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EDITED TRANSCRIPT

SLB.N - Q4 2021 Schlumberger NV Earnings Call

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OVERVIEW:

Co. reported 4Q21 revenue of $6.2b and GAAP EPS of $0.42. Expects 2022 revenue growth to reach mid-teens.

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CORPORATE PARTICIPANTS

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

Olivier Le Peuch *Schlumberger Limited - CEO & Director*

Stephane Biguet *Schlumberger Limited - Executive VP & CFO*

CONFERENCE CALL PARTICIPANTS

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

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

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

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

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

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

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

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

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

PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. 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 ND Maduemezia, the Vice President of Investor Relations. Please go ahead.

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

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

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

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

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

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

Thank you, ND. Ladies and Gentlemen, thank you for joining us on the call today. In my prepared remarks, I will cover our Q4 results and full-year 2021 achievements. Thereafter, I will follow with our view of the 2022 outlook and some insights into our near-term financial ambitions. Stephane will then give more detail on our financial results and we will open for your questions.

The fourth quarter was characterized by broad-based activity growth. With continued momentum in North America, activity acceleration in the international markets, and an accretive offshore market contribution, upon which we delivered strong sequential revenue growth, our sixth consecutive quarter of margin expansion, and outstanding double-digit free cash flow generation.

These financial results conclude an exceptional year of financial performance for Schlumberger, at a pivotal time for the company and in our industry at large.

Underlying these results are the following highlights from the quarter: Geographically, sequential growth in North America exceeded rig activity, growing in excess of 20% offshore, and international revenue growth accelerated, closing the second half of 2021, up 12% versus the prior year. All international areas posted growth, driven by gains in more than 75% of our international business units.

By division, revenue in all four divisions grew sequentially, and when compared to the same period last year. Digital Integration led growth, posting double-digit sequential growth and record-high margins. Well Construction and Reservoir Performance, our predominantly service-oriented Divisions, outperformed expectations with strong sequential growth and approximately 30% growth year-over-year on a pro-forma basis. Production Systems recorded year-end sales, which drove mid-single digit growth, though partially impacted by logistics challenge.

Operating margins expanded in spite of seasonality effects, improving further beyond prepandemic levels. And finally, we generated outstanding cash flow from operation exceeding $1.9 billion in the quarter.

All in all, I am very pleased with our operational execution, our safety performance, and our financial results through the fourth quarter.

Now let me briefly reflect on what we achieved in 2021. In our core, we fully operationalized our returns-focused strategy, leveraging our new Division and Basin organization to seize the start of the upcycle. In North America, this resulted in full-year topline revenue growth, excluding the effects of divestures, and significantly expanded margins achieving double digits, one of the financial targets we laid out in 2019.

Internationally, we also grew the topline and expanded margins significantly, as international activity strengthened in the second half of the year. This also resulted in full-year international margins that exceeded 2019 levels.

Taken together, these margins resulted in the highest global operating margins of the last six years, setting an excellent foundation for further expansion, as activity accelerates and market conditions further support pricing improvement.

In Digital, our second engine of growth, I am very proud of the momentum we established during the year. We advanced on our goals to expand market access and accelerate adoption of our platform, AI capabilities, and powerful digital tools to reduce cycle time, improve performance, and lower carbon intensity.

We built partnerships to achieve comprehensive cloud access globally, collaborated with AI innovators to deploy machine-learning and AI solutions, and enabled digital operations through the automation of key workflows in Well Construction and production operations.

At the end of 2021, we have more than 240 commercial DELFI customers, recorded more than 160% DELFI user growth year over year, and saw a more than tenfold increase in compute-cycle intensity on our DELFI cloud platform.

We also made significant progress in our data business streams and digital operations, advancing our OSDU commercial offerings, autonomous drilling, and the adoption of Agora Edge AI and IOT solutions with great success. The Q4 results, including significant uptake in digital sales and sizeable incremental margins, are a clear testament of this success.

In Schlumberger New Energy, we continue to advance the development of clean energy technologies and low-carbon projects. In 2021, we took a position in stationary energy storage, expanding our total addressable market, and advanced all of our venture in hydrogen, lithium, geoenergy, and a suite of CCUS opportunities, including our bioenergy CCS project.

Some notable milestones achieved include the signature of pilot agreements by Genvia, our hydrogen venture, with ArcelorMittal, Ugitech, Vicat, and Hynamics leading companies in steel and cement.

And in Celsius, our geoenergy venture, we secured five commercial contracts in Europe and one in North America for a prestigious university campus. This was also a pivotal year for us in terms of our commitment to sustainability. We announced our comprehensive 2050 net-zero commitment, inclusive of Scope 3 emissions, and launched the Transition Technologies portfolio to focus on the decarbonization of oil and gas operations with much success.

In addition, Schlumberger earned an AA Rating by MSCI, and won an ESG Top Performer Award by Hart Energy, recognizing our sustainability efforts, our enhanced disclosures, and our commitment to apply our technologies and capabilities towards helping the world meet future energy demand.

