. The momentum is set. It's not about becoming set. And I think the sentiment across is extremely positive. (technical difficulty)

So if I had to characterize attributes, I think, breadth, resilience, durability that we have characterized for the full cycle, I think, are very much in full display in Middle East. I think the durability, '27 is the target for capacity expansion. Breadth is not only oil but it's also gas as a driver for regional gas consumption and energy exports. It's offshore and onshore, it's conventional and unconventional and goes beyond 1 or 2 countries that are very well known into Kuwait, into Iraq, into Egypt and more. And it's clearly decoupled from some of the short-term uncertainty.

So it's all made about long-term contracts from the rig contracting to the service contract and we are a clear beneficiary of this situation. We have a unique footprint in the region. And indeed, we see that this will continue to support growth in the years to come for SLB. And this year, as stated before, we'll record our record revenue in the region. And we will continue to grow and use this to be accretive to international growth and accretive to our international margin and the company. A great outlook, in essence.

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

That's great. Sorry about my phone issues here. Probably a follow-up for me, maybe for Stephane is on FX. How much was FX a headwind during the quarter?

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

Thanks, James. So look, most of our revenue is billed in U.S. dollars, but indeed, in a few countries, it's partially not the case. So for some of those, we indeed had an unfavorable impact of the U.S. dollar strengthening against local currencies, and that was both sequentially and year-on-year. I prefer not giving you a specific amount as we have contractual adjustment clauses that come and offset the negative effect, at least partially.

But yes, the revenue would have been slightly higher without that. And the last point here to remember is a lot of our costs as well are expressed in local currency, so we have a natural hedge on this. And the net impact on earnings is quite marginal, it's limited.

Operator

We will move on to David Anderson with Barclays.

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

With Aker now part of the OneSubsea JV, I was hoping you could talk a little bit more about the value proposition of not only a larger subsea entity but how it fits kind of within the whole -- how it now fits in a fully consolidated market. In terms of offshore worth in FIDs, obviously, the timing really couldn't be any better. But what does a larger, more robust OneSubsea bring to Schlumberger as a whole?

And then as a follow-up, if you could talk about some of the integration steps you're planning. Culture is such a big part of Schlumberger. Just wondering how you're thinking about bringing in one of your long-standing competitors into the fold and kind of any -- how do you think about culture in that sense?

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

Great question, Dave, and I think, indeed, we have been working on this and very proud and I believe that the timing could not be better, that closing this now at the onset of the offshore growth and the long duration that we see with FID beyond 2025. So if I had to take 3 keywords, I would say, technology fit, integration capability and scale are the 3 elements that I think resonate very well and create value for our customers.

Technology, where we are enhancing and getting with this addition, a very comprehensive portfolio that is fit to every deepwater market that exists. And that includes further capability, complementary capability in subsea processing and also in umbilicals that complete the portfolio and allow us to fully participate and be differentiated in every basin, in every deepwater condition in the world.

Integration, we bring and we keep our unique subsurface reservoir to processing capability that we had already in OneSubsea, but we are enhancing it with a larger and a very competent team joining us for -- from Aker Solutions and engineering capability so that we can take any deepwater prospect and help customers and collaborate to get the best outcome.

And we are getting our Subsea7 partner to join and to be aligned with making this a success when and as we are required to deliver as integrated with SURF. So all in all, this is what the parties bring to the integration.

Scale, scale gives us manufacturing footprint, that gives us flexibility and the ability to respond fast and to respond to customer need everywhere and give us the unique life of field with the largest installed base of subsea trees, where we will use digital. We'll use our integration capability of Reservoir Performance to provide further integration and further life-of-field, unlocking production recovery, if you like, long term.

So customer feedback is excellent at the onset. I think the customer really appreciate and recognize the recovery potential, the comprehensive technology portfolio, the lower emission, the digital and the integration capability.

Culture, I think we have discovered throughout this engagement that actually, the cultures are very much aligned. And I think we have had a day 1 set of events last week or 2 weeks ago that we are really -- our planning how aligned we are and how complementary our culture and portfolio are to go into this.

So I'm very optimistic, I'm very positive and customer feedback is so far extremely positive to onboard this. And you may have seen the bp SIA announcement we did earlier, which is a precursor, in our opinion, is what we can do to partner with our customers and to help unlock the future of subsea reserves and to impact their recovery, their efficiency and economics and their lower carbon outlook.

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

Obviously, all things that your customers are looking to achieve. If I could shift over to your digital business. Just more specifically, digital within D&I. APS has been kind of noisy this year between Canada and Ecuador. Kind of hard for us to get a real sense as to what's happening in software. In your release, you talked about higher sales or margins.

