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SLB.N - Q1 2026 Slb NV Earnings Call

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OVERVIEW:

Company Summary

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PRESENTATION

Operator

Good morning. My name is Megan, and I will be your conference operator today and would like to welcome everyone to the first quarter SLB earnings call.

(Operator Instructions) As a reminder, this call is being recorded. I will now turn the call over to James R. McDonald, Senior Vice President of Investor Relations and Industry Affairs. Please go ahead.

James McDonald - *Slb NV - Senior Vice President of Investor Relations and Industry Affairs*

Good morning, and welcome to the SLB first-quarter 2026 earnings conference call. Today's call is being hosted from Houston, 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. For more information, please refer to our latest 10-K filing and other SEC filings, which can be found on our website. Our comments today also include non-GAAP financial measures. Additional details and reconciliations to the most directly comparable GAAP financial measures can be found in our first-quarter earnings press release, which is on our website.

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

Olivier Le Peuch - *SLB NV - Chief Executive Officer, Director*

Thank you, James. Ladies and gentlemen, thank you for joining us.

Before we begin, I would like to acknowledge our people, customers and partners in the Middle East as they navigate this challenging and uncertain time. Our strong presence in the region dates back more than 85 years, and I am proud of the resilience and unity demonstrated by our people as they work in lockstep with our customers to safeguard our teams and assets while preparing for the eventual resumption of operations. I want to commend the entire SLB team for their continued care, commitment and support for one another and for our customers.

Turning to today's call, I will start with our first-quarter performance, followed by an update on the evolving situation in the Middle East and our outlook in the mid-to long-term. I will then cover our strategic initiatives, including ChampionX, digital, and data centers, and provide our thoughts for the second quarter.

Stephane will then take you through the financials, and we will open the line for your questions.

Let's begin. First quarter. It was a challenging start to the year, marked by severe disruptions in the Middle East that impacted our first-quarter revenue and earnings. At the onset of the conflict, customer decisions to safeguard personnel and assets led to an initial wave of operational shutdowns. As the conflict persisted, further activity curtailments followed as a result of production shut-ins.

The impact of these actions was most pronounced in Qatar, due to force majeure and the suspension of offshore operations, and in Iraq, due to security conditions. We also experienced a more gradual impact from offshore rig shutdowns in other countries in the region, driven by a combination of security concerns and export capacity disruptions.

In addition to the situation in Middle East, unfavorable activity mix and higher costs further weighed on the quarter, most notably in OneSubsea.

Looking across the Divisions, Production Systems and Digital grew year-on-year, while Reservoir Performance and Well Construction declined mostly due to the impact of the conflict.

In Production Systems, year-on-year revenue increased 23%, due to the acquisition of ChampionX, which continues to deliver accretive growth. Additionally, we are on track to achieve our synergies target.

On a pro forma basis, ChampionX also grew year on year, demonstrating the increasing demand in the production market.

Turning to Digital, revenue increased 9% year on year, driven by strong uptake in Digital Operations. Of note, automated footage drilled increased by 145% year on year as customers continue to adopt digital and AI-powered solutions to boost operational performance and efficiency.

Also, Data Center solutions remained a bright spot, with 45% growth year on year. The momentum in this area continues, as you saw with our recent announcement to serve as the modular design partner for NVIDIA DSX AI factories.

With our growing backlog, we remain on track to exit the year at $1 billion run rate and expect the growth rate to accelerate in 2027.

Overall, despite the challenges of the quarter, I'm pleased that the strategic decisions and portfolio actions that we are taking in digital, data center solutions and production and recovery are delivering results.

I would like to express a big thank you to our teams in the Middle East and across the world who continue to deliver each day for our customers in this very dynamic environment.

Now, let me turn to how we expect the market to evolve as the conflict in the Middle East is resolved. Firstly, we anticipate that oil prices will settle at levels above the pre conflict baseline. This reflects the new balance of liquid supply and demand, which has been significantly altered by more than 500 million barrels of lost production impact thus far.

In this environment, energy security will remain at the forefront. We expect many countries to accelerate efforts to diversify supply, strengthen domestic resource development, and rebuild strategic and commercial inventories that have been drawn down during the conflict. In short, the fragility of the global energy complex we are witnessing today demonstrates the strategic importance and long-term value of oil and gas.

Together, these dynamics are expected to support a constructive macro environment for upstream investment over the coming years. In the near term, activity will be led by efforts to restore production capacity across the Middle East for both oil and gas.

While some countries executed orderly shut-ins and should be able to resume production within days or weeks, other areas particularly where disruptions were more abrupt may require a more gradual ramp-up, including additional well intervention.

As a result, while the near-term recovery will be gradual and differ across countries, we see an upside in the outlook, barring demand destruction from a prolonged conflict. We are committed and ready to support our customers across the region.

Beyond the region, we expect a broad-based response across both short-and long-cycle investment. Short-cycle activity is likely to strengthen first, particularly in North America and parts of Latin America, where operators can respond quickly to higher prices.

In addition, well intervention activities that can yield additional production will get a natural boost across all basins.

