SLB Second-Quarter 2023 Results Prepared Remarks

James McDonald—*SVP of Investor Relations & Industry Affairs*

Thank you, Leah.

Good morning, and welcome to the SLB, Second Quarter 2023, Earnings Conference Call.

Today's call is being hosted from Paris, France, following our Board meeting, held earlier this week.

Joining us on the call are Olivier Le Peuch, Chief Executive Officer, and Stephane Biguet, Chief Financial Officer.

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

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

Olivier Le Peuch—*CEO*

Thank you, James. Ladies and gentlemen, thank you for joining us on the call today. In my prepared remarks, I will cover three topics.

I will first review a few of our financial highlights from the quarter. Next, I will discuss the positive momentum we are seeing in the international and offshore markets. And third, I will share the exciting progress we are making in digital before concluding with our outlook for the third quarter and the full year.

Stephane will then provide more details on our financial results, and we will open for your questions.

Our second quarter results continue to demonstrate the strength of our portfolio and our strategic positioning in the most attractive, accretive, and resilient markets globally. This is translating to

financial performance, and we closed the first half of the year with solid growth across revenue, earnings per share, free cash flow, and expanded EBITDA and pre-tax segment operating margins.

International revenue continued its strong growth momentum, including increasing 21% year on year as we captured broad growth across all divisions and geographic areas. Second quarter revenue increased by more than 20% year-on-year in 14 of our 25 international GeoUnits. Most notably, Saudi Arabia, UAE, Mexico, Guyana, Brazil, Angola, Caspian, and India all grew more than 30% over this period.

This drove our highest year-on-year international incremental operating margin over the last three years, and it underscores the breadth of our portfolio that I continue to emphasize.

SLB's global reach shields us from regional fluctuations, as we have recently seen in North America, and gives us the ability to seize opportunities wherever they arise. This is a true differentiator for our business and positions us for long-term outperformance.

Following the remarks I shared in our earnings release this morning, I would like to reflect on a few notable highlights from the quarter.

The broad growth characterizing this upcycle continues. Internationally, this was pervasive, and we were very pleased to see all Divisions and geographies grow revenue and expand margins sequentially. In North America, we continued to increase our revenue, highlighting our agility across the land markets and the expanded activity in the US Gulf of Mexico, solidly outperforming the rig count. Our focus on the quality of our revenue continues to support our margins.

Sequentially, we expanded our pretax segment operating margin. This was fueled by our strong international operating leverage, increased technology adoption, and positive pricing trends that stemmed from inflation-driven contract adjustments and tight service capacity.

And with higher earnings and improved working capital, our sequential cash flow from operations grew considerably, and we generated free cash flow of nearly $1.0 billion during the quarter.

I want to thank the entire SLB team for their hard work and exceptional performance delivering value for our customers and our shareholders throughout the quarter.

International and Offshore

Now, let me take a moment to touch on the macro environment. As we have projected for the past few quarters, the international and offshore markets continue to exhibit strong growth as North America has moderated. This is playing to the strengths of our business, as international revenue represents nearly 80% of our global portfolio, and offshore comprises nearly half of that.

As the growth rate shifts further toward international, these market conditions are driving the breadth, resilience, and durability of this upcycle and creating new opportunities for our business. Let me describe where this is taking place.

In the international markets, the investment momentum of the past few years is accelerating. This is supported by resilient long-cycle developments in Guyana, Brazil, Norway, and Turkey; production capacity expansions in the Middle East, notably in Saudi Arabia, UAE, and Qatar; the return of exploration and appraisal across Africa and the Eastern Mediterranean; and the recognition of gas as a critical fuel source for energy security and the energy transition.

In the Middle East, this is resulting in record levels of upstream investment. From 2023 to 2025, Saudi Arabia is expected to allocate nearly $100 billion to upstream oil and gas capital expenditure, a 60% increase compared to the previous three years, as they invest to attain a maximum sustained production capacity of 13 million barrels per day by 2027. Several other countries in the region have also announced material increases in capital expenditures that extend beyond 2025.

Furthermore, we continue to witness a broad resurgence in offshore driven by energy security and regionalization. Operators all over the world are making large-scale commitments to hasten discovery, accelerate development times, and increase the productivity of their assets. This is resulting in increased infill and tie back activity in mature basins, new development projects both in oil and gas, and support for new exploration.

With this backdrop, we anticipate more than $500 billion in global FIDs between 2022 and 2025, with more than $200 billion attributable to deepwater. This reflects an increase of nearly 90% when compared to 2016–2019. These FID investments are global, taking place in more than 30 countries, and we are seeing the results with new projects in offshore basins across the world. This is reflected in the many contract awards highlighted in the earnings press release, notably in Mexico, Brazil, and Turkey.

