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# EDITED TRANSCRIPT

SLB.N - Q4 2020 Schlumberger NV Earnings Call

EVENT DATE/TIME: JANUARY 22, 2021 / 1:30PM GMT

**OVERVIEW:**

Co. reported 4Q20 revenue of $5.5b and EPS, excluding charges and credits, of $0.22.

## CORPORATE PARTICIPANTS

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

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

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

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## PRESENTATION

**Operator**

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

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

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

Thank you, Lea. Good morning, and welcome to the Schlumberger Limited Fourth Quarter and Full Year 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.

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

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

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

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

Thank you, ND. Good morning, ladies and gentlemen. Thank you for joining us on the call.

In my prepared remarks today, I will cover 3 topics, starting with our fourth quarter performance and my perspectives on what we accomplished in 2020. Thereafter, I will share our view of the 2021 outlook and the ambition we have set at the start of a new growth cycle. Stephane will then give more details on our financial results, and we will open the floor to questions.

First, let me start by thanking the women and men of Schlumberger for their resilience and outstanding performance in an exceptional year. The Schlumberger team significantly improved both safety and service quality, 2 strong foundations of our performance strategy, despite COVID-19 adversity. In fact, this performance proved to be a critical differentiator for our customers, allowing us to strengthen our market position. This contributed to ending the year on a very strong note, and I'm extremely proud of the results in the fourth quarter and our momentum headed into the new year.

In the fourth quarter, we delivered solid sequential revenue growth in both North America and the international markets and in all the 4 Divisions. We also recorded another quarter of sequential margin expansion, and cash flow from operation before severance was more than $1 billion. The recovery in the international market and offshore, particularly deepwater, has commenced and was broad, with more than half of our international business units posting sequential growth, including most in MEA region. Our offshore long-cycle exposure and favorable positions in the short-cycle markets combined to deliver this peer-leading sequential international growth ahead of rig activity.

In North America, we posted strong double-digit revenue growth and sequential margin expansion, both onshore and offshore. Notably, on land, our well construction and surface system growth exceeded pressure pumping and outpaced rig count. This underscores the strength of our market position and breadth of services, supporting shale activity and complementing our partnership with Liberty going forward. All in all, this was a very strong fourth quarter where we demonstrated the scale of our market exposure, the strength of our international franchise, the reset of our earnings power and a very solid free cash flow conversion.

Now let me give you my perspective on what we had achieved last year. First, in line with our returns-focused strategy and as a response to the unique crisis, we restructured the company globally. And in North America, we scaled to fit and high-graded our portfolio. Internationally, we organized around key basins, addressed underperforming business units and contracts and divested our Argentina APS asset. These actions have reset our operating leverage, and we exited 2020 with EBITDA margins restored to 2019 levels. Through 2021, we will build on this earnings power and visibly expand our margins.

Second, we capitalize on growth drivers for the future, positioning our new Divisions ahead of the recovery cycle, aligned with our customers' workflows and key drivers in the new industry landscape. The digital transformation imperative, the mandate for sustainable and lower carbon operation and the priorities for step change in Production & Recovery, maximizing reservoir performance, and well construction integration and efficiency.

On digital, I'm particularly proud of our achievements in 2020, both internally and externally. Through our industry digital platform strategy, we are enabling digital transformations at scale, unlocking significant value and leading innovation across the digital domain in our industry. This is further demonstrated by the highlights in our release this morning, which includes enterprise-wide deployments, AI partnership and expanding use case of our digital platform. As a result, digital was the most resilient of our business during 2020, only second to subsea long-cycle, and is set to initiate an accretive growth cycle from 2021.

Third, we launched Schlumberger New Energy to establish market positions and develop differentiated groundbreaking technology, multiple low- or zero-carbon new energy carbon -- energy ventures. Our New Energy portfolio is very diverse and includes venture in hydrogen, CCUS, lithium, geothermal and geo-energy. As you have seen in this morning's earnings release, we announced significant progress with Celsius Energy and Genvia. In fact, we have made progress in every New Energy venture in 2020, enabling us to scale or to prepare entering commercial agreements for this venture during 2021, an essential step in our clear ambition to position Schlumberger at the forefront of new and sustainable energy technology in the coming years. New Energy is a platform for long-term growth, and we will be making more announcements on these ventures over the coming weeks and months.

Finally, last year, we accelerated our engagement with customers to provide solutions for the decarbonization of oil and gas operations and reinforced our commitment to improving our ESG performance. Specifically, we progressed on the adoption of both TCFD and SASB frameworks to increase the transparency of our environmental disclosures, resulting into the high-grading of our rating in the CDP Climate Change Program assessment to a peer-leading A-. We also delivered a 15% reduction of our Scope 1 and 2 GHG emission intensity within 1 year, well on our path to our stated 2025 emissions reduction goal.