At the same time, we expect renewed momentum in long-cycle developments, especially in offshore and deepwater markets, as customers look to secure durable, large-scale sources of supply. This is also likely to improve certainty of offshore FID approvals, while also supporting increased exploration activity.

As we can read in third-party reports, the FID pipeline in 2026 is strengthening and directionally heading over $100 billion total investment approval, visibly ahead of the last two years, and with another step-up expected in 2027, with deepwater resource getting a large portion of these investments.

Regionally, this presents opportunities in Africa, Asia and Latin America. Africa represents one of the most compelling long-term opportunities, with a significant base of underdeveloped oil and gas resources. We expect portfolio allocation to shift more favorably toward this region over time.

Asia will continue to prioritize access to gas, both onshore and offshore, as it works to diversify supply through development of national resources. And across Latin America, from Guyana to Brazil to Suriname we see continued strength in deepwater developments, complemented by short-cycle growth in unconventionals in Argentina.

Separately, Venezuela continues to represent an exciting growth opportunity where we can expand on our existing operations in country.

To conclude, in the context of energy security and the rebalancing of supply and demand, we see three primary drivers of increased investment over the coming years.

First, the replenishment of depleted commercial inventories and strategic reserves. Second, the diversification of supply, including greater redundancy in sourcing. And third, increased emphasis on developing local resources to enhance long-term resilience.

Our Core business will benefit from these dynamics, supporting a positive outlook for SLB into 2027 and 2028.

Let me now describe the additional strategic growth levers for SLB, production and recovery, digital and data centers. Starting with production and recovery this is becoming increasingly critical as the industry faces structural challenges in replacing reserves and sustaining production from existing assets.

In this context, technologies that enhance recovery and extend the life of mature fields are no longer optional they are essential.

Against the macro we just discussed, this is a defining moment for production and recovery. These technologies have the potential to shape the next stage of recovery in unconventional assets and to create a step-change in production enhancement in every basin and resource play, from deepwater to conventional and from gas to oil.

With ChampionX, we are uniquely positioned to lead in this space. By combining production chemistry, artificial lift, digital capabilities, and subsurface domain expertise, we are helping customers unlock additional barrels from existing reservoirs in a capital-efficient manner. This is particularly relevant as operators look to maximize recovery, improve returns and bring incremental supply to market in support of energy security.

We hosted our first production and recovery summit in Houston a couple of weeks ago and were very pleased with the engagement from our customers from every region around the world. They increasingly recognize the potential of this domain and the opportunities it presents to unlock growth for the industry.

Turning to digital, this business continues to build strong momentum and is a key driver of both differentiation and long-term value creation for SLB. While still a relatively small portion of our revenue today, its impact extends well beyond its size.

Our approach is grounded in domain expertise, where AI, data, and software are integrated into our platforms and workflows to deliver measurable performance outcomes. This is not about standalone tools it is about embedding intelligence across the full life cycle of reservoir development and production.

Our teams continue to make exciting developments, particularly in agentic AI. And as the number of use cases increases and value of these technologies are proven in the field, we anticipate increased adoption.

Over time, we expect digital to become an increasingly important lever for growth, both as a standalone business and as an enabler across our broader portfolio, and we are excited to share more about this business during our Digital Investor Day in June.

Finally, data centers represent a new and rapidly expanding opportunity for SLB. Building on our core strengths in engineering, manufacturing, and project execution, we are extending our scope of modular infrastructure solutions to support the accelerating demand for AI and digital capacity.

In less than two years, we have established our right to play in this industry, proven by our manufacturing know-how and supply chain capabilities. We are building on this expertise to support design engineering and performance optimization of the data center buildout, and we are currently scaling the business through expanded capacity, deepening partnerships and selective international growth.

While still at an early stage, this business is already demonstrating the characteristics we look for capital-light growth, strong demand visibility and a clear path to becoming a meaningful contributor to earnings over time.

Looking ahead, we see additional upside through opportunities such as thermal management, decarbonized power and serving as a system integrator. These are areas where our capabilities can further differentiate our offering and expand our addressable market.

We also continue to assess potential opportunities to accelerate this trajectory through targeted M&A. Taken together, these three areas production and recovery, digital, and data center solutions reflect how we are evolving our portfolio toward higher-return, technology-driven, and less cyclical growth. They are complementary, scalable and aligned with the long-term trends shaping both energy system and digital infrastructure.

Let me now share our view on how the second quarter may unfold.

First, it is uncertain how long geopolitical disruptions will last and how the recovery in the Middle East will unfold. At the same time, we are facing higher procurement and logistics costs driven by the conflict. As a result, it is challenging to provide precise guidance for this quarter.

However, there is a scenario where operational disruptions in the region persist through the middle of the second quarter and then begin to gradually ease. Under this assumption, we estimate that the sequential revenue and earnings decline in the Middle East will be fully offset by all other International markets combined, where we anticipate mid-to high-single-digit revenue growth, with improved margins.

Meanwhile, North America revenue is expected to be flat sequentially.