I was wondering if you could provide a little more context around that. Have margins improved from a year ago? Is this necessarily about margins? You just gave some interesting [tidbits] here about an increasing number of users, increasing computing time. And you also said 60% growth, can you just repeat exactly what you meant by that? Is that the top line of that business?

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

Yes. I think we -- no, thank you, Dave. I think we continue to be very positive about the digital business and its adoption with our customers. You will continue to see announcements being made from workflow and data/AI adoption for customers and also more and more announcement of digital operation, edge, AI, as you have seen many of them in examples in our press release earlier today. So we are very satisfied with the momentum.

And it's going. It's going very well. I think you are seeing that we have quoted that the new technology digital portfolio from workflows to operation is growing at a CAGR of about 60%. And I think this is in line with what we expected. And this is on top of the baseline that includes the legacy software maintenance and all the services, including the data sales that we do, that is somehow offsetting some of this but still represents total growth. So we expect this growth to be very visible into the fourth quarter as we typically have a year-end sales effect. And we continue -- we expect this to continue and accelerate actually next year.

Operator

Next, we move to the line of Scott Gruber with Citigroup.

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

Question on the Production Systems outlook for margins post the Aker JV. Just how should we think about the path forward for margins in the business? I'm thinking about legacy contracts in subsea rolling out that are largely lower margin, better price contracts rolling in. And then as you capture synergies, just what is a reasonable expectation for incrementals or where margins could go overall in Production Systems out over the next 2 years?

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

I think Scott, simply said, we believe that we'll continue to have -- continue our journey of margin expansion. As you have seen, we have reached the highest level of margin in Production Systems since we have been reporting this division on the back of rolling in contracts that are in the backlog, into revenue generation, that are more accretive than the previous contract and that is the result of not only the pricing environment that is more positive but also the result of better supply chain and increased efficiency and use of additional technology that I think the entire team in Production Systems has been very good at selling to our customers.

And I think, in respect of the results specifically to the subsea environment, the OneSubsea, we said, a few months back, highlighting that our performance in OneSubsea is already in high teens EBITDA for our organic OneSubsea. With the addition of the Aker subsea which has a lower margin we expect to recoup this margin differential in the long term, and continue to increase it to our previous organic level. At subsea JV, we will generate $100 million of synergies from year 3 on this OneSubsea joint venture going forward.

So all in all, I believe that the element of our Production Systems portfolio are set to continue to not only grow but also have incremental margin going forward. Hence, we expect the journey of margin expansion to continue next year and beyond. And the JV will be accretive to this.

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

Got it. And then turning to North America. A couple of years ago, you tilted your sales model towards more product sales and fewer boots on the ground. But now we're going through a wave of consolidation amongst your customers. We're seeing more privates taken out and now potentially a wave of larger mergers. How does that impact your strategy in North America?

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

I think we have been very satisfied with the onset of our strategy and the deployment of strategy as we initiated it 4 years ago. I think it has turned out to be both appealing to the adoption of our technology products through partners, through this fit-for-basin and tech access model as well as our focused technology and focused fit-for-basin offering has been resonating with large public integrated companies that have adopted our technology for performance purpose.

As the market matures and as some consolidation will happen, we still believe that our technology performance, including what impacts recovery, digital will continue to resonate very well and will continue to be adopted very well by our customers. So we have an excellent exposure at this point to the public and integrated company. And I think this consolidation will give us opportunity to further showcase our technology, showcase our digital, showcase our fit-for-basin across both Production Systems and drilling in Well Construction in particular.

And let's not forget that CCUS is a new exploration world in NAM. This is also playing a critical role to our growth towards our performance and the evaluation portfolio, if not digital in that context. So we will continue to use tech access and fit-for-basin to be agile in this market to respond to the privates that are set to come back next year. and at the same time, continue to engage with our larger customers and the customers that are at the top of our portfolio through technology and integration capabilities. So we believe we are set for success in this new mature market in NAM.

Operator

Next, we move on to Arun Jayaram with JPMorgan Chase.

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

I was wondering, Olivier, if you and Stephane could elaborate on kind of the margin performance in the core. In particular, you commented about pricing gains, particularly in Reservoir Performance. If you could highlight what you're seeing on pricing. And excluding, obviously, the impact from the close of the OneSubsea JV, would you expect similar margin expansion in the fourth quarter on a -- for the legacy SLB?