Now I would like to share some of our view on the 2021 outlook. Absent of a new setback in the pandemic control and economic recovery, we see constructive macro drivers developing through the course of the year. In the near term, disciplined OPEC+ supply actions are supporting oil price well above crisis levels while demand is projected to build up throughout the year. The exact magnitude and scale of demand inflection will be driven by the pace of global vaccine rollouts, easing of lockdowns and coordinated economic stimulus through 2021.

In North America, we anticipate continued momentum and a strong start to 2021 in land markets as activity continues to build up towards maintenance levels, both in well construction and completions. However, U.S. production will still be visibly below previous production levels as continued capital discipline and the impact of consolidations will cap the spending level and rate of growth may slow in the second half due to budget exhaustion. As a consequence, we anticipate growth in NAM to be in the mid-teens when contrasted with the run rate of the second half of 2020, excluding OneStim. In this scenario and as the market starts to rebalance, the call on international supply will increase, and we do expect to see an acceleration of the international recovery, both short and long cycle, after the seasonal dip in the first quarter. Thus, in 2021, we anticipate the international activity to build up from the second quarter and in the second half of the year to exceed second half of 2020 by double digit.

This macro backdrop is very favorable to Schlumberger, both in North America and internationally. We expect all Divisions, including Reservoir Performance on a pro forma basis, excluding OneStim, to post full year incremental growth compared to the second half of 2020, with the growth trajectory across the different Divisions shaped by the NAM-international mix and the relative exposure to short- and long-cycle markets.

Building on this combined NAM and international activity recovery, our new operating leverage will support a very significant EBITDA margin expansion in 2021, with an ambition to achieve 200 to 300 bps -- 250 to 300 bps improvement versus full year 2020 and consequently, visibly above 2019 margins. In North America, this ambition will be supported by restoring double-digit margins in 2021 as a result of our strategic actions, combined with the strength of our offering outside of pressure pumping and strong contribution from the offshore business unit. Internationally, with more than 80% of revenue coming from markets that will experience activity momentum, we see the combination of a favorable long- and short-cycle mix, the breadth of our market exposure and our unique fit-for-basin technology as key drivers for margin expansion throughout 2021.

I will now pass on to Stephane to discuss our financial results in greater details. Stephane?

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

Thank you, Olivier, and good morning, ladies and gentlemen. Fourth quarter earnings per share excluding charges and credits was $0.22. This represents an increase of $0.06 sequentially and a decrease of $0.17 when compared to the same quarter of last year.

Overall, our fourth quarter revenue of $5.5 billion increased 5% sequentially. This revenue growth was equally driven by our North America and international businesses. The sequential international growth of 3% is especially notable considering the seasonality effects we experienced in Russia in the fourth quarter. We indeed saw tangible signs of recovery in several key offshore markets.

Company-wide adjusted EBITDA margins for the fourth quarter increased 73 basis points sequentially to 20.1%, which is back to our full year 2019 level. We have reached this milestone earlier than what we had previously committed to. This performance translated into sequential incremental EBITDA margin of 34%, which illustrates our improved operating leverage following the restructuring of the company.

During the fourth quarter, we completed 2 key previously announced transactions: the divestiture of our North America low-flow business and the contribution of our OneStim North America pressure pumping business to Liberty Oilfield Services. We look forward to working alongside Liberty to maximize the value of our partnership as the activity in North America land rebounds.

As of year-end, we have completed more than 90% of our ongoing restructuring program that will permanently remove $1.5 billion of fixed cash costs on an annual basis. The early signs of recovery in the international offshore markets, combined with the high-grading of our North America





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portfolio and the near completion of our restructuring efforts, will all support strong margin expansion in the future as the industry recovery unfolds. In particular, we can count on the strength of our international business, which despite a very challenging macro backdrop in 2020, generated EBITDA margins of close to 24% on a full year basis. These margins are set to improve going forward.

Let me now go through the fourth quarter results for each Division. Fourth quarter Digital & Integration revenue of $833 million increased 13% sequentially while margins increased 507 basis points to 32.4%. These increases were driven by strong EPS results in Ecuador as well as higher digital solutions and multiclient sales internationally.

Reservoir Performance revenue of $1.2 billion increased 3% sequentially. This increase was driven by higher OneStim activity in North America. OneStim revenue during the fourth quarter of $274 million increased 25% sequentially. This increase was partially offset by seasonality in Russia and lower activity in the Middle East & Asia.

Despite the improved North America revenue, margins decreased 84 basis points to 8%, largely driven by Russia. While OneStim's margin did improve in the fourth quarter, they were still highly dilutive to both our North America and our Reservoir Performance margins. In fact, our fourth quarter Reservoir Performance margins would have been approximately 400 basis points higher excluding OneStim.

Well Construction revenue of $1.9 billion increased 2%, and margins increased 42 basis points to 10% due to increased activity in North America, Latin America, Africa and the Middle East & Asia, partially offset by seasonality in Russia.