In summary, 2021 was a great year for Schlumberger. Beyond these operational and financial results and our ESG accomplishments, we made excellent progress in our core, digital, and new energy, the three engines of growth that support our success now and well into the future.

Above all, I am most proud of our people. Their unique ability to execute, remobilizing operations across the world through numerous pandemic constraints, adapting the logistics and supply-chain dynamics, and setting new performance benchmarks, all of which earned the recognition of our customers.

I would like to thank the entire team for delivering a year of outperformance on every metric. They surpassed all of our targets this year and created excellent momentum as we enter 2022, for which I would like now to share our outlook.

Looking ahead, we have increased confidence in our view of robust multiyear market growth. Tight oil supply and demand growth beyond the prepandemic peak, are projected to result in a substantial step up in capital spending amid shrinking spare capacity, declining inventory balance, and supportive oil prices.

In addition, we expect more pervasive service pricing improvements in response to market conditions as technology adoption increases while service capacity tightens.

In essence, 2022 will be a period of stronger short-cycle activity resurgence driven by improved visibility in the demand recovery and greater confidence in the oil price environment. And as oil demand exceeds prepandemic levels in 2023 and beyond, long-cycle development will augment capital spending growth in response to the call on supply.

This demand-led capital spending growth sets the foundation for a strong multiyear upcycle. Indeed, this scenario is already being established, as the number of FIDs increases, service pricing has begun to improve, and multiyear long-cycle capacity expansion plans have started particularly internationally and offshore as seen during the last quarter.

Turning to 2022, more specifically, we expect an increase in capital spending of at least 20% in North America, impacting both the onshore and offshore markets, while internationally, capital spending is projected to increase in the low-to-mid teens, building momentum from a very strong exit in the second half of 2021. All areas and operating environments short- and long-cycle, including deepwater are expected to post strong growth, with upside potential as Omicron disruptions dissipate as the year advances.

In this scenario, increased activity and pricing will drive simultaneous double-digit growth—both internationally and in North America—that will lead our overall 2022 revenue growth to reach mid-teens.

Our ambition is to, once again, expand operating and EBITDA margins on a full-year basis, exiting the year with EBITDA margins at least 200 bps higher than the fourth quarter of 2021.

In this context, let me share how we see the year unfolding. Directionally, while we are still experiencing COVID-related disruptions, we anticipate typical seasonality in the first quarter, with revenue and margin progression similar to historical sequential trends, which will be seen most prominently in Digital & Integration.

This will be followed by a strong seasonal uptick in the second quarter across all divisions with growth further strengthening through the second half of the year supporting our full-year, mid-teens revenue growth ambition and EBITDA margin expansion.

This growth and margin expansion trajectory gives us further confidence that we will reach or exceed our mid-cycle ambition of 25% adjusted EBITDA margin before the end of 2023, leading to adjusted EBITDA that should visibly exceed 2019 levels in dollar terms.

With this, I will now turn the call over to Stephane.

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

Thank you, Olivier and good morning ladies and gentlemen. Fourth quarter earnings per share, excluding charges and credits, was $0.41. This represents an increase of $0.05 compared to the third quarter of this year and of $0.19 when compared to the same period of last year.

In addition, we recorded a net credit of $0.01, bringing GAAP EPS to $0.42. This consisted of a $0.02 gain relating to the sale of a portion of our shares in Liberty Oilfield Services, offset by a $0.01 loss relating to the early repayment of $1 billion of notes.

Overall, our fourth quarter revenue of $6.2 billion increased 6% sequentially. All Divisions posted sequential growth, led by Digital & Integration. From a geographical perspective, International revenue grew 5%, while North America grew 13%.

Pretax operating margins improved 31 basis points sequentially to 15.8% and have increased for six quarters in a row. This sequential margin improvement was driven by very strong digital sales, which helped sustain overall margins, despite seasonality effects in the Northern Hemisphere. Company-wide adjusted EBITDA margin remained strong at 22.2%, which was essentially flat sequentially.

Let me now go through the fourth quarter results for each Division. Fourth-quarter Digital & Integration revenue of $889 million increased 10% sequentially with margins growing by 268 basis points to 37.7%.

These increases were driven by significantly higher digital and exploration data licensing sales, which were partly offset by the effects of a pipeline disruption in Ecuador that impacted our APS projects.

Reservoir Performance growth further accelerated in the fourth quarter with revenue increasing 8% sequentially to $1.3 billion. This growth was primarily due to higher intervention and stimulation activity in the international offshore markets.

Margins were essentially flat at 15.5% as a result of seasonality effects and technology mix, largely driven by the end of summer exploration campaigns in the Northern Hemisphere.

Well Construction revenue of $2.4 billion increased 5% sequentially due to higher land and offshore drilling, both in North America and internationally.

Margins of 15.4% were essentially flat sequentially as the favorable combination of increased activity and pricing gains was offset by seasonal effects.

