



## **Schlumberger First-Quarter 2020 Results Prepared Remarks**

**Simon Farrant** *Schlumberger Limited – VP of IR*

Good morning, good afternoon, good evening, and welcome to the Schlumberger Limited First-Quarter 2020 Earnings Call. Today's call is being hosted from Houston following the Schlumberger Limited Board meeting held earlier this week. Joining us on the call are Olivier Le Peuch, Chief Executive Officer, and Stephane Biguet, Chief Financial Officer.

For today's agenda, Olivier will start the call with his perspective on the quarter and our updated review of the industry macro, after which Stephane will give more details on our financial results. Then we will open for questions.

As always, before we begin, I would like to remind the 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 first-quarter press release, which is on our website.

Now, I'll turn the call over to Olivier.

**Olivier Le Peuch** *Schlumberger Limited – CEO*

Thank you, Simon, and good morning ladies and gentlemen. I hope everyone is safe and well. This morning, I'm going to comment on three topics: our Q1 performance; how we are managing today's increasingly difficult operating environment; and how we see the outlook for the second quarter.

Before I do that, I would first like to thank the Schlumberger people around the world who are demonstrating great resilience and adaptability. I am very proud of our team and of what they have achieved in the first quarter. Despite the complications from the COVID-19 outbreak, they delivered strong organizational performance throughout the quarter.

We kept very close to our customers as the crisis developed and were able to maintain wellsite operations with only minimal disruption across a few countries. The feedback I've received from our customers has been both positive and appreciative of our operational performance. Despite the difficulty of the situation and the duress under which our people have been working, Q1 was one of the best quarters in terms of service quality, and actually, the best quarter ever in safety performance.

Let's start with the perspective on our first-quarter results.

The resilience of our performance, given the COVID-19 related disruptions and the early impact of the oil price collapse, delivered earnings of 25 cents per share, only marginally short of our original expectation.

The quarter was characterized by the usual combination of seasonal impact in the Northern Hemisphere and the sequential decline of product and software sales. However, toward the end of the quarter activity started to decline in several basins due to the unprecedented drop in oil price and the increasing challenges posed by COVID-19. The most severe impact was in North America land where customers were fast to react with a sharp 17% cut in rig count.

In our business segments, Reservoir Characterization revenue closed the quarter sequentially down 20%, partly on seasonal effects, but also as a consequence of customers curtailing their discretionary and exploration spending in the latter part of the quarter. The margins declined on the absence of significant multiclient software license sales, weak exploration mix, and lower contribution from discretionary software sales.

Drilling revenue declined sequentially on seasonal effects and the collapse in North America late in the quarter but displayed resilience with margins flat sequentially on our operational execution and our focus on underperforming business units, as well as continued success in our technology access strategy.

Production revenue declined on lower activity in the international markets and weaker Asset Performance Solutions (APS) results. While Production margin declined 100 basis points driven by the weaker international activity, the success of our OneStim® scale-to-fit strategy in North America matched resource to market needs and optimized our operational footprint.

Cameron revenue was seasonally lower and suffered from the exposure of the short-cycle business to North America. International Cameron revenue was also lower as we halted manufacturing in Italy and Malaysia in response to local restrictions to mitigate the spread of the COVID-19 virus. Despite these negative effects, Cameron margin increased sequentially driven largely by this quarter's favorable mix in the OneSubsea® portfolio.

Looking at North America land in more detail, a timely acceleration of our NAL strategy protected margins from excessive sequential decline. We began the quarter having scaled our OneStim fleet to fit the market, which resulted in higher utilization and minimal frac calendar gaps. However, once oil prices began to collapse in March, customers rapidly dropped rigs and frac crews. Along with well construction and completion activity decreasing, the technology mix switched from driving performance to saving cost. We reacted rapidly by stacking frac fleets to protect our margins and had reduced capacity by more than 27%, and reduced our capex plan by 60%, by the end of the quarter.

In contrast, our international revenue closed 2% ahead year-on-year—or 4%—when accounting for the 2019 business divestitures. Growth was resilient in key Schlumberger markets across Russia & Central Asia, Saudi Arabia & Bahrain, Far East Asia & Australia, Northern Middle East, Latin America North, and Norway & Denmark.

Our first-quarter cash flow from operations more than doubled year-on-year to \$784 million, as a result of our heightened focus on collections and our resilience in key international markets.

Let me now talk about what we are doing to protect the company and how we have focused on cash, liquidity, and the strength of our balance sheet in a period of high uncertainty as the depth and extent of the coronavirus impact on global oil demand remains unknown.

First, and after an in-depth review of the possible outcomes of the new oil order we are facing, we have made the very difficult but necessary decision to reduce our dividend by 75%. This will protect our cash and liquidity in the current environment while giving us greater flexibility going forward. We will continue to exercise stringent capital stewardship while retaining the ability to balance any capital return to shareholders as operational conditions evolve.

Second, we have reduced our capital investment program by more than 30%, across capex, APS, and multiclient. We are also reducing our research and engineering investment by more than 20% in the second quarter to reflect the necessary adjustment to our 2020 commercialization program.