Finally, Production Systems revenue of $1.6 billion increased 8% sequentially as international and North America revenues increased 7% and 11%, respectively. Margins increased 82 basis points to 9% due to higher revenue contribution from subsea and improved profitability in surface production systems.

Now turning to our liquidity. During the quarter, we generated $878 million of cash flow from operations and $554 million of free cash flow despite making $144 million of severance payments. Excluding the significant severance payments we made, our full year 2020 free cash flow margin is very close to double digits. This gives us the confidence that we will achieve our ambition of double-digit free cash flow margin in 2021 and, in turn, begin deleveraging the balance sheet, which is a top priority for us. For the sake of clarity, this double-digit ambition includes the effects of changes in working capital as well as any severance.

Our net debt improved sequentially by $46 million despite an unfavorable currency impact of $223 million. Net debt at the end of the year was $13.9 billion, a year-on-year increase of $753 million. Approximately $600 million of this increase is due to changes in exchange rates that impacted our foreign currency-denominated debt. These currency movements are fully hedged and therefore will not result into any incremental net cash outflow.

During the quarter, we made capital investments of $324 million. This amount includes CapEx, investments in APS projects and multiclient. For the full year 2020, we spent $1.5 billion on capital investments. In line with our capital stewardship program for 2021, we are expecting to spend between $1.5 billion to $1.7 billion on capital investments. The CapEx portion of these investments is expected to be towards the lower end of our previous guidance of 5% to 7% of revenue.

I will now turn the conference call back to Olivier.

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

Thank you, Stephane. I think we are ready for taking the questions from all of you.

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## QUESTIONS AND ANSWERS

**Operator**

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

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

So Olivier, international seems to me like it's accelerated maybe a bit faster than we had talked about previously. And it sounds like you're growing more optimistic on the outlook for the second half and certainly for '22 and '23 based on probably what you're seeing with tenders, and you guys have just a truly differentiated position in the international markets. So maybe could you touch on both your differentiated position but also kind of what you're seeing in terms of potential growth profiles over the next several years in international?

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

Thank you, James. So indeed, I think as you have seen, we reminded everyone that we would see -- will have seen the trough for international markets in the third quarter and we expected these to start to rebound in the fourth, which is what we have delivered. This was against a rig count that actually went down. And I think we used the breadth of our offering, both short and long cycle, the exposure we have, which is very broad, very diverse, to offset some of the rig contraction in some part of the international markets and realize some gain, occasionally, on market position to offset and realize what we have delivered.

So we believe that, first and foremost, the breadth of our offering, short and long cycle, our performance which is acknowledged by customers and giving us opportunity to encroach or gain share when activity comes back are the fundamentals of our market position internationally. Finally, we believe that our technology offering, fit-for-basin technology, digital are unique attributes that customers recognize and are ready to allocate share to have access to this technology and to leverage and to gain efficiency going forward.

So when you look now going forward on the long-term outlook, we have -- indeed, we see that the market will accelerate beyond the inflection point that we see in the first quarter. That is a seasonal dip. And then we expect and anticipate that we could reach or exceed double digits H2 to H2 on an exit-to-exit growth rate, and then we anticipate that this will continue and even be strengthening in '22 and '23.

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

Right. Okay. Very good.

And then, Olivier, a big uptick in -- big surge in digital margins sequentially. Is that something that -- is that kind of margin profile expected to continue? Or is that kind of a "blow off the top" fourth quarter sales and things like that and it might moderate going forward? I mean it's already a really high-margin business and a great business for you guys. But how should we think about that margin profile going forward?

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

Well, first, I think let me comment briefly on the fourth quarter results. Indeed, the fourth quarter result of the Digital & Integration division was a combination of very strong APS execution, multiclient sales that came from the seasonal effect of multiclient sales during the fourth quarter and international sales in and success in our digital business. Going forward, obviously, beyond this exceptional performance, we still are confident that we'll be able to maintain on a full year basis the 30% or so margins for the division of integration and digital going forward.

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**Operator**

And next, we have a question from David Anderson from Barclays.

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

So sort of a slight difference from the way James kind of asked the question on the international side. So if we think that 2023 we're going to see global oil demand largely recover, just kind curious how you see the cadence of the different international markets.

Each market is a little bit different. I'm just wondering how you see -- which ones do you think come back first? Which ones come back a little bit later? Could you just sort of maybe just provide a little color around the different regions as you see it from here?

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

I think it's difficult to decipher this or to bring granularity out to 2023 on how the market recover per region. But globally speaking, I think there will be an element of short and long cycle. So we believe, first, that the region that were the most impacted, and Latin America is one, will have recovery growth that will come maybe first because it's a combination of short and long cycle. We believe that the short cycle that exists in Middle East would favor that region, both in short and midterm. We believe that Russia and Asia as well will benefit.

And we believe that later in the cycle, from the second half of this year and later, the offshore market at large will start to benefit from long growth. But I think it's very difficult to give a granular view of this. I think the short cycle will benefit from sometime later this year, and the long cycle will be accelerating, we believe, in '22 and '23.

