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OVERVIEW:

Co. reported 3Q20 revenue of $5.3b, EPS, excluding charges and credits, of $0.16 and sequential revenue decline of 2%.

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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, today's conference call is being recorded.

I would now like to turn the conference over to Vice President of Investor Relations, N.D. Maduemezia. Please go ahead.

Ndubuisi D. Maduemezia - *Schlumberger Limited - VP of IR*

Thank you, Cynthia. Good morning, and welcome to the Schlumberger Limited Third-Quarter 2020 Earnings 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. For today's agenda, Olivier will start the call with his perspective on the quarter and our updated view of the industry macro. After which, Stephane will give more detail on our financial results. Then we will open for questions.

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 third-quarter press release.

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

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

Thank you, N.D. Ladies and gentlemen, good morning. Thank you for joining us on the call today. In my opening remarks, I would like to focus my commentary on 3 parts: First, our third quarter operational and financial performance; next, progress with the implementation of our strategy; and third, our updated view of the near-term business outlook. After this, Stephane will provide greater details on our financial results.

In the third quarter, we had an opportunity to demonstrate the significance of the measures we have taken over the last few months and set a marker of outperformance through topline resilience, margin expansion and by maintaining our strong cash generation track record.

In an ongoing activity trough, our third-quarter sequential performance was exceptionally strong. Yet again, we continued to maintain benchmarks of safety and service quality in our operations. Sequential margin expansion rebounded by more than 300 basis points for both IBT and EBITDA, and free cash flow was solidly positive. The strength of our margin expansion and free cash flow performance is even more impactful in the context of a slight top line decline and exceptional items during the quarter.

I would like to thank the entire Schlumberger team for this remarkable performance and for excellence in execution. These results represent a defining step in the reset of our earnings power at the trough of the cycle and set the stage for our long-term outperformance.

Starting with operations, in the third quarter, we maintained benchmark integrity performance with year-over-year improvement at 30% in HSE incident frequency and 34% in reliability. Operations integrity remains an area of strength for Schlumberger and the foundation of our performance strategy; our consistent service delivery earned several letters of commendation from our customers and is the basis of multiple new contract awards recorded in the quarter. Financially, we posted higher sequential pretax operating margins, more than 20% EBITDA growth and positive free cash flow—despite the severance payments and reduced working capital release versus the prior quarter. These results clearly set us on the path to our intermediate goal of restoring 2019 EBITDA margins before the end of 2021.

Now let me turn to our strategy. First, our restructuring program is progressing well, and we are on track to realize most of our permanent structural cost savings as we exit this year.

We also began the transition to our leaner, customer-aligned structure— comprised of Divisions and Basins, designed to support the basin-specific innovation that will solidify Schlumberger's position as the performance partner of choice.

Next, in North America, we achieved key milestones on our scale-to-fit strategy with 2 transactions that advance the high-grading of our portfolio while lowering capital intensity and volatility—the Liberty transaction and the low-flow divestiture. The closing of these transactions will not only enhance our EBITDA margin at the global level, but will further support lower capital intensity and an accelerated path to our financial goals for North America.

Looking ahead at the benefits of this strategy execution, we are set to significantly improve the company's future operating leverage, and as the market activity recovers from the current trough, we have the potential to restore EBITDA to the 2000 mark -- 2019 mark of $6.6 billion by recovering only half of the year-on-year revenue decline.

Our performance strategy also focuses on new horizons of growth, which includes Digital and Production & Recovery. The industry is rapidly embracing digital enablement and shifting capital investment towards maximizing Production & Recovery from existing assets. Where these 2 industry shifts converge—in essence, where digital intersects with Production & Recovery— Schlumberger has a unique opportunity to deploy the full power of our industry digital platform and domain expertise, spanning reservoir and production, for the benefit of our customers.

The best example of this was the application of our Agora edge AI and IoT solutions on our APS project in Ecuador. By connecting field equipment to the cloud and running predictive AI at the edge, we boosted production 30% on Agora-connected wells while significantly reducing field crew visits to these wells, and as such, cutting HSE exposure and environmental impacts. This created revenue and margin on an APS project where we captured the value directly, and is just an example of what is possible at scale when we use the power of the industry digital platform to blend hardware and software to enable people—wherever they are located—to make performance impacts with digital.

In addition, we continued to expand the reach of our digital platform, as demonstrated by the IBM Red Hat OpenShift agreement, further enabling adoption of our platform around the world, and particularly with NOCs.

In the quarter, we have also secured notable subsea and artificial lift contracts in the Gulf of Mexico and in the Middle East which will result in the growth of our installed base and greater exposure to Production & Recovery CapEx and OpEx—a strong platform for the future.

Finally, we continued to develop our New Energy portfolio, with progress in our hydrogen technology venture—Genvia—and the creation of a geothermal project development company, which complements our low-heat geothermal venture, Celsius Energy. These exciting ventures represent a mix of new, unique opportunities for Schlumberger to create a differentiated market position through the energy transition. In parallel, we continue to develop avenues to contribute to the decarbonization of oil and gas operations, leveraging our technology, expertise, and execution platform to reduce our environmental impact while helping our customers reach their environmental goals.