Finally, Production Systems revenue of $1.8 billion was up 5% sequentially, largely from new offshore projects and year-end sales. However, margins decreased 85 basis points to 9.0%, largely as a result of the impact of delayed deliveries due to global supply and logistic constraints.

Now turning to our liquidity. Our cash flow generation during the fourth quarter was outstanding. We delivered $1.9 billion of cash flow from operations and free cash flow of $1.3 billion during the quarter. This was the result of a very strong working capital performance driven by exceptional cash collections and customer advances.

Cash flows were further enhanced by the sale of a portion of our shares in Liberty, generating net proceeds of $109 million during the quarter. Following this transaction, we hold a 31% interest in Liberty.

On a full-year basis, we generated $4.7 billion of cash flow from operations and $3 billion of free cash flow. We generated more free cash in 2021 than in 2019, despite our revenue being 30% lower. This is largely attributable to our efforts of the last two years relating to the implementation of our capital stewardship program and the high grading of our portfolio.

As a result of all of this, we ended the year with net debt of $11.1 billion. This represents an improvement of $2.8 billion compared to the end of 2020. We are proud to say that net debt is now at its lowest level of the last five years.

During the [quarter] (corrected by company after the call), we also continued to reduce gross debt by repaying $1 billion dollars of notes that were coming due in May of this year. In total, our gross debt reduced by $2.7 billion in the last twelve months thereby significantly increasing our financial flexibility.

Now, looking ahead to 2022. We expect total capital investments, consisting of CapEx and investments in APS and exploration data, to be approximately $1.9 to $2 billion dollars, as compared to just under $1.7 billion in 2021. This increase will allow us to fully seize the multiyear growth opportunity ahead of us, while still achieving our double-digit free cash flow margin objective.

We are entering this growth cycle with a business that is much less capital-intensive as compared to previous cycles. As a reminder, during the last growth cycle of 2009 to 2014, our total capital investment as a percentage of revenue was approximately 12%. We are, therefore, well positioned to fully reap the benefits of this growth cycle with the potential for enhanced free cash flow margins and return on capital employed.

With this backdrop, I would like to emphasize that based on the industry fundamentals and positioning of the Company that Olivier highlighted earlier, our financial outlook for 2022 is very strong. We have high expectations and, in 2022, we expect a triple double consisting of: double-digit return on capital employed; double-digit return on sales; and double-digit free cash flow margin. It is worth noting that we have not experienced this combination in a single year since 2015.

Finally, I am pleased to announce that we will hold a Capital Markets Day in the second half of the year. This event will allow us the opportunity to provide you with additional details relating to Schlumberger's strategy and financial objectives. Further information regarding this event will be forthcoming shortly.

I will now turn the conference call back to Olivier.

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

Thank you, Stephane. So I believe that we are ready to turn the call to you for the questions. Thank you.

QUESTIONS AND ANSWERS

Operator

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

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

So Olivier, I liked your increased confidence in achieving mid-cycle margins sooner rather than later. And I wanted to dig in a bit on why that confidence has increased. Obviously, we're starting at a bit higher level, but the target is a pretty solid target. And I'm curious what are the key drivers around that confidence increase?

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

Thank you, James. Let me explain why we have increased confidence. And I think some part of the answer on this question is in the quality of the results we have delivered in 2021 as a foundation.

And next, I believe that the current market condition are clearly supporting our places for double-digit CAGR growth over a few years. So in this backdrop, I think we have, we believe, 3 or 4 factors that will help us continue to guide upwards our margin expansion.

Firstly, we set a foundation. The foundation we have put in place in the last 18 months, the operating leverage reset, the integration performance execution, and the portfolio high-grading are here to stay. And this was already very visibly impacting the service-oriented Division of Well Construction and Reservoir Performance as you have seen throughout the year and partly the second half of last year. And we saw -- we obviously have passed already the 2018 margins performance.

Secondly, I think the market mix. The market mix is set to improve and resonate to our profit of strength. Increased offshore activity mix has already started to happen, and we expect this to only accelerate as the year unfolds and further into 2022. The adoption of technology also is accelerating, as you have seen, including digital, but our fit-for-basin, our Transition Technology, and all the technology that extract performance for our operation are making an impact today, and are getting further adoption by customer and giving us a premium.

And finally, pricing. Where a year ago, we are talking about green shoot pricing in North America. Today, we are seeing and we are already recording some of pricing improvements in a broad -- on a broad market condition, both in North America and also internationally, when we are getting awarded new contracts as well as when we have to mobilize and deliver unique technology to our customer.

So as the year develop, we believe that these attributes: our foundation, operating leverage, our performance that differentiate the execution give us a premium, our market mix, our technology adoption, success with customer and finally pricing, giving a tailwind to this, will drive and further expand our margin to the 2025, the 25% margin expansion. So it's not about if, but it's about when. And we have gained confidence and we have moved forward, our confidence into this into the 2023.

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

Okay. Great. That's very clear, Olivier. Maybe a second question for me. As we think about the cycle is really starting to take hold here, how should we think about the cadence of growth? You've given obviously numbers for 2022. But if we think about it by both geography and by Division, where do you see the -- I guess, the biggest growth where could there be some lagging areas like, just a little more color on that cadence would be very helpful.