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

Okay. Understood. And on the digital side, you've talked about digital being a core part of your growth strategy in the next couple of years. You talked about digital solutions and software increased internationally.

I'm just curious as to what type of demand pull you're getting from customers. Is this further penetration of DELFI in terms of getting the platform to customers? Or is this new applications?

You had mentioned a number of countries, I mean, which I don't normally think about in terms of digital adoption, Russia, Scandinavia and the like. Can you just kind of talk about what that customer pull is these days on digital and maybe how you think that could evolve over the next couple of years?

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

Very good question, Dave. I think the pull is multifaceted, I would say. There is pull from customers that are willing to step change the efficiency of their own workflows and, hence, gain productivity into their planning, field development and evaluation of reservoir potential. And this is creating a pull for our workflow solutions with customers, which -- where we've built it on our desktop solution and then creating a transition to the cloud to gain scalability, productivity, and collaboration. So that's the first pull.

The second pull is around unlocking the data. Customers are looking at ways to extract more value from the data that they own, and hence, they are looking for exploiting AI/ML tools that the industry can provide them. For this, there is this OSDU platform that the industry has adopted, for which we contributed ourselves the design of this ecosystem, and we are getting customers to pull us. And you have seen one example into our release this morning with AIQ in Middle East, where the goal is to create AI solution for -- with ADNOC and with Group 42 to deploying the cloud in the region for ADNOC to benefit from this data insight. And finally, we see customers pulling into digital operation and trying to create step change into the way they execute their drilling, well construction or the existing extracting efficiency from their existing assets.

So these are the 3 pulls we see, and we have offerings that correspond to each. And you have seen that the OMV announcement this morning is mostly on the first and the second on the workflows and the data, and you have seen some announcement we did last quarter and this quarter onto the digital operation. So we see customers in all region having an interest into expanding from the desktop to the cloud for their workflow; unlocking the value of that data through the cloud and through new digital solutions, including OSDU; and reaching out to operation and unlocking through edge application the automation and application of AI to operation. So this -- we see this across multiple region and all the customer type.

**Operator**

And our next question is from the line of Angie Sedita with Goldman Sachs.

**Angeline Marie Sedita** - *Goldman Sachs Group, Inc. - Senior Managing Director*

So nice to see the strong incremental margins in Q4 with really digital being an impressive contributor. Also appreciate the guidance around margins for '21. I thought you said 250 to 300 basis point margin expansion in '21 versus '20, I believe, is the comment.

And maybe you could discuss that or pull that apart a little bit on the biggest drivers of this expansion. Is it digital predominantly or other Divisions? And maybe thoughts across the Divisions as far as margins and then around North American margins, timing of when you think potentially you could reach that double-digit level.

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

Yes. Good question, Angie. Let me bring clarification back on what we said this morning in the prepared remarks. So ambition for 2021 is to expand margin by 250 to 300 bps or higher, if the market conditions allow us, between 2021 and full year 2020. And this will exceed vis-a-vis the 2019 margins on a full year basis.

So we see this will be driven by 3 factors. First, the full benefit of our restructuring efforts where we have realized at the end of 2020 more than 90% of our $1.5 billion permanent structural cost reduction. Secondly, the impact of our portfolio high-grading in North America, that will actually allow us in the current market condition to reach or exceed double digit in North America in 2021; and finally, from the incremental margins from our international franchise, where we expect the combination of efficiency measure, including digital, digital operation for our own operation, the combination of the favorable market mix, if I may, and the strength of our fit-for-basin technology to differentiate and give us the edge and hence, the growth of our margin internationally. So when you combine all of this, this will give us this margin -- visible margin expansion year-on-year of 20 -- 250 to 300 bps or above visibly the 2019 despite being significantly down on top line.

So Division per Division, we anticipate actually from the run rate of -- for the full year, we expect all Division to actually expand margins on a full year basis. And I think this is not only digital. I think Reservoir Performance by the exit of OneStim, we'll, as Stephane did comment in his prepared remarks, get the benefit from that as a margin mix and will further expand Well Construction due to efficiency. And market growth, we'll also get benefits on incremental. And production and digital, as I commented before, will establish itself at a high 20% or 30% margin for the full year. So I hope it does clarify for you the margin mix and the rationale and the drivers for this expansion.

**Angeline Marie Sedita** - *Goldman Sachs Group, Inc. - Senior Managing Director*

No, that's very helpful. I really appreciate the detail, Olivier.

So maybe we could talk a little bit about New Energy. Obviously, you have a lot of initiatives that are currently announced and apparently more to come. But maybe you could specifically talk about the Genvia and hydrogen and the opportunity around electrolyzer and then geothermal energy and maybe the time line and where the biggest opportunity set is amongst those 2.

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

Okay. So I'm not sure that I will have -- I will take the time to comment on each and every one of these. So let me comment briefly on the Genvia.