Third, we have accelerated and increased our structural cost reductions in North America, in alignment with the scale-to-fit strategy initiated during the fourth quarter [2019], adjusted for the new environment. As a result, we have unfortunately had to reduce our workforce in North America by close to 1,500 people during the first quarter. We will continue to decisively implement structural changes during the second quarter, both in North America and internationally—to align our cost base with the anticipated short-term and second-half activity outlook—with full understanding that the pace and scale of decline is still uncertain but will be more abrupt than during any recent downturn.

Finally, we have also taken exceptional temporary measures to conserve cash by implementing furloughs across many parts of our organization—both in North America and internationally—and by reducing compensation for the executive team and for the Board of Directors.

The results of these actions represent a significant step towards protecting the company cash and liquidity in the face of the significant uncertainties. I believe that our response so far has been swift and effective, as demonstrated by our margins and cash flow performance during the first quarter, while providing service to all of our customers with unique resilience and performance across all basins.

Stephane will discuss the strength of our balance sheet, our access to liquidity, and our capital investment program in more detail in a few minutes.

Before that, let me give you our perspective for the second quarter.

Despite the recent agreement by the world's largest oil producers to cut production, Q2 is likely to be the most uncertain and disruptive quarter that the industry has ever seen.

We are therefore not in a position to provide guidance for the next quarter as we face two degrees of uncertainty beyond the severe impact of oil demand contraction and the level of commodity oil price. First, it is very difficult to model or predict the frequency or magnitude of the COVID-19 disruptions on field operations. Second, it is too early to judge the impact of the recent OPEC+ decision on the level of international activity as well as its repercussion on storage levels globally and related risks of production shut-ins.

Let me, however, share our views on the key activity trends, starting with North America.

We anticipate both rig activity and frac completion activity to continue to decline sharply during the second quarter to reach a sequential decline of 40% to 60%, which matches the full-year budget adjustment guidance shared by most operators in North America land. This would represent the most severe decline in drilling and completion activity in a single quarter in several decades.

Internationally, we see a less severe sequential decline, as some long-cycle offshore and land development markets should remain relatively resilient and will partially offset the exploration activity drop as well as the expected activity adjustments that will result from the OPEC+ decision.

Directionally, at this time, and excluding the seasonal rebound of rig activity in Russia & China, the international rig count is expected to decline by low- to mid-teens sequentially; however, this will vary greatly by basin and per customer. We have been successful during the first quarter in providing the market with resilience and performance, we anticipate building on this success and will fully leverage our unique international franchise to retain optimum activity mix going forward.

As the quarter develops and we get more clarity on the timing and shape of demand recovery and better understand the OPEC+ deal's implementation and compliance, we will be able to discuss our outlook for the second half of the year with you.

Let me conclude by reinforcing the enormity of the task ahead. It will require levels of response and depths of resilience that have yet to be fully realized. The actions we have taken so far have been focused on those things we can control in protecting our business—with a clear priority on cash and liquidity—in an uncertain industry and global environment.

We will continue to take the steps necessary to protect the safety and health of our people and pursue our ambition to be the performance partner of choice for our customers. The future of our industry poses difficult challenges—for people and for the environment—but continues to offer a unique opportunity. I believe that the resilience and performance of our people, our technology leadership, and our financial strength will clearly position us for success as the industry rebounds from this unprecedented downturn.

On to you, Stephane.

### **Stephane Biguet** *Schlumberger Limited – Executive VP & CFO*

Thank you, Olivier. Good morning ladies and gentlemen, and thank you for participating in this conference call.

First-quarter earnings per share, excluding charges and credits, was 25 cents. This represents a decrease of 14 cents sequentially and 5 cents when compared to the same quarter of last year.

During the quarter, we recorded \$8.5 billion of pretax charges driven by current market conditions and valuations. These charges primarily relate to goodwill, intangible assets, and other long-lived assets.

As such, this charge is almost entirely non-cash. You can find details of its components in the FAQs at the end of our earnings press release.

These impairments were all recorded as of the end of March. Therefore, the first quarter results did not include any benefit from reduced depreciation and amortization expense as a result of these charges.

However, going forward, depreciation and amortization expense will be reduced by approximately \$95 million on a quarterly basis. Approximately \$45 million of this will be reflected in the Production segment, with the remaining \$50 million reflected in the “Corporate & other” line item.

The quarterly after-tax impact of these reductions is approximately 6 cents in EPS terms.

I will now summarize the main drivers of our first quarter results. I will not go into much detail, as Olivier already provided some key highlights, but I will spend more time updating you on our liquidity position.

Overall, our first-quarter revenue of \$7.5 billion decreased 9% sequentially. Pretax segment operating margins decreased 181 basis points to 10.4%.

First-quarter **Reservoir Characterization** revenue of \$1.3 billion decreased 20% sequentially, while margins decreased 839 basis points to 14%. The sequential drop was a combination of seasonal effects and early signs of customers curtailing discretionary expenditures.