These contracts, in addition to many others, are building a strong foundation of activity outlook decoupled from short-term commodity price volatility.

Moving forward, we expect further growth to be led by accelerating activity in Well Construction, new opportunities for Reservoir Performance in exploration and appraisal, expansion for Production Systems in subsea; and digital will enhance it all.

Digital

In our business and the industry as a whole, the increased adoption and integration of digital technologies remains one of the most significant opportunities for growth. Indeed, our industry generates massive amounts of data, and by capturing that information and turning it into trusted and actionable insights, we can make energy production more accessible, more affordable, and more sustainable.

This is a critical moment for our industry, and there are three digital trends concurrently shaping its future, clearly setting the path for a higher value–lower carbon outlook.

First, the adoption of cloud computing at scale. For geoscience workflows, this is supporting significant productivity gains for geoscientists and engineers across asset development teams. This is happening at a time when our industry is compelled to accelerate the development cycle and de-risk both subsurface and surface uncertainties. We continue to benefit from this trend in the adoption of our Delfi™ cloud-based digital platform—delivered through a flexible and personalized software-as-a-service (SaaS) subscription model—with the cumulative number of users in global customer organizations growing 60% year-on-year, to 5,400.

As we shared in our earnings press release, Petrobras and ENAP are only just two examples of customers deploying Delfi enterprise-wide with the aim of fundamentally changing how they work across the E&P value chain.

Second, our industry is unlocking the power of data at scale. A single well can produce more than 10 terabytes of data per day. And this doesn't even begin to touch on the total amount of upstream data across exploration, development, and production workflows. The adoption of open data platforms across the industry is liberating data for artificial intelligence (AI) applications at scale. SLB is benefitting from and driving this trend – through both data foundations and AI deployment. We are seeing early success with the commercialization of our Enterprise Data Solution powered by Microsoft Energy Data Services. This offering delivers the most comprehensive capabilities for subsurface data—in alignment with the emerging requirements of the OSDU™ Technical Standard. And we are witnessing tremendous success with our Innovation Factoris, where we have developed more than 100 AI solutions with more than 80 customers since 2021—all of them with rich domain content in addition to generic AI capabilities.

Third, digital operations are gaining in maturity, transforming the way operators develop and utilize assets. From automation to autonomous operations—across both well construction and production—we are clearly seeing an inflection in the deployment of digital operations with significant impacts on efficiency, carbon footprint, and performance. Today, customers are accelerating their adoption of our Neuro™ autonomous solutions, with Kuwait Oil Company and PETRONAS both using these technologies to reduce manual operations while increasing performance, enabling drilling consistency and rig time savings. Similarly, our partnership with Cognite—as a platform for unlocking access to production operations—is gaining momentum in the industry, as exemplified with the Cairn contract highlighted in our earnings release. Finally, we continue to deploy Delfi Edge Agora™ technologies to deliver real-time insights directly within operations from connected hardware, where data is generated and processed with AI at the edge. We currently have more than 1,400 connected assets deployed, doubling year on year.

SLB is positioned to fully harness these positive market conditions as well as our technology and digital leadership to drive financial outperformance and margin expansion. We are progressing on

our journey to double the size of our digital business between 2021 and 2025, and the trends I have just discussed are reinforcing our confidence in the outcome of our strategy execution.

Full-Year and Third-Quarter Guidance

I'll next describe how we see the rest of the year progressing.

After a positive first half, we remain confident in our full-year financial ambitions and have visibility into a significant baseload of activity that reinforces our 2023 full-year forecasts, and our growth ambition beyond.

We continue to expect year-on-year revenue growth of more than 15% and adjusted EBITDA growth in the mid-twenties.

Turning specifically to the third quarter, we expect revenue to grow by mid-single digits in the international markets, with all international geographical areas growing sequentially, led by the Middle East & Asia. In contrast, North America revenue will be slightly down. With our focus on the quality of revenue, harnessing operating leverage, and further technology adoption, we expect global operating margins to further expand by more than 50 basis points sequentially. This will result in the highest EBITDA margin we have seen in this cycle.

I will now turn the call over to Stephane.

Stephane Biguet—*Executive VP and CFO*

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

Second-quarter earnings per share excluding charges and credits was 72 cents. This represents an increase of 9 cents sequentially and 22 cents, or 44%, when compared to the second quarter of last year.