So indeed, Genvia is a venture we have created with partners, including research arms of the -- in France, to indeed industrialize, commercialize solid-oxide electrolyzer technology that is set to be changing a bit the usual efficiency of this electrolyzer use for green hydrogen production. The market towards 2030, to give you a sense, is expected to be about 70 gigawatts of installed capacity of electrolyzer that needs to be installed in the world globally. We've obviously ambition to be participating in that market and create -- and capture share of that market through our solution. Our solution will be to deliver this electrolyzer capacity to the market, sometimes used in -- for reversibility in fuel cells and most of the time used to produce hydrogen.

So ambition indeed is to develop this across the next few years. Our milestones, speaking about this, will be to technically demonstrate this in the coming quarters and deliver some prototypes to partners that will use it in fuel cell or in hydrogen production and from that point on, in the next 2 or 3 years, make a decision -- a critical decision to build and expand into large-scale manufacturing to respond and take share into this market.

So each of these venture that we are entering into is using the same multi-steps approach where we invest in technology, we test the market with partners and we then derisk, commercialize and ready ourself for scale. So that's the approach we are having, not entering into large capital-intensive projects but leveraging our domain -- subsurface domain expertise that is very applicable for CCUS, very applicable for geothermal, leveraging our technology, industrialization capability that is very applicable for all of this venture and finally, leveraging our global footprint so that we can work with partners everywhere in the world and respond to the energy transition on a global basis.

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**Operator**

Our next question is from Scott Gruber from Citigroup.

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

So I wanted to come back to the international recovery question and ask it a slightly different way. When I think about the U.S., the U.S. has transitioned from growth mode, to call it, maintenance-plus mode. When I think about the rest of the world, most markets abroad were closer to that maintenance mode prepandemic with a few exceptions in there.

But Olivier, how do you think about what this means for recovery potential on a multiyear basis? Over the next few years, how close could the activity set abroad get to the prepandemic level just given kind of the starting point, where we were kind of from more of a maintenance mode in many of these countries prepandemic?

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

Yes. Thank you, Scott. I think if we assume and take the hypothesis that the market indeed will converge towards maintenance mode in the U.S., we have to remember that through this crisis, the U.S. production has gone down by 2 million barrels. And if we assume that the next 2 or 3 years will not give us the activity, intensity, and investment to recover this 2 million barrels, what will happen is that this 2 million barrels will have to be supplied internationally. Hence, the market share of supply will change in favor of international market.

When you equate this and assume that the old demand will go back to the 2019 level by 2023, and some are predicting earlier by 2022, I think this will create the condition to -- for the budget spend internationally to actually match the 2019 by the 2023-2025, latest, horizon. Hence, it matched our hypothesis that we can return EBITDA of 2019 in the period of 2023 to 2025 so we'll benefit from this market rebound international from now to 2023. So that's our hypothesis going forward, is that the market supply share will rebalance slightly, will favor international and will, as a consequence, pull international activity to 100% or more in the next 2 or 3 years.

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

That makes a lot of sense. And maybe just a little bit of color on working capital in '21. It should be somewhat of a headwind, not necessarily a bad thing as it reflects demand recovery. But just how should we think about it, either in terms of an aggregate number or on an intensity basis, if you want to give us some color on days outstanding for the key items?

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

Yes, Scott. It's, I'll take this, Stephane.

If you look at 2020, actually, our cash flows only benefited from a very modest working capital release. So conversely, if you look at growth in 2021, we don't see a big working capital increase. There will be some as activity grows, but our working capital intensity is not that high, so we will try to keep this to a minimum.

And at the same time, we will benefit from the full year effects of our cost-out program, which are all cost savings, and the discipline on CapEx. So we don't see working cap as a big headwind. We will be able to offset this with the underlying cash flow performance and get, for sure, to this double-digit free cash flow margin within the -- in 2021.

**Operator**

And our next question is from Sean Meakim with JPMorgan.

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

So back to D&I margins, if you don't mind. A lot of moving parts here in 2020 given what happened in Ecuador. You touched on some of the drivers of the sequential improvement in 4Q. It was also up 900 basis points year-on-year.

So could you maybe just unpack which of the drivers were the biggest components of that delta? Was it digital? Was it APS efficiencies and streamlining? I'm just asking for help in squaring the difference between historicals and now the expected plus 30% trajectory going forward.

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

I think it's a mix of both. I think you pointed out to the components. I think we expect going forward that the contribution of APS operating at -- with very strong performance. We have improved our performance significantly in that -- in this. We are increasing back the digital as a component of this going forward. We expect contribution of this maintaining APS performance to the level that we have seen in the last 2 quarters.

We divested some investment in APS as well. That has helped us improve the margin of APS. And the future growth, anticipated growth and margin accretion from digital will combine to maintain this at the level that I mentioned here, the high 20s or 30s.