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

Maybe in one word, the market will be -- growth will be very broad across all geography, across all division, first, as a backdrop. I think that's what we are realizing, and that's quite unique. But I think you have to characterize first, geographically, or very high level. I think it's possibly a tale of 2 half: with North America leading the uptick of growth -- activity growth in the first half; international, further accelerating in the second half. While we did end on the H2 -- over H2 of 12%. We expect this to be the base in the first half and accelerate further in the second half internationally, so that we are even accelerating into 2023 for international activity.

Secondly, I believe that if we have to characterize what will lead and be accretive to growth, I would say, America's land because of activity uptick, but I will also put offshore environment and Middle East. These are the 3 engines of growth that we pull this year, growth to the target ambition we have put up mid-teens.

So now per Division, I think the service-oriented Division of Reservoir Performance and Well Construction will be accretive to this. We expect followed by -- because they are benefiting from this social environment, they're benefiting from the pricing, and they have strong both NAM and international presence. So they're benefiting from long-cycle exposure and mix -- technology mix favorable.

In addition, the Production Systems will also see growth, building on the short cycle exposure to North America and the backlog of contract that we have won in the last few quarters that will execute towards 2022.

Finally, on Digital & Integration, it's a 2 phase of a division here. The -- we expect the digital to be accretive to our growth, while it will be moderated by or visibly moderated by a flattish environment for APS production, going forward. So that gives you the mix across the Division and across the geographies.

Operator

Our next question is from David Anderson with Barclays.

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

Olivier, so you gave -- you laid out the margin expansion and kind of how you're going to see that. I have a question on the other side of that, just thinking about mobilization of large tenders. You're start up on the Jafurah contract in the Middle East, but I guess, typically what we've seen in the past is, in these mobilization periods these kind of extra costs that get weighed in. I'm just thinking about how that's looking in '22. I mean is that something that you think is you're going to have to absorb in '22 and that therefore, kind of '23 is sort of another margin uplift there? Or has that improved pricing on some of these contracts kind of encountered some of those mobilization? I think you had said something about getting better pricing from mobilization. So if you could just comment.

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

Yes. I think, Dave, I think it's part of the mix of execution that we have. And I think we always mobilize for new product somewhere in the world. And we are committing to international growth and margin expansion this year.

The last quarter was already having a witness of significant new project starts, yet we have marginally improved our margins last quarter, and we have seen the results of the core division. So we did it already. So I think as we accelerate deployments, yes, we are very critically assessing the cost of this start-up. We are working for customer to minimize. We are using our digital operation to remote and optimize our deployment of resource.

And we believe that what we have done in last quarter, we'll continue to do in 2022. So I think directionally, we are still set to improve our margin internationally in 2022 despite and building on this new project. So we are very keen to start off this new project. We are very proud of the different contract award that we won last year. And I think this is part of the mix that we're executing. And the more we -- the more activity and the more growth, we will respond and continue to use efficiency and leverage our operating practice to minimize impact and engage with customer to get full recognition of our investment.

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

Understood. Okay. On the Digital & Integration side, you grew really nicely in the topline this quarter. I was just curious, is that related to more new sales of customers? Or is it more about the adoption pace of your current customers into the workflow?

And I was just wondering, a second here, if you could just tell us how much that digital portion grew this year? I'm assuming it outgrew the 8% overall topline, but if you could provide any color on that, that would be really appreciated.

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

Yes. Let me give you a little bit of color into this. So first, I think if I have to characterize, I think, the uptick we've seen in digital sales at the end of the year is not a pure year-end sales effect on 1 or 2 large contract and 1 or 2 applications and software sales. It's broad. It's very diverse. It's touch and expand upon the platform strategy that developed different revenue streams. So it's about new DELFI cloud customer, and you have seen we have announced and have progressed one more time in last quarter.

It's about new revenue monetization in digital operation, including Agora, including drilling, remote operation, and automation. It's about new data business stream where we have been securing contract for OSDU foundation, where we are the first to commercialize enterprise data management solution on this OSDU. And it's the follow-through on the enterprise contract that we have won in 2021 or in 2020 on DELFI adoption.

So it's significant. It relates to the progress we have made in our platform. It relates to the acceleration of digital adoption by our customer and digital -- this pursuit of digital transformation by customer. And it translates into an uptick in each and every of the digital revenue stream we have created and the success from data to workflow and to operations. So it's diverse, it's broad and it's here to -- it's multifaceted. So it's here to continue to expand.

So I'm positive on this because it's not a one-off. Obviously, there is a year-end sales effect there that we're not -- that would not repeat in the first quarter. But at the same time, something that I see expanding as a platform going forward. And we are in the early innings of this adoption. As we mentioned a quarter ago, we have 1,700 digital customers. And we are in the early innings of deploying and pursuing this large installed base with digital transformation. So it was the first cycle of this digital expansion and digital adoption. Actually, this would continue in 2022 and accelerate beyond.