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

So let me start. I will let Stephane comment on the margin because I believe he provided some remarks to that effect. First, I believe that the core is benefiting from 3 things, in my opinion. It benefits from differentiated performance in the eyes of the customer, and hence, is benefiting by this -- creating an opportunity to secure market position and command a pricing premium or favorable commercial terms to support this performance. Performance is recognized. Performance is critical in all projects, but particularly in deepwater environment and is something that differentiates us and it's being recognized. So performance is a key factor.

The second, I believe, is technology. Technology adoption has been accelerating. I think the target and the basket of technology we have set this year, including the Transition Technologies where we set a target for $1 billion for the year has already been achieved year-to-date. And hence, we see technology adoption as being unique in this environment, has differentiated again on performance and differentiated on creating insight and features and differentiated the value for customer and being recognized. And that is accretive to the margin and that drives our margin in the core.

Finally, integration, and I'll put digital into this. The ability to intertwine and add digital capability to our integration has delivered value. And you see that Well Construction is benefiting from high level margins that are very much helped by integration and digital as well as performance.

Back to Reservoir Performance. Reservoir Performance had a very strong quarter on the back of reservoir performance evaluation, which is used in exploration appraisal particularly, where our differentiated technology portfolio has, again, been recognized with a premium. So that is what we are benefiting from. Technology, performance and integration with digital are driving a differentiated value proposition recognized with a pricing premium with our customers.

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

And relating to margins, Arun, for Q4. Yes, we do expect excluding the effect of the Aker subsea contribution to continue expanding margins. Particularly the digital and integration margins will definitely improve from accretive year-end digital sales, so that will clearly be a tailwind. And then we'll have probably improved margins, I'd say, across the other divisions, particularly in Production Systems where we have typically year-end sales that bring good incrementals. So yes, continuous margin expansion, excluding the JV in Q4.

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

And you could expect this to carry on in 2024 as we believe the attributes of differentiation, as I outlined before, and the favorable environment in which we are operating particularly internationally will continue to support margin expansion for the core.

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

Great. My follow-up, Stephane, $1 billion of free cash flow generation in 3Q. Any thoughts on what could impact free cash flow in 4Q, just given working capital and just the OneSubsea JV? Just any things to flag?

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

Sure, sure. So first, we are actually quite pleased with our free cash flow performance so far this year. It's indeed the second quarter in a row where we generate about $1 billion free cash flow. And it's really a combination, of course, of higher EBITDA, but also discipline in capital investments and an improved working capital performance quarter after quarter.

So relating to Q4, we typically see a strong end of the year as it relates to free cash flow. So we are hoping that it will be the case this year as well. There are always moving targets based on customer collections. It's the main variability. But in general, we expect a strong free cash flow performance as we close the year.

Operator

Next, we move on to Marc Bianchi with TD Cowen.

Marc Gregory Bianchi - *TD Cowen, Research Division - MD & Senior Energy Analyst*

You previously discussed an expectation for directionally $1.5 billion of EBITDA improvement in 2024. I'm curious what the underlying assumption for the JV is here, just so we can get a sense of how it's doing versus the -- what appears to be the fourth quarter run rate here.

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

I don't think we'll, at this point, comment specifically on 2024 EBITDA guidance, next year I think it's -- directionally, an indication that we gave. I think the market, as it stands today, we have under a scenario of international growth momentum and also North America coming to a year-on-year growth activity, I think we see a scenario by which indeed this guidance we gave on this scenario we outlined will materialize.

But I will not go into the detail at this point until our Q4 conference call in January and until we have time to triangulate some of our expectations with the customer engagement. We will come back with more detail, including the contribution we expect for the JV subsea at that time.

Marc Gregory Bianchi - *TD Cowen, Research Division - MD & Senior Energy Analyst*

Okay. Another question on offshore but specifically related to exploration. I think you earlier said that you expect 20% type growth in '23. I'm curious how that's playing out. And then can you remind us how large exploration is for SLB?

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

We don't comment on exploration because exploration, I think, as a subset of market segmentation, touches many aspects, I think, primarily Reservoir Performance, but also digital, some of them are integration and obviously, some components of some PS and Well Construction. So all in all, we believe that the exploration appraisal market has been aligned with the international growth this year and I think has been an element of offshore momentum that has been set this year.

I think the results of -- and margin that we have seen from the performance are very much a reflection of that success. We are seeing success as well in our digital sales when it relates to data exploration. And we are seeing that the campaign of appraisal that had been -- East Med, around Africa, particularly continuing to be sustained and in the search of confirming these finds and to develop FID in '24, '25.