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

Appreciate that. So if we just think about the drivers of the 250 to 300 basis points of improvement in margin year-on-year in '21, how much will we attribute to pulling out OneStim and then divestments and just year-on-year improvement of -- let's say, a full year of production in Ecuador? So that's the impact of APS.

If we take those 2 components out, how much enhancement is there for the rest of the portfolio? I know that may not be a calculation you have necessarily offhand, but trying to think about -- aside from those 2 big items, trying to see how much the rest of the portfolio is improving on a margin basis, thanks to the rest of the cost efforts.

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

So Sean, actually, the few items you mentioned, they do, of course, help the margin. But when you look at the global margin, taken together, those 3 items are not that material. So the margin tailwind is mostly from the cost-out program actually, optimizing and resetting our earnings power; and from the incrementals on the international activity. And the mix you've seen on our international margins even on a full year '20 basis which was not the best are pretty high. So most of the margin expansion come from there and cost-out program with a little bit of help from the factors you mentioned on a global basis.

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**Operator**

Next, we go to Kurt Hallead with RBC.

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

So Olivier, the question I have for follow-up is again on the international front since it's a major point of emphasis. It seems like your commentary with respect to the offshore recovery is notable in the context that your other peers didn't really explicitly reference that.

So 2 things. I'm kind of curious as to what you are seeing from the customer base that's giving you that level of conviction to specifically highlight that. And then second, given the fact that your peers haven't really explicitly stated it, it would lead at least me to believe that you have some unique opportunities that your peers may not.

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

Well, thank you. I think -- let me first comment on the actual results. And I think the actual results indeed, if you look at the very specific country, the very specific basin where we have growth, the sort of offshore GeoUnits, as we call them, that had growth in the fourth quarter sequentially, where offshore GeoUnits from Guyana to Brazil, from the other places around the world where we had -- and West Africa, did grow.

So that is a fact. That's -- and indeed, we can attribute this to market position and our market share that we have and benefit from in those markets clearly. And I think we had even a couple of them, including Guyana, that were year-on-year growing from Q4 2019.

So we had some, indeed, traction into these. And I think that came from the market that did rebound in deepwater. Deepwater was in Q4 higher than in Q3 in terms of rig -- actual rig count. It was offset by some other rig activity going down or slowing down in the fourth quarter. But I think the offshore deepwater specifically was up.

Now going forward, we don't see a setback to that trend. And aside from the deep seasonal effect into the first quarter, we see that this will grow going forward. If we look at our projection, deepwater is actually, again, the rig that will benefit the most in 2021 going forward, into the teens in terms of year-on-year projection by contrast with shallow that will only see single digits as well as land. So when you combine all of this, that give us the -- our market position established and demonstrated during the fourth quarter and our anticipated rebound for long cycle that we see in the contract out there for the deepwater give us the confidence that offshore will contribute meaningfully to our international rebound in second half.

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

Okay. That's great. That's great color. And then my follow-up is going to be on the New Energy front.

You were very informative about the things that you have going on right now. I'm kind of curious, right? As investors look at opportunities to participate in the energy transition and companies like yourselves look to participate in that energy transition, I just wondering if you can give us some general sense as to what you think the total addressable market could be for the services and technology and the partnerships that you are currently involved in, say, over the course of the next 3 to 5 years. Any insights on that would be really helpful.

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

Yes. I think I will -- to give granular view per venture, I think we will give ourselves the next few weeks and months to prepare communication to all of you on that front. And for sure, before the midyear, I think we will come with a much better view for all of you on where we participate.

But needless to say, that each and every one of the ventures we participate has a very significant potential on total addressable market. I think we are here having the ambition to create a Division that will supplement the 4 Divisions that we currently have within the decade. And we believe that the market for each of hydrogen, CCUS, geothermal, geo-energy, or lithium is very significant.

So I don't want to go into any detail, but I think I'll just mention and give you the example of the 70 gigawatt of electrolyzer capacity that will have to be installed within the next 10 years. That gives you a sense of what is happening. There will be 800 million tonnes of CCUS that will have to be captured between now and the end of the decade in projects that will work with emitters to create conditions to capture and sequestrate this carbon. And lithium oxide as well for the high-density battery will grow significantly in the decade to come. So each and every of this venture has a unique and fast-growing TAM.

Now the reason why we are maybe unique in our position into this, first, we have a domain that is relevant, and experience, into this, particularly in CCUS and in geothermal. Second, I think we have a track record of industrialization and development of technology at scale. And third, I think we know how to partner and deliver technology and deploy technology and solution everywhere in the world with any partners. And you will see announcement coming in the next few weeks and few months as we'll illustrate that at scale.

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**Operator**

And our next question is from Chase Mulvehill with Bank of America.

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**Chase Mulvehill** - *BofA Merrill Lynch, Research Division - Research Analyst*

I guess if we could kind of talk about 1Q a little bit. And kind of maybe give us some color, maybe directionally or if you want to quantify, maybe what you think kind of North America revenues would be up or down if you back out OneStim. And then maybe some color around international revenues and then maybe the margin progression. Obviously, you're pulling out OneStim, but then you put in the equity income from Liberty. So just try to help us maybe directionally on EBIT margins as well.