Operator

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

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

So I guess first question is just kind of around this looming investment cycle that you and I and hopefully, investors are starting to realize needs to happen. And you had mentioned that you expect a substantial increase in spending this cycle. So maybe you did -- you framed it a little bit, but -- so could you kind of add a little bit of context about how you see this cycle shaking out? What gives you confidence in it? And what it means for pricing for OFS?

The competitive dynamics have obviously changed, especially in international, where it feels like you've got more discipline, less players. And so just kind of frame the cycle and activity and where you see the most opportunity for growth. And then ultimately, what this could mean for pricing this cycle for OFS companies.

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

Great question. I think the fundamental as we see, they have not changed. And actually, some characteristics of the cycle have accelerated, have been accentuated in the recent months. So the first, the attributes that we put first is the outlook of economic GDP growth that concerning the oil intensity and energy intensity will still and will drive the oil demand as a key attribute beyond the previous peak, no later at the end of this year, according to the latest projection, and is set to expand visibly beyond not only in 2023, but in few years beyond this. So the first is the macro demand situation is set to be favorable for the next few years.

Secondly, I think the supply demand imbalance and the supply, I would almost call it tardiness that we are facing is pointing not only an uplift on to the commodity price, but also is pointing to the investment return to investment across the broad portfolio of our customers. So you have seen it in North America, no surprise. North America is still and will remain structurally smaller than previous cycle due to the capital discipline but also due to the crunch of supply, including on the services side.

Secondly, I think the international underinvestment for the last few years, actually, the last down cycle, combined with the dip in the last 2 years is creating condition for unnecessary injection of short-cycle capital and then long-cycle capital investment to respond to the supply. So we are seeing growth in North America, albeit a cut, we are seeing a rebound -- a visible rebound in short- and long-cycle investments, internationally.

And I will insist on the long-cycle because I believe that both oil capacity is being looked upon and by some OPEC member to secure future supply market share, but also the international and major are investing into their advantage offshore basins and we are seeing not only infill-drilling, but we are seeing FID for offshore that are accelerating going forward. So it's a mix of offshore rebound, solid including deepwater, international short cycle and oil capacity in land. And finally, solid growth in North America. So these are unique conditions that are tightening the capacity and that are creating the underlying pricing improvement condition.

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

Okay. Perfect. Appreciate the color. A follow-up to that would be, obviously this is -- this constructive backdrop for Schlumberger and the OFS industry, you've got a wall of free cash flow coming to you. And so when we look at this, obviously, you did $3 billion of free cash flow last year. And it looks like over the next 2 years, that should be growing. So how should we think about returning cash -- how Schlumberger is going to return cash to shareholders? And then how does M&A fit into this capital allocation strategy? Because, obviously, you're trying to reshape the company for new energy ventures and things like that as well.

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

Chase, it's Stephane. Look, I like your expression on free cash flow. It was indeed quite strong last year with $3 billion. Now indeed, we visibly accelerated the leveraging of our balance sheet and -- but we are not quite there yet at the leverage ratio we committed to. So we have a clear line of sight now to achieving the target leverage we announced earlier even though there's still some uncertainty remaining in -- at the start of the year.

Nevertheless, with the market fundamentals consolidating, particularly in the second half of the year and into 2023, we have even more confidence indeed now in generating significant excess cash this year and beyond. So we will be able to maintain quite a healthy balance sheet, and it will give us the flexibility to increase returns to shareholder as well as fund new growth opportunities. So we will certainly provide a comprehensive framework for future capital allocation as part of the Capital Market Day that we announced earlier. Returns to shareholders are obviously important and increased dividends and buybacks will definitely be part of this equation.

As it relates to M&A, sorry, I didn't answer on M&A. It's also part of what we will -- it's, of course, part of the toolbox, and you'll get more details when we give you that more comprehensive framework again.

Operator

Next, we go to the line of Arun Jayaram with JPMorgan.

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

With the marginal supply source now moving from U.S. shale to OPEC, I wanted to see if you could frame, what kind of changes in spending patterns that you're seeing from the NOCs versus, call it maintenance work versus FIDs and things to increase productive capacity?

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

I think what we have seen and we are already witnessing today, I think and it's visible in Middle East, but beyond is the short-cycle -- the return of short-cycle activity to assure, as you said, the maintenance of production and with a small but visible increment of output supply.

What we are seeing is also a commitment and some FID in the pipeline to increase oil capacity, sustain oil capacity for -- with a few countries committing to participate fully and are laying out the foundation this year and next year into expanding the supply.

But what we should not forget about and is part very true for Middle East is, there's also a gas market that is being very sustained that have seen reinvestments. And it's part of the regional dynamic and that is already seeing -- is continuing to see double-digit growth. So I think it's a combination of gas market being sustained and having had less setback than oil in the recent time. Short-cycle expansion and long-cycle acceleration with new FID capacity, and this is true from deepwater Brazil to the future investment in -- and the current and future investment in Middle East or FID that are in the pipeline in Russia. So that's, again, very broad. And at combined short and long cycle. And if you were to project, I think 2022 is a supply-led activity rebound and 2023 will be a demand-led activity growth. And the capacity expansion, the long cycle will further -- would further contribute going forward into -- well into 2023.