We did not record any charges or credits during the current quarter.

Overall, our second-quarter revenue of $8.1 billion increased 5% sequentially, mostly driven by the international markets led by the Middle East & Asia.

Sequentially, our pretax segment operating margins increased 154 basis points due to the high-quality international revenue, which resulted in strong incremental margins. This performance highlights the underlying earnings potential of our international business, with new technology and high service intensity—particularly offshore—accelerating margin expansion.

Company-wide adjusted EBITDA margin for the second quarter was 24.2%. In absolute dollars, adjusted EBITDA increased 28% year-on-year.

As a reminder, our ambition is for adjusted EBITDA to grow, in percentage terms, in the mid-twenties for the full year of 2023. On a year-to-date basis adjusted EBITDA has grown 35%; so we are on track to achieve this goal.

Second-quarter revenue increased 20% year-on-year as international revenue was up 21%, significantly outpacing North America revenue growth of 14%. The strong international growth was led by the Middle East & Asia and robust offshore activity.

Pretax segment operating margins expanded 240 basis points year-on-year with significant margin growth in our core divisions.

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

Second-quarter Digital & Integration revenue of $947 million increased 6% sequentially with margins increasing 4 percentage points to 34%.

The sequential revenue growth and margin expansion were primarily driven by higher digital sales, following the seasonal low of the first quarter.

Year-on-year Digital & Integration revenue decreased 1% and margins declined 6 percentage points due to the absence of exceptional exploration data transfer fees we recorded in the second quarter of last year. Growth in other digital products and services was strong, however, including a more than 60% year-on-year revenue increase in our cloud and edge solutions.

Reservoir Performance revenue of $1.6 billion increased 9% sequentially while margins improved 248 basis points to 18.6%. These increases were primarily due to strong growth internationally, led by the Middle East & Asia.

Year-on-year, revenue grew 23% and margins increased 396 basis points driven by strong growth internationally, both on land and offshore.

Well Construction revenue of $3.4 billion increased 3% sequentially, while margins of 21.8% increased 115 basis points driven by strong measurements, fluids and equipment sales activity as well as pricing improvements internationally.

Year-on-year revenue grew 25% while margins expanded 424 basis points with very strong growth across all geographical areas on higher activity and improved pricing.

Finally, **Production Systems** revenue of $2.3 billion increased 5% sequentially and margins expanded 274 basis points to 12% representing the highest margin since the formation of the Division. The sequential revenue growth was led by the Middle East & Asia, partially offset by the absence of significant project milestones we reached last quarter in Europe and Africa.

Year-on-year, revenue increased 22%, while margins expanded 300 basis points driven by higher sales of completions and surface production systems and the easing of supply chain and logistics constraints.

Now turning to our liquidity.

During the quarter, we generated $1.6 billion of cash flow from operations and free cash flow of $986 million. This represents a $1.25 billion increase in free cash flow over the same quarter of last year, which is largely due to improved working capital. We expect this performance to continue throughout the rest of the year. As a result, our free cash flow in the second half of the year will be materially higher than the first half.

Our net debt reduced approximately $200 million sequentially to $10.1 billion, which is $900 million lower than the same period last year.

Capital investments, inclusive of capex and investments in APS projects and exploration data, were $622 million in the second quarter. For the full year, we are still expecting capital investments to be approximately $2.5 to $2.6 billion.

We continued our stock buyback program and repurchased 4.5 million shares during the quarter for a total purchase price of $213 million. We continue to target to return $2 billion dollars to our shareholders this year between dividends and stock buybacks.

I will now turn the conference call back to Olivier.

Olivier Le Peuch—*CEO*

Thank you, Stephane. Ladies and gentlemen, we are ready to open the floor for your questions.

Olivier Le Peuch—*CEO*

Ladies and gentlemen, as we conclude today's call, I would like to leave you with the following takeaways:

First, as our second quarter results clearly demonstrate, our market position, performance differentiation, and technology leadership are fit for the cycle and will continue to drive our financial performance.

Second, as upstream investments accelerate in the international and offshore markets, these regions will lead our growth and lay a strong foundation for ongoing outperformance in the years ahead.

Third, following a solid first half and with significant visibility into the second half of the year, we reaffirm our confidence in our full-year financial targets.

This is a compelling environment for our company, and today we are more returns-focused, disciplined, and efficient than ever before. We could not ask for a better backdrop to execute our commitment to shareholder returns.

I remain very confident in our strategy and fully trust the SLB team to continue delivering strong performance for our business.

With this, I will conclude today's call. Thank you all for joining.

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