By Division, under the Middle East scenario that I just highlighted, Digital and Production Systems will grow globally, while Reservoir Performance and Well Construction will decline globally.

I will now turn the call over to Stephane to discuss our financial results in more detail.

Stephane Biguet - *SLB NV - Chief Financial Officer, Executive Vice President*

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

First-quarter earnings per share, excluding charges and credits, was $0.52. This represents a decrease of $0.20 when compared to the first quarter of last year.

During the quarter, we recorded $0.02 of merger and integration charges primarily related to the ChampionX transaction.

Overall, our first-quarter global revenue of $8.7 billion increased 3% year on year. Excluding the impact of the ChampionX acquisition in the third quarter last year, revenue declined by $607 million, or 7% year on year.

When compared to the fourth quarter of last year, revenue fell by just over $1 billion, or 10.5%. This decline was approximately 200 basis points, or about $200 million, higher than we expected at the time of our last earnings call in January. This was primarily due to the impact of the conflict in the Middle East, as we experienced operational disruptions throughout the month of March.

Company-wide adjusted EBITDA margin for the first quarter was 20.3%, down 346 basis points year on year. Margins were negatively affected by high decrementals on the Middle East revenue impact. We did not make any material adjustment to our cost base during the quarter as our immediate focus was the protection of our people and preserving operational capacity for the expected future rebound in activity.

We also incurred additional logistics and materials costs as a result of supply chain disruptions due to the conflict.

Beyond the effects of the Middle East conflict, first-quarter margins were impacted year on year by increased tariffs, project mix and higher costs in OneSubsea as well as pricing headwinds in select markets, particularly in Well Construction.

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

First-quarter Digital revenue of $640 million increased 9% year on year primarily driven by 87% growth in Digital Operations. This was supported by increased digital services adoption and new technology introduction as well as the acquisition of ChampionX.

Notably, annual recuring revenue for the Division stood at $1.02 billion at the end of the first quarter, representing year-on-year growth of 15%.

Digital pre-tax operating margin of 20.9% was essentially flat year on year. However, adjusted EBITDA margin of 26.1% declined 473 basis points due to lower amortization relating to Exploration Data as a result of the mix of surveys sold during the quarter.

As you know, Digital margins are historically lowest in the first quarter due to seasonality and steadily increase throughout the year, reaching their highest level in the fourth quarter, as evidenced by last quarter's results. This trend will continue and, consequently, we expect to achieve full-year Digital adjusted EBITDA margin that is at least equivalent to last year's level of 35%.

Reservoir Performance revenue of $1.6 billion decreased 6% year on year while pre-tax operating margin of 16.1 % decreased 47 basis points. These decreases were due to lower stimulation and intervention activity, primarily as a result of the disruptions in the Middle East.

Well Construction revenue of $2.8 billion decreased 6% year on year primarily from lower activity due to the disruption s in the Middle East, partially offset by higher offshore drilling activity in Europe & Africa, Latin America and North America.

Pre-tax operating margin of 15.2% contracted 463 basis points year on year due to lower profitability on account of the Middle East conflict as well as pricing headwinds in select markets.

Finally, Production Systems revenue of $3.5 billion increased 23% year on year. Excluding the impact of the ChampionX acquisition, first-quarter revenue decreased 6% year on year. On a pro forma basis, revenue from the ChampionX production chemicals and artificial lift businesses grew 2% compared to the first quarter of 2025.

This strong ChampionX performance was offset by the impact of the Middle East conflict, lower OneSubsea revenue, and, independent of the conflict, lower product deliveries in Saudi Arabia.

Production Systems pre-tax operating margin of 14.2% declined 240 basis points year on year due to lower profitability in surface production systems, completions and OneSubsea.

As it specifically relates to OneSubsea, pre-tax margin in the first quarter was 14.4% compared to 18.1% in the first quarter of 2025. Margins were affected by the concurrent wind-down of several large programs and the initiation of new projects with high start-up costs.

OneSubsea margins are expected to increase over the remainder of the year.

ChampionX partially offset those effects as we continued to make progress with our synergy realization. As a result, ChampionX's margins this quarter were higher than in both Q4 and Q1 of last year and were accretive to both Production Systems and total SLB margins.

Now, turning to our liquidity. Our net debt increased $797 million sequentially to $8.2 billion.

During the quarter, we generated $487 million of cash flow from operations. Free cash flow was slightly negative at $23 million on account of the payment of annual employee incentives and the seasonal increase in working capital that we typically experience in the first quarter.

This was compounded this year by delayed collect ions in the Middle East stemming from the conflict.

We expect our cash flow generation to follow our historical pattern with free cash flow gradually increasing throughout the year with the majority coming in the second half. Capital investments, inclusive of capex and investments in APS projects and exploration data were $510 million in the first quarter.

For the full year, we are still expecting capital investments to be approximately $2.5 billion.

During the quarter, we repurchased $451 million of our stock, and we still expect to repurchase a minimum of $2.4 billion for the full year, in line with 2025.

As a reminder, we are targeting to return more than $4 billion to our shareholders in 2026 through a combination of dividends and stock buybacks.