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

Great. And my follow-up is, your outlook on 2022 embeds a 200 basis points of year-over-year margin expansions in the fourth quarter. So that would -- if I did my math right, that would put your EBITDA margins based on the outlook slightly above 24%. And so I wanted you to a little bit -- go ahead.

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

As we exit -- it's an exit rate. We made a comparison 200 bps or higher as we exit 2022 when compared to the second half or Q4 of 2021...

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

Exactly. Okay. Got it. It's exit rate. So as we think about 2023, your outlook is that you could reach or exceed a mid-cycle EBITDA margin of 25%.

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

Second half.

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

Second half. Yes...

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

In the second half, we expect in the second half to reach or exceed indeed.

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

Great. Great. And I just wanted to comment on -- the drivers of that would be just mix and just further pricing improvement?

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

I think, again, as I commented in a previous question, I think operating leverage will continue to give us a fall-through as we continue to leverage the structure change we have done and digital operation in particular. The mix will be -- with long cycle and offshore will continue to be digital part of the technology adoption across the different basins, will also passed into the mix further. And finally, pricing will expand. So I think this is the combination that give us more confidence that we reached this mid-cycle prior to previous anticipation.

Operator

Our next question is from Scott Gruber with Citigroup.

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

So clearly, your capital intensity is going to be down versus last cycle. But just given potential growth rates that we're seeing coupled with you and peers keeping a lid on CapEx. It appears that the market could be quite tight exiting this year. So my question is, can you keep CapEx at a similar level to 2022 as a percent of sales into '23 and into '24, while still riding the multiyear growth cycle that we all hope unfolds?

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

So look, Scott, indeed, our capital intensity has reduced quite a bit and quickly just because we high-graded our portfolio, we extracted more operational efficiencies and we had our capital stewardship program as well, but where we deploy assets only to the best returns countries and contracts.

So now, for 2022, we are looking at spending total capital investment, including APS between 1.9 and 2. That's just a relatively small increase compared to 2021. As to the -- can we keep this into the future? It's a bit too soon to say. But we definitely, whatever increment we make, it's geared towards technology. It will be on the most accretive contracts.

We want that incremental technology investment to be priced appropriately. And for that matter, we already have a strong pipeline of contracts that allowed us to do that at favorable commercial condition. So we'll see how the year progress. But for the moment, we are quite confident that the envelope we gave you allow us to fully seize the growth in 2022 and prepare for 2023. We will see how we set the envelope in 2023. It cannot be a huge increase for sure.

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

But we'll keep the capital intensity of our business going forward in check. I think the capital stewardship part of our returns-focused strategy, it's clearly giving us a little bit of a new dynamic and a new mindset in our commercial and contractual engagement with customer. And we have the whole organization focused on effectively and efficiently using the CapEx -- the equipment pool that we have to deploy to the most accretive contract and the most accretive engagement we have. So we'll continue to use this discipline to make sure that we keep in check broadly the capital intensity in this cycle.

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

Got it. And then of the $1.9 billion to $2 billion budget this year, are you able to state how much is APS? And if you do end up selling the Canadian project this year, how much could be APS portion step down on an annualized basis?

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

So look, we don't disclose the split of the guidance. There is a small increase in APS investment, but it's matched with increased cash flow. As you know, the way we look at APS investment is really based on the cash flow of the individual projects. And as an aside, we are generating very good cash flow within our APS project.

So overall, as Olivier mentioned, the business of APS because it's just a handful of projects is going to be pretty flat this year. And the investment level is definitely not going to increase in future years.

Operator

Our next question is from Connor Lynagh with Morgan Stanley.

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

I was wondering if we could go back to pricing for a minute here. And I'm curious if you could maybe characterize, it certainly sounds like pricing has become more broad-based, but are there specific areas globally or specific divisions in which you're realizing more pricing. And I guess the question is, when do we see this in the results? I mean, is this broad-based, and you're going to be seeing it in 2022? Or is this sort of early signs and is more of a 2023 dynamic?

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

I think it's broad based. But let me maybe underline what, where and how we see pricing condition getting developed, I think, and we see it in 3 ways. First, we believe that pricing condition and commercial term are linked to performance. So performance and execution, our performance contract are differentiated in the impact we provide to customer give us the opportunity to negotiate favorable commercial terms and keep or expand our market position with key customers. So I think this has started and this is depending on the region. This is something that impacts our service Division, I would say, our Reservoir Performance and Well Construction particularly.

The second one is linked to, I think, capacity -- and I think capacity on unique technology, capacity on equipment that is tight, be it for offshore deployments or be it for high-volume intensity basin like North America. So this, we have seen when the conditions are set, and we are getting an opportunity to expand from in green shoots to broad pricing improvement condition. So this we have seen happening for the last year in North America, and we see this starting to happen in offshore deployment where unique equipment have to be mobilized, have to be secured, and they are done at pricing condition that has improved over the last few months.