So we are positive about the exploration. We don't see a setback for customers on exploration, and we see that the breadth of exploration appraisal in offshore and in onshore markets is much higher than it was a couple of years ago. It touched many geographies and basins from Southeast Asia to obviously, Middle East, East Med, Africa and North and South America. It's very broad and that is what I think is quite unique in this cycle.

Operator

Our next question is from Luke Lemoine with Piper Sandler.

Luke Michael Lemoine - *Piper Sandler Companies - MD & Senior Research Analyst*

Olivier, you've -- the enhanced capabilities of the new OneSubsea. And maybe to fine-tune it a bit more, could you talk about what you'd like to achieve on a commercial basis and maybe qualitatively on an operational level within the first year and maybe the next few years as well?

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

First and foremost is the ability to satisfy fully, the customer base and the backlog that we have, respectively, from Aker Solutions, from the organic OneSubsea secured in the last 18 months. And I think execution will be the first priority, first and foremost, to make sure the performance by joining teams would not be affected. And I think we have been reassured from the engagement that our team that this is the case.

I think next, I believe that what we want to achieve is to demonstrate for every outstanding customer that we have in the portfolio today, that the combination of our engineering, new technology portfolio, a broader portfolio and integration capability that SLB brings with Subsea7 and the rest of the SLB portfolio is differentiated and will add value to all the backlog that we have.

And third and maybe the most interesting and the most exciting part that we are seeing is that customers at the onset of this announcement have come to us for asking partnership to be explored so that we can unlock economics, we can unlock recovery, and we can accelerate the path to decarbonization of deepwater operation to you by the combining and using and leveraging the full portfolio we have.

So I would say performance and execution. I would say, sell up and integration capability for technology. And finally, this partnership model that I believe will be defining the new era for subsea.

Operator

Next, we go to Neil Mehta with Goldman Sachs.

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

I had a couple of geography questions. The first is around North America, recognizing it's a smaller part of the growth driver of the business. But what are you seeing real time in this market? And do you think we're in a bottoming phase as we move into 2024?

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

Yes. Great question, Neil. I think indeed, our hypothesis for the way forward, and I will here discuss specifically the U.S. land activity. The hypothesis we have is that by the combination of the gas price, creating a little bit of a pull on supply and a pull on activity on gas as well as the favorable oil commodity price will create a pull on the private -- E&P privates coming back into this market, the magnitude of which is, at this point, difficult to judge.

And I think there are plenty of scenarios and it will be a little bit of the swing factor, my opinion in the 2024 planning. Yet, we believe that the trough is beyond us so it's about, at this point, and we see incremental from H2 of this year in the U.S. market going forward, our biggest incremental gain. We will come back to that in January as we guide in 2024.

When it comes to North America offshore, I think here from East Canada to Gulf of Mexico, we see a robust and steady activity going forward. And we see that will continue to benefit through our exposure, and the OneSubsea JV will continue to magnify this where we have opportunity to do so. And we are very satisfied with our performance there. So I believe that the activity and the outlook is, if anything, steady and has a potential for upside in 2024.

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

And then just a follow-up is on Russia. You put out a release a couple of months ago talking about how you continue to wind down the business, and our expectation is that's going to go to 0 here. But just any update on where you stand there and any color you can give to the market?

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

As you could find in today's 3Q document, that we are releasing -- Russia revenue percent approximately 5% of our consolidated revenue year-to-date. And we expect it indeed to decline as a percentage but not to 0 in 2024. And any guidance that we provide will always include the Russia effect and how we anticipate this to happen. This has always been built in our model and does not impact our financial guidance, as I said. And I remind you that we continue to ensure that our remaining presence in Russia meets and exceeds all international sanctions.

James R. McDonald - *Schlumberger Limited - SVP of IR and Industry Affairs*

Leah, do we have any further calls on the line?

Operator

Yes, Mr. Kurt Hallead with Benchmark.

Kurt Kevin Hallead - *The Benchmark Company, LLC, Research Division - Research Analyst*

Olivier, I'm kind of curious, just this week, it looks like the U.S. has agreed to lift sanctions on the export of Venezuelan oil products. I know that Venezuela had been a very -- fairly large market for Schlumberger prior to the sanction dynamics, and I think you guys have maintained a presence there. So just kind of curious as to what you think the opportunity could be once the sanctions are lifted in terms of providing incremental revenue growth.

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

I think it's early stage. I don't think it's -- it will be appropriate to comment on the size of the opportunity. But surely, I think we have had historically, very strong track record and set of capabilities in country that have been dormant since we had to shut down the operation. But as soon as and we get support from our partners and customers into this, we will be responding and as fast as we can mobilizing resources and equipment that is over there to respond and participate to this opening. But it's too early to say, and it's too early to give a guidance of any thoughts on the impact it will have, but it's potential and it's upside, if it comes, indeed.