Let me take a few moments now to talk about the outlook. In the short- to mid-term horizon, the market uncertainties persist as the economic recovery remains fragile. The pace of demand recovery could possibly slow or pause as a result of a second wave of pandemic outbreaks or heightened pandemic control measures. Similarly to the third quarter, we also face risks of lingering COVID-19 operational disruptions internationally as we enter the winter season. In this context, we will continue to focus on what we can control and react promptly if necessary.

Now absent of a pause in demand recovery or higher COVID-19 disruption, the fourth-quarter activity will likely extend the trends experienced as we closed the third quarter, with the continuation of a modest activity uptake in North America and the stabilization towards a steady activity internationally—albeit with visible seasonal variations—the combination of which resulting into an about flat outlook overall for the quarter.

Looking out farther, the prevailing uncertainties make it much too early to call. However, directionally, and absent of a slowdown in the pace of economic recovery, we anticipate the overall activity to consolidate gradually during 2021. In line with the most IEA -- most recent IEA projections, we see that the conditions will exist to rebalance demand and supply with improving demand recovery supported by economic stimulus measures and continued supply discipline from the major producer—ultimately resulting in a visible activity rebound.

North America land is expected to continue its subdued recovery in frac and drilling activity towards production maintenance levels. Internationally, as demand recovers, a pull on short-cycle supply will result in an activity inflection, this being anticipated by most operators currently evaluating options to restore activity.

Having shared our view on the outlook, let me now hand over to Stephane, who will talk more about our financial results. Stephane?

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

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

Third-quarter earnings per share, excluding charges and credits, was $0.16. This represents an increase of $0.11 sequentially and a decrease of $0.27 when compared to the same quarter of last year.

During the quarter, we recorded $350 million of pretax restructuring charges. These charges primarily relate to facility exit costs, as we continue to rationalize our real estate footprint. As a result of these charges, our pretax operating income will increase by approximately $15 million per quarter going forward due to reduced lease and depreciation expenses.

Overall, our third-quarter revenue of $5.3 billion decreased 2% sequentially. Pretax segment operating margins increased 355 basis points to 10.9%. More importantly, company-wide adjusted EBITDA margins increased 371 basis points to 19.4%. As a reminder, our full-year 2019 adjusted EBITDA margin was 20.2%. In other words, we are well on our way to restoring our precrisis EBITDA margins of 2019, despite the severe revenue reduction we have experienced. This will be achieved through the combination of our restructuring actions and the high-grading of our portfolio.

As a reminder, our restructuring program will permanently remove $1.5 billion of fixed costs on an annual basis. We have achieved more than 80% of these cash savings as of the end of the third quarter. We expect to complete most of the remaining actions as we exit the fourth quarter.

As it relates to the high-grading of our portfolio, we achieved two significant milestones this quarter with the signing of an agreement to divest our North American low-flow artificial lift business in a cash transaction, followed by an agreement to contribute our OneStim pressure pumping business to Liberty Oilfield Services in exchange for a 37% equity interest in Liberty. We received antitrust clearance for both transactions and we anticipate each of the closings to occur before the end of the year. It is worth noting that both transactions will be accretive to our earnings in 2021.

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

Third-quarter Reservoir Characterization revenue of $1 billion decreased 4% sequentially, while margins decreased 90 basis points to 16.7%. These decreases were primarily due to lower sales of WesternGeco multiclient seismic licenses in North America offshore.

Drilling revenue of $1.5 billion decreased 12% sequentially while margins were essentially flat at 9.5%. The revenue decrease was driven by an activity decline in U.S. land, where the rig count dropped significantly, combined with COVID disruptions and customer budget adjustments in several international GeoMarkets. Despite the revenue drop, margins were resilient as a result of cost-reduction measures.

Production revenue of $1.8 billion increased 12% sequentially and margins increased 11 percentage points to 12.6%. These increases were largely the result of a resumption of activity in our APS projects in Ecuador, following last quarter's production interruption caused by a major landslide. OneStim also increased on higher fleet utilization, while profitability improved across each of our Completions, Artificial Lift, and Well Services product lines due to cost-reduction measures.

Cameron revenue of $1 billion decreased 5%, while margins decreased by 162 basis points to 6.3% on lower OneSubsea revenue in Asia and Europe, as well as lower Surface Systems equipment sales in North America.

Now turning to our liquidity. I was again very pleased with our cash flow generation. During the quarter, we generated $479 million of cash flow from operations and $226 million of free cash flow despite making $273 million of severance payments. This performance confirms that our cash flow generation capabilities remain intact. As a result, we will generate excess cash once our restructuring efforts are complete and therefore be in a position to deleverage the balance sheet.

We ended the quarter with total cash and investment of $3.8 billion. Our net debt at the end of the quarter was $13.9 billion, an increase of $149 million compared to last quarter, but down almost $0.5 billion when compared to the same time last year. During the quarter, we spent $200 million on CapEx and invested $28 million in APS project. Our total capital spend for 2020, including APS and multiclient, is still expected to be approximately $1.5 billion. This represents a 45% decrease as compared to 2019, mostly coming from lower CapEx in North America and reduced investments in APS projects.