Before I wrap up, let me come back to our second-quarter outlook and more specifically to the Middle East. I would first like to clarify that the Middle East represented approximately 70% of our Middle East & Asia business in the first quarter.

Under the specific scenario that Olivier highlighted earlier, where operational disruption in the region continues until the middle of the quarter and then starts to alleviate, we estimate that it would negatively impact our second quarter earnings per share by an incremental $0.06 to $0.08 when compared to the first quarter. This is the result of lost revenue as well as higher

procurement and logistics costs associated with the conflict.

I will now turn the conference call back to Olivier.

Olivier Le Peuch - *SLB NV - Chief Executive Officer, Director*

Thank you, Stephane. I believe we are now ready for taking your questions.

QUESTIONS AND ANSWERS

Operator

We will now begin the Q&A session. (Operator Instructions)

Dave Anderson, Barclays.

J. David Anderson - *Barclays Services Corp - Analyst*

Hi, good morning, Olivier. How are you?

Olivier Le Peuch - *SLB NV - Chief Executive Officer, Director*

Morning, Dave. Good morning.

J. David Anderson - *Barclays Services Corp - Analyst*

So looking past some of the near-term disruptions, I was wondering if you could expand a bit more on your views on how the investment cycle has changed. You mentioned a broad-based recovery in '27 and '28. Is that predicated on oil prices being structurally higher now? And can you also comment on kind of which end markets that you see the most upside in as you sit here today?

Olivier Le Peuch - *SLB NV - Chief Executive Officer, Director*

I think there are multiple reasons why I think I believe that the industry will benefit from an uptick in investment first, indeed, I think we are projecting that the commodity price will be higher after this than they were before.

But more importantly, I think the significant impairment of the supply, demand balance I think has created the need for replenishing these inventories, replenishing the strategic reserve and also have heightened the risk of energy security.

And hence, as a reason, as a consequence of this, there will be multiple factors that will play into an increased investment outlook. Firstly, to replenish inventory and strategic reserve will supplement the natural demand in oil and gas. Secondly, the energy security will draw decision -- national decision to invest into local resource and to diversify the source of supply, including creating some redundancy if and as necessary and clearly maintaining in the future higher inventory stock spare to prevent future short of supply.

So I believe that these are aligning with trends that are already in place that are already indicating that offshore was set for a rebound as we exit 2026 and 2027, so we believe that this combination will both affect the short cycle impact in a short of time and the long cycle at scale into '27 and '28. So we have said in our opinion for an uptick into the cycle strengths going forward.

J. David Anderson - *Barclays Services Corp - Analyst*

So Olivier, you had talked about deepwater looking particularly attractive in that outlook. Obviously, that's part of the long-cycle story there. Can you talk about where you see the most upside in terms of SLB business? Is it more on the Well Construction and Reservoir Performance side? Could OneSubsea be a big driver? Just trying to think about the part of your business that would be most impacted.

Olivier Le Peuch - *SLB NV - Chief Executive Officer, Director*

So first, I think we are confident that offshore, I think, has been very attractive economically now. And I think where large resource asset for operator to unlock and develop going forward, I think it's the reason why we are seeing this uptick into the FID pipeline and the predictions by many reports saying that this will at scale exceed what we have seen in the last couple of years.

So the macro assets are very positive on deepwater, and this is true across--I would be very clear, across Africa, Asia, East Asia and Americas, so different regions. Africa, as I stated in my remarks, I think it's certainly one of the most beneficiary for this, and it has vast undeveloped still resource, both oil and gas on the West and on the East, and clearly set to be developed, and this is where we see potential acceleration of FID in the coming quarters.

Americas is very strong from Brazil to Gulf of America. And I believe this will continue to play a part in Central America that we see support. And Asia because of gas, we see a double down on the development of gas and deepwater resource, and we are seeing a lot of development happening these days in Indonesia.

And you have seen some of the announcements we have made earlier today in the earnings press release and with subsea being awarded in Malaysia and in South China Sea, a critical award.

So I believe that Core at large will benefit from this rebound. We have strong market position across the different divisions. But yes, indeed, subsea, we expect OneSubsea to benefit at scale. And as guided historically, previously, I think we expect OneSubsea to benefit, to have a higher booking this year and last year visibly, and to then have a growth trajectory in '26 and into '27 and '28 as we see the scale of this offshore cycle developing.

Operator

James West, Melius Research.

James West - *Melius Research LLC - Analyst*

Hey, good morning, Olivier, Stephan.

Olivier Le Peuch - *SLB NV - Chief Executive Officer, Director*

Good morning, James.

James West - *Melius Research LLC - Analyst*

The Middle East is your backyard. You guys have owned that market for a century or more. You don't leave conflict zones when conflicts happen, and you're always there for the recovery. As you think about the recovery and how it could unfold, I know you made some comments in your prepared remarks about this. But as you talk to the customers, what do they want to do?

What do they need you for initially? And how do you think the kind of momentum builds, assuming that we--the conflict resolves on the time line that you've kind of laid out and others have laid out?