Finally, inflation. Inflation is something that exists. It's related to market condition. Inflation is something that we always deal with. And today, we are seeing more into the OECD and North America, but we are dealing with inflation every day in every GeoUnit, as we call it, over the years, and we know how to manage it to engage with customers. It's more acute, and it's more pronounced in [in some parts of some basins], and we're responding it with engagement of our customer and using the contract term we have to offset the inflation pressure we are getting.

So it's all about performance, including our technology. It's all about capacity tightening and it's about responding to the inflation pressure. So these 3 things are the lever we are using and that are starting to be more broad, each of them across the different basins. Hence, it's progressive, and it's touching and addressing different basin and all Divisions throughout 2022 and further into '23.

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

That's all helpful context. The inflation topic, obviously, is one we haven't really talked about extensively. It hasn't seemed to prevent you guys from expanding margins significantly. But as we look into 2022, I'd say the market expectation seems to be that commodity deflation could occur, but labor inflation could increase. I'm curious what you're seeing on that front? And should we think about either of those having a meaningful impact on your margins either positively or negatively?

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

I think, first, I think, as you mentioned, I think inflation is nothing new and had happened last year. And I think the performance of our supply organization, the way we are dealing with it, I think, has helped us to mitigate and shift to the right, if I may, some of these.

And secondly, I think we have been able to engage commercially to offset and create net pricing condition. So I think we see this happening forward. And when it comes resource versus equipment, I think resource is always a hot topic in our organization. But I think we'll respond to this by further improving, accelerating our digital operation adoption so that we offset some of the pressure on our resources as much as we can. And can offset this pressure as well. So I think it's part of a toolbox that we use and that we'll continue to tune as the cycle unfolds.

Operator

Our next question is from Roger Read with Wells Fargo.

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

Certainly good to see things turning around here. I just had a couple of questions, follow up on some of the discussions about expectations on EBITDA margins, the mix that you expect to see. And I was curious what you would anticipate or what is embedded in the forecast in terms of a recovery in E&A spending within the overall spending increase? And if that's going to be less. And the reason I say that as we know several companies have essentially eliminated their E&A departments. How that might affect the EBITDA expansion that you anticipate '22 and on into '23?

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

I think it's a valid question. But I think if you were to notice some of the highlights that we have released in the fourth quarter, we had a rebound of E&A data exploration sales as part of the -- so the E&A is albeit, very compressed compared to the peak of the last cycle.

I think is seeing a resurgence for 2 reasons. First, customers are trying to assess and reassess their reserves near around their hubs, be it on the land that they own or be it on the key offshore hubs that they have developed to make sure they can fast track in filtering and develop near-field exploration.

So we see a lot of infrastructure-led exploration, not necessarily large greenfield new, and we don't expect this to be the trend going forward. But we see that exploration is much more surgical exploration, if I may use that word, to be near-field, backyard exploration, as we call it, around-near infrastructure so that the operator partly offshore get to accelerate the return on the existing infrastructure and get fast track, fast short-cycle return on existing offshore.

So we see that in Latin America. We see that in Gulf of Mexico and Europe. In West Africa, this is very broad. So we are benefiting from it in our Reservoir Performance, we're benefiting from it in our -- in some of the key technology that we provide, including in digital.

So I think, while it has been a step down compared to previous cycle, there is a keen interest and investment resurgence in E&A for this reason. And I think we'll see that as a backup of FID and it's true particularly offshore.

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

I appreciate that. And then just looking at the Digital & Integration segment, it's obviously one lot of us are focused on. And I know you've got a lot of expectations embedded in it as well. Was just curious if you look back over the last 12 months and forward over the next 12, kind of what's been a positive surprise? What's been maybe a little bit of a headwind there? And if there's been a headwind, maybe how you would anticipate that reversing as we look into '22 and '23? Probably more from the customer side, but if there's anything internal as well.

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

No, internal. I think we are very pleased with the progress of the deploying and continuing to build the digital foundation and digital platform foundation that support our strategy. Now every customer has their own pace of adoption, their own intel in digital infrastructure they choose to deploy, in which we need to plug. So our choice 2 years ago, to go with open data ecosystem foundation, the choice we have made to go in partnership with different cloud providers, different industry partners to expand our market reach has unlocked some of this customer to come and join us in our digital journey with our platform.

So it's -- we continue to work on it. The last 2 years could have been better and larger adoption possibly. But I think we have the foundation in place. We are in the early innings, as I said, of full adoption considering the size, the oversized scale of our customer base. So I remain confident that this is just the first step, and this will only accelerate. So we have the right foundation. So digital is here to stay. Digital transformation is here to accelerate across the industry. And I think we are taking it one customer at a time, and this is what is happening. So we are positive.

Operator

Our next question is from Neil Mehta with Goldman Sachs.