We took further steps to strengthen the balance sheet during the quarter. We issued $500 million of 1.400% Notes due 2025. The proceeds will be used to repay 2.200% Notes that mature in November. We also issued $350 million of 2.650% Notes due 2030. The proceeds were used to pay down commercial paper borrowings. Finally, we ended the quarter with available liquidity of $10.8 billion.

Before I conclude, and just as a reminder, due to our corporate reorganization, we will report our results on the basis of the four new Divisions starting in the fourth quarter. We are working to provide historical restated financial information based upon the new Division structure and expect to publish this in November.

I will now turn the conference call back to Olivier.

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

Thank you, Stephane. Ladies and gentlemen, I think we are ready to open the call for the questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question will come from the line of James West with Evercore ISI.

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

Olivier, first, just a statement from me. I really appreciate you clearly stating the goal of returns above your cost of capital, or value creation as we see it, because most of the industry has lacked that progress in the last decade or so. So thank you for stating that as a clear goal of Schlumberger.

The first question I have for you is you've taken several defining steps towards the reinvention of Schlumberger so far, using this crisis to your somewhat advantage. Could you talk maybe about the steps taken? And then what we should expect going forward?

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

Great question, James. So thanks again. Indeed, we are set to continue to execute our strategy for improving our return above cost of capital. That's the foundation, okay. And we'll do that in several ways, cash flow, margins, and discipline on capital, obviously.

So you have seen that we have not wasted a crisis, as we could say, taking the opportunity to restructure our organization to reset to the new -- what we expect the new normal. And I think we have done that in anticipating that the market will be structurally smaller, albeit it will be defined by new attributes. One of them is the basin attributes, where we believe regionalization will become more critical, hence the creation of our Basin structure to support our clients in their basin to outperform in every basin. And that's the fit-for-basin strategy that is in light there.

The second, obviously, transition is Digital. I think digital is happening everywhere, in the office, in operation, in all aspect of our workflows. And we believe that this is a transformative step that we are ready to support.

And last, I will say at very high level, I believe that Production & Recovery will become more critical going forward as the mature asset will have to be -- the return on mature asset will have to be improved. And at the same time, energy transition from gas technology up to midstream as well as transition to new energy.

I think this will give us -- the digital, the production recovery, the energy transition, starting with gas, will give us the element of growth that will then leverage our new operating platform with the division basin as you have seen restructured to give us the opportunity to much expand our margins and reach and exceed our return above cost of capital. That's what we are set to achieving, James.

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

Exactly. Very good, Olivier. And then on the margin expansion comment, you're sticking to the getting back to '19 EBITDA margins by the end of '21. What needs to happen to drive that? Do we need market growth? Is it the cost-outs you've already taken? What are the kind of key things we should be looking for to ensure that, that happens?

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

I think there are 3 elements. I think the first and foremost and the one that have the most impact to date in our quarter results is the restructuring we have done when we adjusted our permanent structure and variable costs to the new normal and to the new level of activity as we foresee. And I think this has a significant amplifying impact on our return to margin expansion.

So the second factor is a continuation of our strategies in North America that aims at high-grading our portfolio and taking step to make sure that we retain and continue to invest in a portfolio where we believe we can differentiate and create return above our threshold.

And third is the leverage of our international footprint. So when you combine the core (inaudible) and structural adjustments that we have done to lift our -- and reset our earnings power, the action we have taken to enhance significantly our margins in North America, our play in North America, and international mix leverage, all of this will combine to elevate and gradually build our EBITDA margin to the 20% of -- EBITDA of 2019. And we don't need much growth to achieve this.

Operator

Our next question comes from the line of Angeline Sedita.

Angeline Marie Sedita - *Goldman Sachs Group, Inc., Research Division - Research Analyst*

Nice quarter. So a little bit to James' question around the 2019 EBITDA margins. And if you -- would you say, number one, that digital is further accretive to that 20% margin and the return to that 20% margin that you saw in 2019? And do you think those margins are as normalized for Schlumberger this cycle? Or could it be better?

And then finally on that is, you said in your remarks, $6.6 billion in EBITDA on half the revenue, that's certainly above consensus estimates for '21 and '22. Can you give us further color there and a time line?

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

Okay. A comprehensive question, Angie. Thank you.

So first on digital, is it accretive? Absolutely. It's accretive today, it's accretive tomorrow, I think it will be accretive in the future, at a step that is certainly pulling our margins up. And I think what we are looking for to accelerate is our growth CAGR so that it is accretive not in the future at the larger scale. So digital is and will be accretive on the way forward. Absolutely.

The second question you asked is on the EBITDA of 2019, if I understand correctly, what you asked for, Angie, to reiterate. So yes, I think we are clear on our ability to deliver this EBITDA margin improvement to 20%-above in the short term. And the mix is -- the mix we need, as I said and commented with James, is very clear. It's a combination of international, our restructuring and the international exposure that we have that are greatly accretive to this.

Finally, you asked a question about when and how we will go beyond this. Our mid-cycle margin ambition is above that level. We are at a trough, at operating already very close to this 2019. Having operated -- or reset of our margins, our expectation is continuing to grow and expand, again, building our international franchise, building and accelerating our digital and being the full proof of this, but also continue to execute on our capital discipline, capital stewardship that will high-grade our portfolio and will resolve some of the still outstanding underperforming business units.