Olivier Le Peuch - *SLB NV - Chief Executive Officer, Director*

First, I think, to be clear, I think we are working in lockstep for customers every day, every week. We continue to work closely with them to understand. And as they are contemplating all options for recovery and continue to observe the outcome of the discussion and the geopolitical events happening on the back, and we stand ready.

So I think we are more in standby as we speak. But yes, multiple scenarios are being considered.And there are some countries where there is a resumption of operation will be relatively fast and could turn into days and weeks. And there are countries as a facility and/or a field have been stopped and shutting abruptly where we'll be needing to intervene on those field.

Hence, it will be an initial phase of assessment, initial phase of intervention before the production can come back to full capacity. And there is a country or region--or not region, but zone in the region where security will remain a concern and will delay the recovery.

So it's a gradual recovery. But yes, we are working very closely with customers, both to mobilize equipment or resource and also to anticipate the reservoir consequence and the type of services that we need to provide as the conflict start to be stabilizing and as the customer have the confidence to remobilize.

So we see long-term clear upside in the region. And we see that some countries will actually use it to catch up and maybe expand the capacity to recover from the market share and the production loss during this period.

James West - *Melius Research LLC - Analyst*

Got it. Okay, very helpful. And then maybe a quick follow-up. Understanding that most energy countries and, of course, companies and countries want to diversify supplies now, do you see more of the--your customers that are Middle East based maybe stepping outside of the region? They've already started to do that a little bit. But stepping outside more post conflict?

Olivier Le Peuch - *SLB NV - Chief Executive Officer, Director*

No, I think that generally, I think operators will continue to diversify their options across the entire world. And I think there are plenty of basins that still stands undeveloped. And I think I highlighted Africa, I think there's a lot of oil and gas resources that are set to be developed. And I think the fiscal terms and the security condition have improved actually in the region and will make it make it very critical.

But the Middle East remain a low-cost barrel and low-cost gas country at scale. And hence, it will continue to attract investment as well. And I think the national resource holder in the region will continue to develop at scale the resource.

So we see a mix, but I think beneficiary of this, I think maybe additional investment will go into Africa, into Americas offshore, into Asia deepwater and into production and recovery across all regions, we believe, because this is where the fastest incremental barrel can come from.

Operator

Steve Richardson, Evercore ISI.

Steve Richardson

Good morning. I was wondering if we could talk a little bit about Digital. You made this acquisition with S&P. And from what we understand, this is a largely US-centric data business and data sets. So can you talk about what the longer-term vision is there? And be sure to hit on how and if that's an enabler of some of the other things you're doing in the broader business outside of Digital.

Olivier Le Peuch - *SLB NV - Chief Executive Officer, Director*

Yes, absolutely. As described in our press release this morning, we have come to an agreement with S&P Global Energy to acquire actually their upstream petrotechnical software, so it's not their data. And this is mostly deployed in North America independent and the workflows are quite specific to unconventional market.

So this is highly complementary to the offering we have. And as we go forward, this will complement the offering in North America, give us opportunity to expand the reach of this petrotechnical workflow solution internationally for the [ivory] markets.

And also will help us to maybe expand and address the next change into the unconventional development and recovery, and use this new software suite to complement what we have and add [scales], add domain and create and unlock new unconventional workflow into North America.

So it gives us a broader market access. It give us a tool that is fit for the unconventional market where we're not having the same offering today, and this just expands our product suite into the domain.

Now separately, as you may have seen also into the earnings press release announcement, we have entered an agreement to pursue a strategic partnership with S&P Global Energy with AI, giving opportunity to use the power of Lumi and Tela, including specific domain foundation models that we'll using the data sets, the global data sets of S&P Global Energy so that we, together, provide our customers with unique insights to AI, applying AI capability, applying our domain and our domain foundation model, our capability on the full data sets of S&P Global Energy.

So that's unique. And I think that would be very, very appreciated by customers and benefits the customer greatly going forward.

Steve Richardson

That's great. And I suspect we'll hear much more about that at the Analyst Day in June. I'm wondering if you could give us a brief update on the data center business and your outlook there in terms of securing additional customers, your commercial approaches there and expectations for the balance of the year relative to what you talked about a quarter ago. Thanks.

Olivier Le Peuch - *SLB NV - Chief Executive Officer, Director*

Yes. I think you have seen we continue to progress. I think we continue to reiterate our ambition and our goal that we'll reach or exceed the [$1 billion] run rate as we close this year. And actually, we have made great progress this quarter to secure additional customers that give us further visibility into the demand for our capacity in 2027 and '28.

And as indicated, developing more growth and scaling more than what I have mentioned as an exit rate going forward.

So you have seen one announcement on NVIDIA that has chosen us and selected us as their design partner for the DSX AI factory. It means a lot. It means that we have been selected amongst others as a partner they believe they can trust to develop this modular infrastructure solution for DSX center, large-scale future Vera Rubin solution center that need to be scaled fast, and we will add our capability to build this site and manufacture this equipment off-site and bring this modular infrastructure to this NVIDIA customer in the future.

So that's great. And I think you will see additional announcements coming that--which shows the breadth of our customer reach and the scale of our operation going forward.