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

The first question is a modeling-specific one. Working capital, obviously, a big positive item this quarter. Can you talk about -- do you see it unwinding over the course of the year? And any just thoughts on trajectory there? And as it relates to that, Liberty, it looks like you sold $109 million of shares in the quarter. As it relates to that, should we think of that as a ratable exit? And is this run rate in the open market? Or are you going to be opportunistic around share price?

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

Thank you, Neil. So working capital, indeed, was significantly lower in the second half, especially in Q4. And again, this was very strong customer collections and customer advances. So looking at 2022, we expect the same pattern very seasonality in working capital. Usually, the -- it increases in the first quarter. We have payment of annual incentives to employees, and then gradually, it improves in the subsequent quarters, mostly on cash collection. So we'll see the same in 2022 we'll -- where we likely be higher levels in general working capital consumption as activity accelerates. Particularly considering the exit rates we are looking at.

But we'll strive to maintain this to a minimum. And in any case, we still want to generate double-digit free cash flow margin, and that's inclusive of any working capital movement, so that helps us managing with this boundary.

As to Liberty, yes, we are quite happy with our equity stake, has actually improved quite a bit since the transaction was announced. We did decide to monetize part of it -- to start monetizing part of the investment following the expiration of the lockup period. We still hold a significant share of the equity, as I highlighted, about 31% after the transaction. So we'll continue to monitor the value of the investment going forward, and we'll decide on further monetization based on market conditions.

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

The follow-up is you announced a Capital Markets Day on this call earlier in the call, sometime in the second half. Can you just talk about what you want to achieve out of that day from a financial perspective? What type of framework?

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

I think we are willing to reengage with all of you in the live session, first and foremost. We want to lay out, clearly, our strategic framework going forward in the cycle and beyond, including our 3 engine of growth: core; digital; and new energy, and we will support it by laying out our financial framework for return -- including capital allocation and return to shareholder. That's what we aim at doing at that time. And we'll be clearly expressing in that setting the long-term target that we set.

I believe we have time for one last question, operator?

Operator

That last question is from Keith MacKey with RBC Capital Markets.

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

Yes. I just wanted to maybe break -- ask you to dig into your North American outlook for the 20% increase in spending this year. Can you maybe just sort of break that out in terms of what you might expect for drilling versus completion versus price inflation in general?

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

Yes. Good question. I think, first, I think the North America outlook we are providing is inclusive of offshore and onshore and onshore inclusive of U.S. and Canada. So I think it's a mix that is a bit not difficult, but it's a lot of variables at play to decipher here. So -- but to your specific question, we foresee indeed that the U.S. land, which is a big portion of this activity outlook, will be having a bias towards Well Construction as the market is rotating from depleting the DUCs to replenishing the DUCs, hence, Well Construction rig-based activity is -- will be the lead in a 20% plus. And I think we are set to respond to this with Well Construction portfolio in that environment, and this will be very favorable to us.

And the offshore environment is broad. And I think offshore environment will be execution of Well Construction and also Reservoir Performance. And so when you put all these and you put a more modest and more moderate Canada environment, you have a mix that is favorable to our Well Construction and Production Systems in U.S. lands and favorable to our Reservoir Performance and Well Construction in offshore environments, all of which combine to give us this ambition about 20%.

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

Perfect. And maybe one quick follow-up. Just on the Canadian APS, I know there was a sales process outstanding. Just curious, if you can give any update on your thinking there currently.

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

So we have received several offers for APS asset in Canada as part of the process we launched last year. So while we were assessing those proposals, the market conditions actually continue to improve and the value of the asset increased as a result. So we actually took the decision that the offers we had received were not -- no longer reflective of the economic value and the cash flow potential of the asset. So we are not entertaining those offers at the moment. The asset is now generating very strong cash flows, but we remain open to all options.

So I believe we need to close the call. So before we close the call, I would like to leave you with a few takeaways. Firstly, the quality of our results during the fourth quarter, partially the cash flow generation and our digital sales, have helped us close a remarkable year with financial outperformance during 2021, supporting significant EBITDA margin expansion and very sizable reduction of our net debt. Credit to the entire Schlumberger team for outstanding execution across all basins and divisions.

Secondly, our performance strategy, execution has resulted in significant progress in the adoption of our digital platform, the deployment of our fit-for-basin and Transition Technologies, and the successful acceleration of our new energy venture, each developing towards a sizable addressable market.

Thirdly, during 2021, we had enhanced our market position with key customers ahead of the significant up cycle. And we will fully benefit from the scale and breadth of the favorable activity mix unfolding across all basins during '22 and beyond. This will result in significant growth and further margin expansion and will support our double-digit free cash flow ambition.

Finally, the macro environment is increasingly supportive of a promotional super cycle. As this favorable market condition expand both onshore and offshore, well beyond 2022, we have increased confidence in reaching our mid-cycle EBITDA margin ambition of 25% in the second half of 2023.

Ladies and gentlemen, 2021 was a defining and transformative year for Schlumberger, and 2022 presents the unique environment to successfully build upon our success and accelerate our growth into the future. Thank you very much.

Operator

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