So you combine growth internationally, the power of digital and our discipline on capital stewardship and addressing our underperforming contract, you have the recipe to expand the margin beyond this 20%. And you can make the math. I think we would expect indeed that with half the revenue coming back from 2019, we will expect to be in a position to reach or exceed this dollar EBITDA contribution.

So I think when is this happening? Some time in the future. Not 2021, clearly. 2022 will be the beginning of a cycle of international expansion, that's very likely. And after that, there will be some time, but we believe this is in sight, and that's what we are working towards.

Angeline Marie Sedita - *Goldman Sachs Group, Inc., Research Division - Research Analyst*

Okay. Wonderful. That was a very good answer. So one more on Liberty. Maybe you could talk about the transaction in a little bit more detail, the magnitude of the accretion opportunity, the access to the customer and well site without having frac. And the determination of when you'll exit Liberty. Are you a medium-term owner or a long-term owner of those shares?

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

I'll let Stephane answer some, and I will answer on the customer engagement. Please, Stephane, on the transaction.

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

Yes, sure. Angie, we are actually progressing quite well on our integration planning. The good news, we are identifying through this process additional synergies and opportunities for our technology collaboration that makes this combination even more compelling than we initially contemplated.

So we are quite happy with partnering with Liberty. We believe there's quite a lot of upside potential in the combined company as the company -- as the synergies are realized and the market starts to recover. So we will benefit from the North American unconventional recovery as our equity stake will continue to appreciate. And we will also leverage our technology alliance with Liberty.

So it is premature in that context to talk about monetization, considering where we stand in the cycle, but will of course remain an option over the longer term. We have not set a timeline for this. We have not set a target price. But it will always remain an option.

In terms of accretion, we've stated it will be accretive from day 1. So going into 2021, it will be positive, for sure, on our EPS, EBITDA, and margins overall.

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

Yes, I can only reinforce that I think our value proposition, the value proposition of Liberty on the market with our existing customer, I think, is undoubtful very strong with this platform, as you pure-play -- the largest pure-play frac company. But we are putting in place the contract and service level agreements across both companies to cross-license technology and to create pull-through so that we can extend the Liberty workflow and the value proposition of well site, and we can pull them on some of the contract we have on well construction, over contract to where we participate across and around the frac operation. So clearly, for both the -- beneficiary on both.

Operator

Next, we will go to the line of David Anderson with Barclays.

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

And so digital, you've talked about digital being a core part of Schlumberger's growth strategy, and you stated the goal to double the revenue in the medium term. Curious kind of where acquisitions fit in that part of the goal. I ask because back in the '90s, of course, Petrel and ECLIPSE were crucial to your success that followed the 2000s and still a big part of your offering. But more recently, you've announced kind of partnerships and venture-backed companies you're involved in. I'd just like to understand a little bit more about your digital growth strategy as you build this business out.

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

Yes. Good question, Dave. Thank you. I think, first and foremost, our strategy will evolve around a digital platform, establishing a digital platform for industry, both from the -- in the geoscience subsurface side, building on our desktop offering today and building up on our market strength and establishing with what we did OSDU, an open-platform formation with data ecosystem shared with the industry and offering DELFI as the foundation for this. So we believe that this transition to the cloud will cement our desktop leadership position we have today and expand and create growth opportunity with new transition similar to the Chevron, similar to the Suncor, similar to the Woodside transition that we are doing with the DELFI core expanding into the cloud. So this alone is a growth avenue.

The second one is digital operation, as I will call it. And I think it extends DELFI to the Drilling or to the Production space. But also we have expanding -- we have been extending and using the concept of digital platform to also introduce what we call Agora, a gateway and a platform that offers opportunity to plug AI or edge application on equipment. And I think you have seen 2 examples of which we described into the press release earlier today. And I think this is another expansion. So that's the second axis of expanding beyond the core beyond geoscience and expanding to operation.

And the third, I think, is the domain of AI and of offering services for our customer to extract more from their workflow across, and using an element of our platform, not necessarily the application, but using the platform as a basis for creating value to their own IP, to their own integration capability, and where we act as a system integrator and we act as a support for their workflow.

So these are the avenue of growth. So we'll continue to make a partnership as a basis for building these platform stacks. And we will, and when as appropriate, we believe that we have -- if we believe we have gaps into our offering in operation or in geoscience or in AI, we will make bolt-on acquisition, as we'll call it, to supplement or to complement this so that we better respond to this and expand in new energy or expand into the gas midstream, for example, using the same platform.

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

So Olivier, I think one of the struggles for investors is taking digital from a conceptual idea into real-life practice. And you mentioned Agora several times in the release today. And I was wondering if you could talk about 2 things. If you can talk about Agora and the IBM Red Hat agreement, kind of 2 separate things there.

Agora being more edge computing-driven. Maybe you could just talk about kind of what is the best application? Where do you see that fitting in terms of your business? Like what's the most obvious application of where you can really make a difference?

And secondarily, on the IBM Red Hat, you've targeted NOCs as being the customer. So what is that bringing to the NOC customer?

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

Okay. So first, Agora. Simply said, Agora brings us the ability to bring, on every piece of equipment on the platform, on the rig, an ability to connect this piece of equipment to the cloud and to our platform; and yet offering at this point, at this edge, an open platform where partners can provide and can plug their application, AI application typically, that will add value to this data feed.