So we are very pleased with the progress and this will continue to grow in '26 and clearly at scale in '27.

Operator

Arun Jayaram, JPMorgan.

Arun Jayaram - *JPMorgan Chase & Co - Analyst*

Yes, good morning. Olivier, production and recovery seems to be an important theme this morning. I was wondering if you could highlight some of the industrial and technical challenges in restoring production, which is off-line in the Middle East. And do you think that--assuming that we get to an improvement in the situation in the Middle East in 2Q, could this be a driver of SLB's second half '26 results?

Olivier Le Peuch - *SLB NV - Chief Executive Officer, Director*

So firstly, I will not be commenting on behalf of our customers in the Middle East as they go through the assessment of their facilities. Some of them, as you know, have been damaged by this crisis. I will more comment on the engagement, collaboration and close partnership we have with our customers to prepare for, and as they are ready to mobilize as they believe the security concerns are no more present.

And I think, first and foremost, I think some, as I said, they're shutting down already. And I think this would just be a resumption of operation that will just be redeployment of resource, remobilization of resource. And I think with no necessarily significant impact in short term.

Others will need well intervention activity, and that's where we have an upside, and we want to work with our customers to see how we can help restore the production and add and use the production and recovery technology set to help us regain the capacity production that was preconflict.

So long term, as we said earlier, we see more upside. I think once this resumption of operation gradually resume throughout the following months and possibly quarter for some countries, we see that there is an upside into the desire for some country there to uplift their capacity and to participate in the replenishment of the depleted inventory and [substantial] reserve. So we are seeing gradual intervention first, recovery, production and recovery focus and then large-scale development and expansion of capacity for some countries.

Arun Jayaram - *JPMorgan Chase & Co - Analyst*

Great. I have a follow-up to Stephen's question on digital. If I look at year-over-year trends, Olivier, your revenue was up 9%, but your margins fell by 473 basis points. I was wondering if you could talk about what you saw on the margin front and perhaps the recovery potential for digital margins over the balance of the year.

Stephane Biguet - *SLB NV - Chief Financial Officer, Executive Vice President*

I'll take this question, Arun. It's Stephane. So as you know, we closed last year in digital with full year EBITDA margin of 35% and the pretax operating margin of 28%. There's a bit of a distinction between the pretax margin and the EBITDA here. We started 2026 with pretax margin of just about 21%, which is essentially in line with where we started in the first quarter of 2025.

EBITDA margins, however, were indeed lower, and this is exclusively due to lower amortization from the mix of exploration data that we sold during the quarter. So if you step back anyway, as I said earlier, the first quarter of the year is typically the lowest for digital margin. So if you look at where we started, same as last year, and we fully expect to see the same pattern we have seen over the years, we will reach the highest margins in the fourth quarter, and it is clearly our ambition to deliver the total EBITDA margins from digital of at least 35% this year as well.

So this is the choppiness of quarterly movements that it's not a concern to us.

Operator

Scott Gruber, Citi Research.

Scott Gruber - *Citibank Cameroon SA (Douala Branch) - Analyst*

Yes, good morning, Olivier and Stephane. I got a couple of questions on digital. So in a world where code-ready becomes easier and more commoditized, can you speak to the resilience of the value add of your digital portfolio? And as you kind of take moves to shape the portfolio like you've done with the S&P acquisition, how do you think about kind of expanding that value add and enhancing that resilience?

Olivier Le Peuch - *SLB NV - Chief Executive Officer, Director*

No, I think the customers are accelerating the adoption of digital because they believe that no matter what the cycle is turning into, a highly favorable cycle or a challenging cycle, they believe they need to differentiate, they need to add and extract efficiency, productivity in the geoscience and planning workflow, operational performance and efficiency into the drilling and into the production and recovery space.

And they have seen that the digital capability, and you can see it by the adoption of digital operation growing at--very nicely year-on-year and is driven by drilling, it's driven by production, operational workflow where customers are adopting AI solution, adopting software solution that can transform the performance of doing operations like drilling automation, can transform production workflow to render ESPs autonomous.

And I think this capability will be looked for, for every customer. So every use case we see is reasoning across customers in every basin. And I think we see this not only resilience. We see this as a long-term tail of any cycle and something that digital will continue to have a tailwind in our industry because we have data like no other industry has.

We have scientists and engineers that love to play with data, and we have AI that is starting to come at play as a catalyst to become an X factor, if you like, to unlock productivity. So we are, I think, unique in our capability. We have a domain knowledge that is deep, and we have the platform that can help scale this AI capability going forward.

So we feel that I think it is the right time for the industry to adopt AI at scale. We think that we have the platform, we have the deep domain and the first use case that are starting to be realized recently and the power of agentic in our industry will only reinforce this growth opportunity, and it's not only resilience, it's growth going forward. And we show more of this in the upcoming event in the Digital Investor Forum.