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

So if I understand your question correctly, Chase, you are asking for the first quarter, some colors on the first quarter. I think we have mentioned in our prepared remarks and in our earnings release that we anticipate after a strong quarter the usual seasonal dip, partly, in international market. We see that every year and we have seen it for the last 10 years. We don't see it different this year. I think we don't see it as a pronounced dip, but we see it as a usual, I would say, seasonal effect that we see affecting Russia, affecting some of China or offshore market in the first quarter.

When it comes to North America, I will again differentiate between offshore. That will transition from a quarter where we delivered some subsea and some multiclient, significant impact on the third quarter -- on the fourth quarter from -- into the first quarter. Whereas, in the land market activity, as we mentioned, we foresee a continuity of activity pickup that will transition from the growth rate we have seen in the last part of last year, and that will continue. And we see this growing at the same rate, both on rig and on completion activity.

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**Chase Mulvehill** - *BofA Merrill Lynch, Research Division - Research Analyst*

Okay. And then on the margin side, as you pull OneStim out, do you think that margins can hold flat or be higher on a quarter-over-quarter basis?

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

The margin there will see the -- on the revenue dips, you will have, of course, a bit of decremental. But it will not be as pronounced as we have normally indeed because of the OneStim effect going into Q1, particularly for NAM. So the NAM margin, of course, will not decrease, and overall, we should be able to maintain overall the same level of margin.

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**Chase Mulvehill** - *BofA Merrill Lynch, Research Division - Research Analyst*

Okay. And then pre COVID, you were talking about divestitures. You were working on some land rigs and then you messaged that APS in Canada would be entertained over the medium term. So I don't -- now that macro conditions are getting a little bit better, could you kind of update us on your view on some of these divestitures?

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

We are, of course, pretty much still working on these fronts. On the rigs, we have -- we are still looking at transactions in Australia. And then in the Middle East, we have some progress there. But nothing to disclose at this stage. It's a bit of a different format than what we had looked at before, but it's still on the books.

Regarding Canada, our APS project there called Palliser, the macro environment is indeed getting quite better when looking at this asset. And we are -- we have a lot of interest building up. So we think there is value to be extracted there. And I think we'll be in a position even probably to launch a formal process some time in the next few months. So lots of interest in Canada, and hopefully, it will result into something good happening this year.

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**Operator**

Our next question is from Marc Bianchi with Cowen.

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

Maybe just circling back to the line of questioning around the first quarter. A lot of moving pieces with OneStim and such. Could you maybe comment on how you see first quarter shaping up relative to consensus? I see EBITDA of about $1 billion right now for consensus.

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

I think we -- as we said, I think we see the seasonal impact affecting international. We see the effect and positive effect of the non-effect on OneStim. And overall, I think we looked at the full year more than the first quarter. We are confident that the margin from -- operating margin will be steady as we transition to first quarter despite a minimum dip from seasonal effect in international, offset partially by North America.

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

Okay. The other thing that struck me was CapEx. So you mentioned the CapEx would be at the low end of the 5% to 7% range. But on an absolute basis, the midpoint is up a bit, but your overall revenue is down a bit. I understand there's APS and multiclient. Maybe you could break those out for us and expand a little bit more on how you see CapEx shaping up over the course of the year.

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

Sure. So really, as a reminder, we are really looking at the capital investments altogether, right, the CapEx portion, as you mentioned, APS and multiclient. And there, in 2020, we spent $1.5 billion. It was quite a reduction from 2019, a 45% reduction, more than what the revenue reduced actually. So the intensity reduced in 2020.

So we start from a very low base. We may maintain it around the $1.5 billion, but we want to leave ourselves a little bit of room to capture the growth we are starting to see, particularly in the international market. We want to be ready to deploy CapEx in the most lucrative markets, and we don't want to miss the opportunity. So we will monitor and modulate accordingly, but we will stay within the $1.5 billion to $1.7 billion.

As it relates to CapEx only, yes, I think it will be closer to 5% with the current equipment, the capacity we have and the capital efficiencies we have realized, but we'll leave a bit of flexibility. We'll monitor, but we'll stay within the range we stated for total capital investments.

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

Yes. We'll continue to exert capital discipline, as you know. So we'll make -- we want to give ourselves optionality, hence our guidance. But we'll keep agility and extracting efficiency from our existing fleet to make sure we minimize the capital spend going forward. And we are indeed very firm onto our being on the low end of our 5% to 7% for the CapEx aspect of our capital.

**Operator**

And our next question is from Connor Lynagh with Morgan Stanley.

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

I kind of wanted to return to the Digital & Integration business a little bit. So I very much appreciated that you disclosed the value of the OMV contract. I think a lot of people are trying to figure out how to think about the market for this business.