The perfect example is what you have seen on the PETRONAS application, where we have not been developing this video-parsing analysis tool. One of our partners have just deployed their video tool on to our platform and connected to the camera, and we serve as a gateway back to the cloud. So we just provide a platform that our customer are licensing and are installing on their equipment. And then their own partners, our partners, are creating value with AI routines or AI application at the edge that connects to the cloud. That's what people like in a secure way.

Red Hat OpenShift, simply said, is an ability to provide multiplicity of options for cloud deployment for our customers that offer hybrid cloud deployments on-premise and public and address the concern that some of our customers in some country were facing that they cannot export their data to the public cloud because it is data -- or present data residency issue, or they believe they need to control and have in-house premise cloud infrastructure. For these 2 solution, we provide through OpenShift an ability to deploy DELFI on on-premise cloud infrastructure or on cloud that are not public cloud, hence addressing a market that we cannot address today.

It's about 50% of the market today, 50% of the country that don't have or do not prefer to use public cloud for their hosting their data that we're unlocking through this. So we are unlocking a significant part of market.

Operator

Next question comes from the line of Kurt Hallead with RBC.

Kurt Kevin Hallead - *RBC Capital Markets, Research Division - Co-Head of Global Energy Research & Analyst*

So Olivier, I just wanted to congratulate you and your team on a very fast pivot through an extremely difficult situation. I know you highlighted Digital way back when you first joined in September and then reiterated it in January, and it sounds like it's already paying dividends for you. So kudos on that quick pivot.

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

Thank you.

Kurt Kevin Hallead - *RBC Capital Markets, Research Division - Co-Head of Global Energy Research & Analyst*

My question for you, Olivier, is we've seen a lot of recent commentary out of the major oil companies about their shift of budget, from intensive fossil fuel dynamics to more green, renewables and so on and so forth, with BP probably being the most radical in that process. Trying to connect the dots here, but it seems like with the clean energy business that you established back in the spring, it set Schlumberger up to be very well positioned in line with the potential future spending plans of some of your existing customers. So I was just wondering if you could give us a little bit more insights on how you view potentially the clean energy business evolving over time?

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

No, great question, Kurt. I think, obviously, we see it's not only a trend that we want to capture with our existing customers. I think, obviously, some of our customer segments are transitioning into a different role as a energy company and want to add to that portfolio beyond oil and gas, including some technology and some renewables in which we also have interest.

And I think at large, what we have realized is that we have a technology platform, we have an ability to deploy at scale technology, we have a subsurface knowledge. When you combine all of this, we believe that we have market position that we can take, develop into the New Energy business, be it on renewable, be it on the energy storage or be it on hydrogen. And I think this is where we are developing our venture today. We are developing it in geothermal, both low heat and deep geothermal. That's very adjacent to our business because it exploits our subsurface knowledge; our drilling, well construction; and our ability to manage heat flows from subsurface to surface and provide digital platform to control it. So that's where we're heading.

The hydrogen is very, very interesting for us because it's a huge opportunity, particularly led by EU with their Green Deal. And there are 2 avenue there. One avenue is the green hydrogen or electrolyzer, where we believe we, with our new venture, Genvia, are in a position to create differentiated offering in the market to provide the market with higher efficiency and more versatile electrolyzer that can feed this 40-gigawatt capacity that EU is planning for 2030.

And finally, I think we will continue to also look into CCS, which is, again, close to our core. But not CCS application for oil and gas, but CCS application to decarbonize the hard-to-abate sector, ammonia or SMR for hydrogen production through gas, and these are the sector that are outside of our oil and gas customer, that's where we believe we can add value.

And when you combine all of this, this is a very exciting future on the -- with New Energy, and we are taking position today for the long run.

Kurt Kevin Hallead - *RBC Capital Markets, Research Division - Co-Head of Global Energy Research & Analyst*

That's great. I appreciate that insight. My follow-up question would be, Olivier, you mentioned the prospect for short-cycle projects to accelerate, especially in the international markets when heading out into 2022. And I know you don't want to get pinned down to any kind of specifics. But I'm just kind of curious, how you would think about the magnitude of rebound. And again, you don't have to get too specific here. But just wondering how sharp of a rebound you would expect, and maybe what geographic regions you would think would lead the way.

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

Yes. I think what we see is that, clearly, I think the level of investment that's currently going into international is not sustainable, I think for 2 reason. I think that the demand/supply will rebalance and will create a pull on supply worldwide. And I think this will be pulling on international as well as the U.S. North America. The North America have suffered from a setback that is creating a gap in the future supply. So I think the commission have set -- can you hear me?

Kurt Kevin Hallead - *RBC Capital Markets, Research Division - Co-Head of Global Energy Research & Analyst*

There's a lot of feedback.

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

Yes. I think the feedback is gone. Thank you.

Kurt Kevin Hallead - *RBC Capital Markets, Research Division - Co-Head of Global Energy Research & Analyst*

That's better. That's better.