Scott Gruber - *Citibank Cameroon SA (Douala Branch) - Analyst*

I definitely look forward to it. And a follow-up here, just with an outlook for higher oil prices, at least over the medium term, how does that impact the digital business? I assume your seismic sales could improve? How meaningful could that be? And then kind of more importantly, would you anticipate customers taking some of this excess cash that they're generating and spend it on more software, more applications to get a bigger boost for their own internal efficiency?

Olivier Le Peuch - *SLB NV - Chief Executive Officer, Director*

Yes. Obviously, when the commodity prices are high, and I think the customers have more optionality with their discretionary spend, they use it into domain, in digital and they accelerate exploration. And I think we foresee and we have seen it and we have seen signals that exploration is coming back.

We have seen some announcements of some company reinvesting in exploration at scale because I believe they want to secure reserves to participate in long-term energy security. And at the same time, yes, they use this discretionary spend smartly and using this occasion to buy data assets to accelerate the exploration.

And we'll benefit from that, but also participate to more pilots and then make decisions faster to accelerate their platform software deployment in their organization.

Operator

Sebastian Erskine with Rothschild & Co Redburn.

Sebastian Erskine - *Redburn Partners LLP - Equity Analyst*

Hi, good morning, gentlemen. Thanks for taking my questions. Good morning.

I just look to start on SLB OneSubsea. It's really one of the jewels in the SLB crown, you guided at full year '25 results of $9 billion in sort of order intake over the next two years. But I wonder if you could give perhaps some outlook on the margin expansion potential within the OneSubsea business, particularly with comparisons with sort of broader offshore E&C universe.

Is there more room for integration with the rest of your portfolio or further efficiencies related to the existing kind of Aker subsea business? Any color on the margin outlook for OneSubsea?

Stephane Biguet - *SLB NV - Chief Financial Officer, Executive Vice President*

Yes, sure, Sebastian. You have noticed that actually for the first time, we gave you our margin for--in OneSubsea for the first quarter. Unfortunately, they were not as brilliant this quarter, but these are temporary effects for--due to the timing of project completions and start-ups.

So you've seen where the margins were in the same quarter of last year, pretax margins of 18%, which means EBITDA margin very close to 20%. So this is what we expect from this business over the cycle at the minimum.

And even though we started on a rough note in the first quarter, we expect the margins to normalize in the coming quarters then. And hopefully, on the back of backlog that is increasing year-on-year, we are actually up 5% year-on-year on the backlog. We have better visibility on the growth going forward and a potential margin uplift.

Olivier Le Peuch - *SLB NV - Chief Executive Officer, Director*

Yes, I just want to add a couple of things. Yes. So that's production and recovery. I think I just want to add that, obviously, subsea as a domain of deepwater, I think, is essential for our customers and production and recovery plays a great role. And I think we have a unique processing--subsea floor processing portfolio.

We have seen one more announcement that we are continuing to renovate and to enhance the project we have in Gullfaks in--with Equinor in Norway. And we have done one acquisition that complements offering to help us better participate into the intervention world of deepwater subsea.

So we believe, indeed, that production and recovery strategy and the connection with our--of our Core capability is essential going forward. It will help customers leverage OneSubsea to enhance the production of existing fields and provide more life of field services, as we call it, including digital capability to this subsea installation. So it's both on the E&C cycle. And then on the life of field services long term that will benefit.

Sebastian Erskine - *Redburn Partners LLP - Equity Analyst*

Really appreciate the color there. And then just a follow-up, I think, Olivier, in the prepared remarks, you mentioned towards the end of the data center solutions section, you were kind of considering potential further M&A following the closure or the announcement of the S&P Global deal. What areas are you seeking to add in terms of your portfolio? Any color on that would be helpful.

Olivier Le Peuch - *SLB NV - Chief Executive Officer, Director*

Yes, we are looking at everything where we believe that we could build a portfolio that give us a more technology anchor into our portfolio so that as we build more modular infrastructure solution across the full space, thermal management is one that obviously come to mind. And we look at the opportunity, we believe, could complement the offering we have and the go-to-market that we have catered and the height of play we have catered into the space.

Operator

Marc Bianchi, TD Cowen.

Marc Bianchi - *Cowen and Company LLC - Analyst*

Hi. Thank you very much. I just first wanted to quickly clarify on the outlook here for second quarter. So you're essentially saying that results will be the same as first quarter and there's sort of a $0.06 to $0.08 incremental hit from Middle East that's being offset elsewhere. Is that the message you're trying to deliver here?

Stephane Biguet - *SLB NV - Chief Financial Officer, Executive Vice President*

Yes. No, that's a good summary, Marc. Just to be clear, this is under the specific scenario that we highlighted where the operational disruptions start to ease more or less at the middle of the quarter and then gradually recover. So in this scenario, we can offset the negative impact of $0.06 to $0.08 incremental effect of Middle East with the rest of the international operations.

Marc Bianchi - *Cowen and Company LLC - Analyst*

Yes. Great, great, Stephane. The other question I had, going back to OneSubsea and sort of the $9 billion of awards over '26 and '27, is given sort of the outlook here, do you see upside to that now? And how are you sort of thinking about your competitive positioning? We hear a lot from your other competitor about their integrated capabilities. Can you kind of talk about how you see OneSubsea positioned from a competitive perspective?