**Drilling** revenue of \$2.3 billion decreased 6% while margins were flat at 12.4%. Approximately half of that revenue decline was due to the divestiture of our fishing and remedial tools business at the end of the fourth quarter.

**Production** revenue of \$2.7 billion decreased 6% sequentially and margins declined 98 basis points to 7.8%.

**Cameron** revenue of \$1.3 billion decreased 10% while margins slightly increased by 57 basis points to 9.7%.

Our effective tax rate, excluding charges and credits, was 17% in the first quarter as compared to 16% in the previous quarter.

Please note that it is going to be challenging to provide guidance around our effective tax rate going forward, as discussed in further detail in the FAQ at the end of our earnings release.

Let me now turn to our liquidity.

During the first quarter, we generated \$784 million of cash flow from operations. As Olivier mentioned, this is more than double what we generated during the same quarter last year.

We spent \$407 million on capex and invested \$163 million in Asset Performance Solutions (APS) projects.

We completed the sale of our interest in the Bandurria Sur Block in Argentina during the quarter. The net proceeds from this transaction, combined with the proceeds we received from the divestiture of a smaller APS project, amounted to about \$300 million.

Looking forward, after considering the Argentina divestiture and reductions in the rest of our project portfolio, our APS investments for the full year will not exceed \$500 million.

With this, as well as the significant reduction of our operating capex engaged during the quarter, our total capital spend for 2020, including APS and multiclient, will now be approximately \$1.8 billion. This represents close to a 35% decrease as compared to 2019.

On the balance sheet side, we took a series of steps during the first quarter to reinforce our liquidity position.

First, we ended the quarter with total cash and investments of \$3.3 billion. While this cash balance is higher than what we generally like to carry, this was a conscious decision and I am very comfortable with it considering the current situation.

Our net debt increased by only \$171 million during the quarter, closing at \$13.3 billion, which is more than \$1 billion lower than the level we were at a year ago.

During the first quarter, we issued 400 million Euros of Notes due in 2027 and another 400 million Euros of Notes due in 2031. These notes carry a weighted average interest rate of 2% after being swapped into US dollars.

We also renewed during the quarter our revolving credit facilities. These committed facilities amount to a total of \$6.25 billion and do not mature until between February 2023 and February 2025.

We ended the quarter with \$2.7 billion of commercial paper borrowings outstanding. Therefore, after considering the \$3.3 billion of cash on hand, we had \$6.8 billion of liquidity available to us at the end of the quarter.

In addition, we entered last week into another committed revolving credit facility for 1.2 billion Euros. This is a one-year facility that can be extended at our option for up to another year. We can also upsize the facility through syndication. To date, we have not drawn on this facility.

Finally, our short-term credit ratings, which are critical to maintain our privileged access to the commercial paper markets, were just recently reaffirmed by both Standard & Poor's and Moody's.

In light of our available liquidity and the various actions undertaken during the quarter, our debt maturity profile over the next 12 months is quite manageable. We only have \$500 million of bonds coming due in the fourth quarter of this year and another \$600 million coming due in the first quarter of 2021. Our preference is to refinance these obligations with new bonds, market permitting.

To close, let me come back to what is probably the most important decision of the quarter, as it relates to capital allocation. In this environment, our strategic priority is obviously on conserving cash and further protecting our balance sheet. To this end, we have taken the prudent decision to reduce our quarterly dividend by 75%. The revised dividend still supports our shareholder value proposition by maintaining both a healthy yield and a reasonable payout ratio as we navigate these uncertain times.

It also allows for prudent organic investment, while maintaining the self-discipline required under the capital stewardship program that we have committed to. Finally, it gives us flexibility to adjust our capital return policy in the future, whether through increased dividends or stock buybacks, when operating and business conditions improve.

I will now turn the conference call back to Olivier.

**Olivier Le Peuch** *Schlumberger Limited – CEO*

Thank you. I believe with this we need to close.

Let me conclude by reiterating some key takeaways from this call.

Firstly, I believe that the company performed well during the first quarter despite a very challenging environment, with excellent resilience and performance across operations—particularly in international markets—and a very respectable financial results, particularly the cash flow from operations. I feel very proud of the Schlumberger team who have delivered these under such stressful conditions.

Secondly, as we were presented with growing uncertainties on global economic outlook and a fast deteriorating commodity price, we acted swiftly: reducing our capital spend program significantly, accelerating our scale-to-fit strategy approach in North America and taking exceptional measures to protect our cash and liquidity for the second quarter and beyond.

Thirdly, and after in-depth review of forward-looking scenarios, we decided to adjust the dividend to a new level, as a prudent capital management decision, providing us with the liquidity and financial flexibility we need, considering the significant uncertainties in the quarters to come.

Finally, as we navigate this unprecedented industry downturn, we continue to prioritize key elements of our strategy, namely the capital stewardship initiative to protect the company financial strength, the fit-for-basin strategy to increase the performance impact in key basins for our customers, and create sustainable differentiation, and finally

the acceleration of the industry digital transformation to support higher efficiency gains in operations for our customers and for our own success.

May everyone stay safe and healthy, thank you for your attention.