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

Okay. So I think short cycle is set to come back first, and then long cycle. The timing of this and the magnitude, I think, will depend on the -- obviously, on the demand -- oil demand pace, recovery pace. But what we can say is that customers are already engaging and are asking us to be ready for mobilization, be it in short or midterm, to make sure that we're not getting in the wrong direction to cut capacity beyond what they will need in the short to midterm. So I would expect the low-cost producer country on the core of OPEC+ to be the first to react and to rebound when the market will be there. So that includes Middle East, that includes Russia, obviously.

Beyond that, I think we are -- we will see short-cycle everywhere. China will continue to be executing on their energy strategy, so I don't expect this to be slowing down. And then we will see gradually infield drilling. We will see the shallow water coming back. And there's a lot of FID ready to be approved that will then accelerate back to the border. So I think there will be a sequence in this, but short-cycle will come back, both onshore and offshore, and will come back certainly some time in 2021 and clearly in 2022.

Operator

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

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

Olivier, I want to come back to the renewables question. You highlight several interesting initiatives. Do you have an aspiration for renewables to be a certain percentage of revenues by, pick your year, 2025, 2030?

And just given your scale, what does this mean for CapEx spend, R&D spend? And overall, how do you think about balancing a desire to see -- what I believe would be your desire to see a measurable portion of your revenue stream becoming levered to renewables while also continuing to drive improved financial performance?

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

Yes, absolutely. I think it's too early to quote a number. I think it's something that we are working and then we are continuing to develop our strategy. But I think I will not call it renewable, I think it's more than renewable. And it's not -- it intersects renewable, but I think it's the technology approach we have. And it's not necessarily -- don't expect us to buy wind farms and go after capital projects. So that's not our intent. Our intent is to continue to play and build on our strengths, strengths being our technology, being a technology partner for a renewable company, being technology partner for some of our current existing customer and being a technology partner for addressing a new economy, such as hydrogen economy. I think this is where we want to be.

Obviously, I want to be -- this to be meaningful. I want to be at scale in the next decade for sure, because I think at that time, we want to be in a position where we believe we will be diversifying our portfolio and building and leveraging the growth that is existing in these to make sure that we are having a diversified portfolio, but still a technology portfolio and a service and technology offering with solution to this market.

So again, it's a long-term ambition with short-term investments that are helping us to create market position that are unique and that will gradually being reinforced. And we will take a bigger position on the one we believe have the most potential in the coming years.

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

Got you. And I just want to circle back on the 20% EBITDA margin target for next year. You did about 19% in 3Q, and what I imagine is likely close to 20% ex the to-be-divested businesses. It just seems that 20% is easily achievable, if not beatable, next year. But what am I missing? Is there still some concern around pricing as contracts roll into next year? Is there some concern that maybe customer spending abroad won't lift that much over the course of '21? So why shouldn't we consider the 20% EBITDA margin a relatively low bar, just given your 3Q performance?

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

No, it's -- first, it's -- the way we define it is a full year target we are taking. It will happen before the end of 2021. We believe the trajectory of the year with a gradual recovery will give us the opportunity to create a full year target that will be set at this level, or exceed.

Do we anticipate and fear more pricing? No. I think the pricing has been -- the pricing pressure has been with us for the last 6 years. I think -- as I commented before, I think we have been giving away and the industry at large have been under pressure for this. The industry now is realizing that there's so much we can give, and we are working more collaboratively with our customers to find solution to eliminate waste.

Now obviously, large integrated contract are still competitively priced, but we see that through performance, through technology and through smart engagement and alignment with our customer, we're able to offset those pricing and competitive pressure and realize margin resilience.

So pricing is and will remain with us in these years to come, possible headwinds, but mostly on large integrated contract. And I believe that when activity will come back, we'll get opportunity to get back pricing in the right market.

Operator

Our next question comes from the line of Sean Meakim with JPMorgan.

Sean Christopher Meakim - *JPMorgan Chase & Co, Research Division - Senior Equity Research Analyst*

So Olivier, I think the energy transition topic naturally kind of begs the question about the outlook for international E&P spending in the coming cycle. I appreciate the earlier comments on the cadence of how work will come back, say, next year. But what's also going to be different in this cycle is that your customers have additional calls on their cash flow that are being prioritized before upstream spending, right? IOCs are diverting more capital towards renewables, that's the plan. Independents have a first call on their cash to their balance sheets. I'm just curious how those factors influence your expectation around the international spending cycle, and specifically offshore, as IOCs control most of the, specifically deepwater, acreage globally.

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

Yes. That's a correct assumption. And I think we believe that what will happen is that the market will consolidate around basins position, that each of the major and large independent will concentrate on their basin plays and other strengths. I believe that we have to be smart about aligning with our customers in those key basins, be it around their core assets, such as Exxon in Guyana, such as some other IOCs in Brazil or in East Africa. We will make sure that we align ourselves with those so that we maximize the uptake of market position in those basins and continue to execute our fit-for-basin and engage with customer to make sure we maximize those position. So that's the first thing we want to do.

Next, I will comment that the national oil company are part of the mix, and I think the deepwater is indeed more a domain where international company dominate. And I think we have there a very strong position. But from shallow to land, there is a lot of activity that is pulled, both short and long cycle, by national company. And the -- in Middle East, most of the -- most of the offshore activity, if not all of the offshore activity, is led by national oil company and is growing fairly well and has been more resilient than the land activity. So we will hold on those position and make sure that we continue, as we have seen some contracts have been awarded in this domain, continue to pose for this.