Kurt Kevin Hallead - *The Benchmark Company, LLC, Research Division - Research Analyst*

That's great. And I've got a follow-up. Just I know you referenced you expect digital revenue to grow to be about $3 billion by 2025. Just kind of curious as to what contribution you think AI will have in that growth and whether or not the adoption rate of AI among your customer base gives you even greater conviction of getting to that level.

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

Yes, indeed. I think for making sure that we are all aligned, we quoted that we expect the revenue of digital to double from '21 to '25 and to reach approximately $3 billion by '25. And indeed, very much a component of what we call the new technology, digital portfolio includes our ability to unlock data insights through AI, the ability to create and imagine new workflow to AI into geoscience and to support a key element of digital operations like autonomous drilling through AI.

And you will see very soon some announcement of industry firsts that have used automation and AI to enable this automation, to enable these new insights. So we are very positive about what AI can bring to this. We have a unique capability. We have domain AI capability embedded into our platform. We have Dataiku as a partner, with ready-to-go portfolio of routines and AI capability that have been recognized as best-in-class and allowing our customers to rapidly unlock and use AI and scale AI into their application.

And we have, for the last 1.5 years, launched our INNOVATION FACTORI which are labs that we use to collaborate with our customers, and we have 6 of them across the globe, where we collaborate. And we have more than 100 projects already achieved with our customers through this INNOVATION FACTORI. So great pickup, and you may have seen during at ADIPEC, we announced an AIQ project that we have released with our partners in the Emirates to support AI capability with ADNOC.

So it's all over the place. It's in geoscience, it's in planning, and it's in execution in digital operations towards Schlumberger's operations. So it's picking up, and it would indeed hopefully contribute and give us that opportunity in 2025.

Operator

Our last question will come from Roger Read with Wells Fargo.

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

I'd like to come to it from a margin standpoint. I mean, your margins are pretty fantastic here for certainly where we are in the cycle and everything like that. When we look back to the up cycle and there's still a ton of room to go. And I recognize this question may be premature relative to maybe an update when we're really looking more at '24, but what do you see as things that could lift margins from here? What do you see as things that would restrain margins from reaching sort of max levels? Or what would we need to see in the market fundamentals to make a significant uplift from margins here?

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

I don't want to, first, put a ceiling on the max, on the margin we can achieve. I think the future and the market outlook will dictate that. But most importantly, our ability to execute, to continue to execute on our performance strategy will continue to define our ability to capture, enhance our margin, whatever the market conditions are. And I think this is what we have been achieving for the last 4 years.

And I think, again, technology differentiation, integration capability, augmented by digital and performance on everything we deliver is what is getting our customers to trust us to give us premium and give us favorable commercial conditions and further growth potential by better share of their business allocation. So I think, again, we initiated and we telegraphed fairly well 3 years ago that we'll be initiating a margin expansion journey. We have been on that journey for the last 3 years from the trough of 2020. We committed to expand. And I think we have delivered upon this commitment.

Some of you were looking forward to see when we will cross the 25%. Some scenarios, we are putting this in 2025. We said we would likely be able to cross this before. It came slightly ahead of our expectation because I think I'm impressed by what our team is able to deliver. And yes, the market conditions are favorable, but we expect that the breadth, duration and the resiliency of the cycle will continue.

The effect of Middle East and offshore will continue to give us a favorable backdrop so that this strategy will continue to support margin expansion. So that's our belief. And again, I don't want to put a ceiling, I don't want to put a max, but I will continue to push my team to continue to extract the best and seize the cycle, as we say.

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

Sounds good. Good luck with everything.

Operator

And I will turn the conference back over to the Schlumberger management team for closing remarks.

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

Thank you, Leah. Ladies and gentlemen, as we conclude today's call, I would like to leave you with the following takeaways. First, the ongoing oil and gas cycle continues to display the unique attributes of breadth, resilience and durability that are closely aligned with our business strategy. In this environment, our unparalleled offerings in our core, our ability to enhance value through digital and our investments in New Energy have us positioned to win both today and tomorrow.

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

Third, after posting an impressive 9-month year-to-date performance and with visibility into the fourth quarter and 2024, we remain confident in our full year and through-cycle financial targets.

This is an exciting time for the energy industry, and SLB is ideally positioned for success across all time horizons. This is an excellent environment to continue delivering value to our shareholders. I remain fully confident in our strategy and look forward to another successful quarter and close to the year.

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

Operator

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