I guess what I'm wondering if you could frame is -- given that size of the contract, is this a small contract relative to the opportunities that you're looking at? Is it mid-sized contract? Is it a large contract? How should we think about if you continue to expand your customer base, how that can roll through? And then on additional...

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

Go ahead. Sorry, we got an interruption here. Go ahead, please, Connor.

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

Yes, I'm sorry. Can you hear me now?

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

Yes, we could hear you up to this point. Go ahead.

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

Okay. So basically, the question is can you frame the size of the OMV contract? I'm curious, relative to the size that you've disclosed there, how significant is this contract relative to the opportunities that you're looking at.

And can you help us understand the life cycle of a typical contract with a customer in Digital & Integration? Is this a relationship that evolves and grows over time? And can you quantify maybe how significant that opportunity could be?

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

Great question, Connor. I think obviously, we are very proud of this large enterprise deployment contract that we have earned with OMV, and we'll work with them over the next few quarters to roll out our solution and create unique AI workloads that will accelerate and step change their positive efficiency for their own operation.

But this -- I think to realize that this is a large contract is just also to compare the scale of some of our customers we're working for. The contract size can be much more significant than the one we have just announced. So I think the rates and the range of contract we'll -- we are engaged with our customers is very broad, from customers that are willing to get access on demand to some simulation compute or the customers that are willing to do a full transition of all of their workflows, data, and enterprise solution to the cloud, similar to what OMV is engaging with us. It is a broad portfolio of what we are engaging with customers.

So to give you an example, I don't think there is more than -- there is many more than one example, and it will go from single-million dollar investment to a large multi-hundred million dollar over long-term contract. So the typical engagement includes a transition engagement that will transition the data, transition the workflows and then includes a transition to the SaaS model, software as a service, or data as a service for the long run. So this typical contract is 5 or 10 years and include a transition and then an exploitation part of the contract.

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

That's very helpful. And I guess maybe you could help us understand -- I think typically, these types of contracts have maybe relatively breakeven or at least lower-margin profiles at the beginning and then expand over time. Should we think about that for you guys? I mean if we're in sort of early days for some of these digital initiatives, is there a margin tailwind that we should expect?

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

No, I will not comment that way. I think it depends on every contract, on the commercial condition we negotiate with the customer. There is always, obviously, a technology investment that we have been doing for the last 5 years, and we continue to invest in technology. And every project and every commercial engagement is different, so it's very difficult to make any projection or any trends.

I believe that we gave a little bit of indication of the highly accretive margins, and we believe that this is true and holding true for the entire portfolio we have. I would not want to comment project -- or contract by contract.

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

Okay, okay. Understood. Maybe just to sneak one more in here. Just to continue to enhance your digital initiatives, do you feel that you need to step up your capital expenditure or your research and development at this point to achieve some of the goals that you've laid out, specifically the doubling of that business over time?

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

No, we believe that we have created a very significant investment in the last 5 years when we created a foundation of this DELFI, Agora, OSDU foundation. We are working with partners to augment the capability of this foundation as per announcement we made with IBM and the collaboration we have with Google and Microsoft. And we'll continue to work with partners, continue to spend and allocate a large portion of our engineering effort into this. And we believe that we are well covered to create the growth pattern that we have announced going forward.

So I believe that it's time to close. I think we are running out of time at the clock. So thank you, everyone.

And I think to conclude, I would like to offer 3 takeaways. First, the strength of our results during the first quarter -- the last quarter built on a very broad performance improvement across Divisions, both in North America and internationally, speaks volumes about our market positioning and the effectiveness of our strategic execution during the year. We are starting 2021 from a position of strength, having reset our earnings power and return potential.

Second, with a gradual return of demand throughout 2021, we anticipate North America activity to continue consolidating towards sustaining productions and international activity rebound to broaden and accelerate in the second half. This aligns very well with the evolution of our portfolio in North America and with our established international market positions and should lead all Divisions to post incremental growth in 2021 when contrasted to the second half of 2020 and for the company to expand full year margins significantly above 2020 and visibly ahead of 2019.

Third, our strategic execution has created a platform to capitalize on growth drivers in the new landscape as we witnessed the beginning of a new chapter in our industry. A chapter where digital is an imperative for industry efficiency, a chapter where innovation and technology will impact field development, asset performance and Production & Recovery, and a chapter where industry resilience will be defined by sustainability and lower carbon footprint. We are prioritizing our investment towards these growth drivers, and at the same time, we continue to accelerate our expansion into New Energy ventures to prepare for the future.

Ladies and gentlemen, we are reinventing ourselves and are delivering financial results ahead of our stated ambition. Our company is on a new performance journey with attractive yet resilient return and very exciting growth prospects in and beyond our core industry. Thank you very much.

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**Operator**

Thank you. And ladies and gentlemen, that does conclude our conference for today. Thank you for your participation and for using AT&T teleconference service. You may now disconnect.

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