So we understand that the market will be structurally different than what we could have anticipated 5 years ago, but we believe that the position around key basins, of strength from our customers and aligning ourselves with this will provide us the opportunity to capture most of this international growth coming back.

Sean Christopher Meakim - *JPMorgan Chase & Co, Research Division - Senior Equity Research Analyst*

Got it. Understood. I appreciate that. And then I want to touch on Reservoir Characterization as well. And that segment has experienced a lot of volatility in its margins the last couple of quarters, much more than we've seen historically. I'm just curious how you'd characterize the gravitational center for those margins once the business has cost reductions impact it, et cetera. What do you -- how do you think that business looks like on a full year basis once we get it through these near-term challenges?

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

I think I will -- the comment I will offer on this is that this market is a market where the exploration market sits. And the exploration market is set from discretionary spend and it includes the multi-client sales that historically have been a little bit of a swing that depends on the season and depends also on the exploration discretionary budget that is available for our customers to invest in future exploration acreage. So that has left a little bit of variability. The variability has been bigger in recent times because the proportionate scale of exploration has reduced. Hence, when exploration campaign comes back, which happens every other season, and when the discretionary spend on exploration through multi-clients, this combines to create a strong -- very strong quarter.

And -- but at the base, the related testing, wireline, and digital are still performing very well. Software was growing this quarter, one of the very few product line that did grow quarter-on-quarter and did grow, as an example. So expect this to be the consequence of most of the exposure we have on discretionary exploration spend and the exploration campaign variability that we see quarter-on-quarter. This is the most of the rationale for this more than any core issue we will have in any of the product line that are there.

Now commenting on the future, we will not comment anymore on Reservoir Characterization as we'll comment on the new Divisions that we are setting in place. And this will be -- part of it will be in digital, part of it will be in the Reservoir Performance Division. So you will get more detail on this in the coming months.

Operator

Our next question comes from the line of Chris Voie with Wells Fargo.

Christopher F. Voie - *Wells Fargo Securities, LLC, Research Division - Associate Analyst*

First question, just a little bit of a clarification, sorry if I missed this. But I believe your opening remarks on the outlook suggested flat quarter-over-quarter in the fourth quarter. Is it fair to assume that, that applies at the EBITDA line, so just north of $1 billion?

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

That's a fair assumption. I think we have some favorable and unfavorable play that we believe will balance out, and the ambition will be indeed to maintain roughly the -- both the margins and the dollar, on an about flat.

Christopher F. Voie - *Wells Fargo Securities, LLC, Research Division - Associate Analyst*

Okay. That's helpful. And then secondly, I wonder if you could just give a little more detail on the progression for the cost savings. I guess you were exiting about 80% in the third quarter. It should be almost done in the fourth quarter. That's maybe $60-ish million incremental. Should we think there's much left in 2021 from that? And is that international? Or I imagine that's mostly international basis, but is there any progress there in North America as well?

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

Stephane?

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

Yes, I'll take this, Chris. There is -- yes, we were above -- quite a bit above 80%. So there is a bit left. There will be still a bit left going into Q1. It is mostly on the international, the tail end of it. And North America is mostly complete. So you will see a bit more push from this in Q4, but some remainder are going into the first half next year. Does this answer your question?

Christopher F. Voie - *Wells Fargo Securities, LLC, Research Division - Associate Analyst*

So the cost-saving -- sorry. And just to finish up on that restructuring. So the cost-save -- the cost of those savings is pretty light compared to expectations in the third quarter, around [$273 million]. Do you think those costs would be higher in the fourth quarter? I think expectations are near $1 billion for the second half. So will the cost of savings be much higher in the fourth quarter?

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

Yes. It's not an exact science there, to be honest. There is -- the cash outlays, they get spread out. It could be a little bit higher in the fourth quarter. However, the cash flow from operations traditionally in the fourth quarter also increases. So I think we could very well end up with free cash flow, including severance, still quite positive. And if everything goes well, it could even be higher even in Q3, even though we have higher severance potentially.

Operator

Our next question will come from the line of Bill Herbert with Simmons Energy.

William Andrew Herbert - *Simmons & Company International, Research Division - MD, Head of Energy Research & Senior Research Analyst of Oil Service*

At this point, based upon the dialogue that you're having with your international customers, of course, international on a pro forma basis is going to be 80% of revenues once we consummate OneStim, but you mentioned strong customer engagement with regard to the dialogue that you're having for international. At this point, do you think international revenues in 2021 are up year-over-year?

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

I think the way you look at -- we look at it, Bill, is to look at the current level of activity. And we use more or less the second half of this year as a baseline because I think the reset for international oil company are happening in the second quarter; for independent, that happen in the second and the third; and for national oil company, that's happening in the third. So the reset of activity has happened in the last 6 months. Now we believe that we have stabilized, and we have seen it in the last few weeks. And we don't believe that -- aside from seasonal impact, we don't believe that there will be a structural adjustment in the short term. And that's our baseline. So from that baseline, we will anticipate this to be -- to get an upside, okay, from that baseline and to gradually recover from that baseline [of work].

Now to compare it year-on-year, including the first quarter of this year up to the mix international second quarter, including the significant effort in Middle East to increase supply early Q2, I don't think it's realistic. We have to take a baseline of the second half of this year and project forward. And from that base, build back a recovery.

William Andrew Herbert - *Simmons & Company International, Research Division - MD, Head of Energy Research & Senior Research Analyst of Oil Service*

Fair. But the COVID-related disruptions that you witnessed in Q3, I would assume, hopefully, are not going to be as acute in 2021.

But moving on, with regard to -- yes, with regard to your high-grading of your portfolio, we have announced OneStim and low-flow. I'm just curious in terms of what are the most tangible high-grading opportunities remaining in your portfolio?

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

I think we'll continue to focus on each and every business line we have operating in North America. We have already made effort to rationalize and to make sure that we operate in the basin of North America, where we believe we can sustain a differentiation and participate fully going forward. We have made a choice to accelerate some technology access and fit-for-basin in some part of our portfolio to high-grade their performance. So I will say that all of our portfolio, the entire business line, I would say, has opportunity to improve their returns by tuning. And I think what we have done on structural reset is lifting.

And the business line have improved this quarter beyond OneStim. The performance of North America business line this quarter have improved. So we have a way to go to further improve this and to target our recovery of margin in North America. And I will say that we do that on both the growth for the market where we have strong alignment, well construction, the production recovery, the digital. We do that on the bottom line, where we continue to use technology access or restructuring to make sure that we execute with the return we desire in this North America. So we'll continue to gradually improve the performance. That's our goal.

William Andrew Herbert - *Simmons & Company International, Research Division - MD, Head of Energy Research & Senior Research Analyst of Oil Service*

What I meant by high-grading, though, was the -- was additional disposition opportunities in your portfolio.

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

I will not comment on that. I think we continue to look at every portfolio, and we look at it from the light of does it bring us the growth and accretive return opportunity in the long run? Or do we have a better way to monetize and to be [occasionally] opportunistic about this portfolio? So this is true for those portfolio there and as well as in other market. But we'll continue to look at it, and we will be disciplined to making the right decision for the shareholder here.

Operator

We have time for one final question, and that will be from the line of Connor Lynagh with Morgan Stanley.

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

I was wondering, maybe a higher level one to close it out here. So we're about to get to look at your new reporting structure. And I know that Digital & Integration is probably the one that you have the most excitement about growing and improving earnings from. But if we remove that from the equation, when we take a look at what you guys are doing in, say, the third quarter in the Reservoir Performance, Well Construction, Production Systems, et cetera, where would you sort of point us to in the near term? And by near term, I mean over the next 12 to 18 months here. Where would you see the greatest opportunities for improvement in earnings? And would you say that, that is more driven by costs? Or more driven by select growth opportunities in those portfolios?

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

No, setting aside D&I, which have both a margin expansion opportunity and growth on the back of digital, indeed, I think we can look at it from Well Construction, where we believe that our market position will benefit from the return of meters drilled worldwide. And efficiency, efficiency of our platform, efficiency of our integration capability that we have formed by pulling this Well Construction. So this has an opportunity to solidify our market leadership position and expand and get the benefit of scale, the Reservoir Performance, where we combine our subsurface and our unique service that exploit both in exploration, in development and in production intervention, the power of our service connected to the reservoir and to the unique domain knowledge.

So I think here, we have unique technology differentiation and unique domain knowledge, that when a market will need to extract and be more efficient on existing assets, to find the next tieback opportunity or to exploit an existing asset to the next life extension, we have fantastic reservoir performance technology.

And last is Production Systems. I think here, this is a story of growth. This is a story of expanding horizon beyond what we have today, which is from -- and beyond and into the midstream. This is a story of addressing the gas market opportunity and connecting the well to the subsea, to the surface; and creating unique integration, integrated production system with digital as a unique element. So recovery through Production System and Reservoir Performance is what we want to propose to the market.

So thank you, everyone, for having attended this call. So before we end this call, I would like to leave you with 4 key takeaways.

Third quarter was another quarter of operational and financial outperformance made possible by discipline in execution. We made significant progress on the execution of our strategy, with key milestones in restructuring, North America strategy, and expanding the reach of our digital platform.

The reset of our earnings power is progressing very well. We anticipate significantly improved operational leverage when we put the trough behind us and activity rebounds, providing us with the platform to materially expand our EBITDA margins and earnings.

The quarter was another strong free cash flow performance in the cycle trough, a meaningful step closer to our double-digit free cash flow ambition that will support our priority on deleveraging our balance sheet.

Lastly, the deployment of our new customer-focused organization and our fit-for-basin approach provide us with a great platform to capitalize on the market recovery and deliver on this path.

In conclusion, we are executing our performance strategy and are determined to continue taking bold actions to secure resilience and reposition ourself as clear leaders, both in performance measured by our customers and returns measured by our shareholders. Thank you.

Ndubuisi D. Maduemezia - *Schlumberger Limited - VP of IR*

Ladies and gentlemen, this concludes our call. Operator, you may now disconnect.

Operator

Thank you. Ladies and gentlemen, that does conclude your conference call for today. Thank you for your participation and for using AT&T Executive Teleconference Service. You may now disconnect.