Olivier Le Peuch - *SLB NV - Chief Executive Officer, Director*

So first, I think commenting on the cycle. I think the more reserve the dynamic plays favorably as the conflict ends, the more we believe that the investment will be attractive into the deepwater market as it is a majority actually of what we foresee as FID in '27 and '28. And hence, the more it will play into the size of the addressable market. Hence, if FID has firmed up, if not accelerated in '27 or even in '26, this will give us a potential to outperform the guidance we have given.

So yes. Now on the position, we feel very good with the position we have, extremely good. We have a partner with Subsea7 gave us when and as customers ask for integrated offering the integrated capability to deliver, and we have done it at scale with many customers.

We feel that we have developed partnership and collaborative engagement with several customers that have led us to be getting--working jointly with our customers to help and provide support to increase and improve the design of the subsea architecture and unlock FID, and this is through with the partner we have in--with Equinor, with bp.

And we believe that we have a unique portfolio with subsea processing that is having no match on the market. And you have seen the announcement today, and you will continue to see a pipeline of projects that will make it pretty unique in the marketplace.

You have seen the Ormen Lange subsea gas compression that unlock a new level of recovery for the field of Ormen Lange in Norway. You have seen the additional announcement we did today on the Gullfaks project where we'll rework with our customer to make sure that we extend the life and improve the performance of this capacity of subsea processing so that it unlocks next level of recovery.

So yes, we feel good about our integrated capability--integration capability with good pipeline offer that you have seen. We were awarded in Malaysia, in South China Sea, in Suriname and in Norway announced today. And we'll continue to have a pipeline of exciting project going forward across the basin. I mentioned earlier, Americas, Asia and Africa. So we are pleased with the OneSubsea progress and continue to support them fully.

Operator

Neil Mehta, Goldman Sachs.

Neil Mehta

Morning. You guys talked a lot about some of the cost impacts that you're seeing in the Middle East and how that's impacting margins, and I think we all understand that at a conceptual level, things like freight. But can you just kind of give us some of the line items that might be causing the pressure point and help us understand what are some of the specific items that are pressure points?

Stephane Biguet - *SLB NV - Chief Financial Officer, Executive Vice President*

Sure, sure, we can do that. So clearly, from the situation in the Middle East, it introduced quite some strain on supply chain networks locally, but with ripple effects in other places in the world. So probably the line item, but the most impacted is logistics and transportation costs clearly.

Coming next is raw materials, those which are derived from petroleum products, of course, and that would also include chemicals. So it's raw materials and logistics mostly. So this has impacted our margins in the first quarter, and it will linger for a while.

Now we are not going to let just that hit our cost. We have mobilized our commercial organization to recover some of these increased costs, and we are activating inflation passthrough clauses that we have in our contracts. And if we don't, we are in direct negotiations with both our suppliers and our customers to offset these effects. So we are kind of used to these spikes in costs coming from inflation and we'll try to recover as much as we can.

Neil Mehta

And my last question. It's been a couple of months now that ChampionX has officially been in the SLB portfolio. Just any observations about what it's bringing to the table here and how you've been able to integrate the system into the broader company?

Olivier Le Peuch - *SLB NV - Chief Executive Officer, Director*

First, I think I will reiterate the results part of the ChampionX's addition to the portfolio, as Stephane highlighted, I think ChampionX has been portfolio accretive to the company in the first quarter, and I think it has been growing year-on-year and expanding margin year-on-year.

Second, I will come back to the three days we spend with our Board in Midland. I think it was a pleasure to see in action our ChampionX employees integrating fully in a pore to pipeline, if you like, a tool that we made for our customers with our Board of Directors to showcase our fit for-basin technology in the Permian, highly integrated, already getting pulled through, already getting synergy, revenue synergy and technology synergy that customers are appreciative.

The second highlight of this trip was meeting of our customers. We also had many customers with our Board of Directors in Midland. And I think it was a pleasure to give--to get feedback, very direct and transparent feedback from our customers.

They were very pleased with the integration progress, and they have seen the light of the potential that ChampionX with the great SLB can bring to the operation in the Permian. So we are seeing the benefits on the financial results.

We are seeing an exciting opportunity for production and recovery as we commented on the summit that we also said lately, and we see the enthusiasm of our team starting with the ChampionX employees and the customers that are appreciative and recognize this is something unique that we have and something that can unlock the potential of production and recovery, particularly in unconventional but in all of our basin in the world as well.

Operator

Thank you. I will now turn the call over to SLB for closing comments.

Olivier Le Peuch - *SLB NV - Chief Executive Officer, Director*

So thank you very much. So ladies and gentlemen, as we conclude today's call, I would like to leave you with the following reflection.

First, while recent events have created near-term disruption, they have also reinforced the need for secure and reliable energy, which will support oil price above pre-conflict levels and create an enduring backdrop for oil and gas investment.

Second, production and recovery, digital and data center solutions are creating the foundation for accelerated growth.

And finally, I want to take a moment to recognize that this year marks 100 years of SLB.

As we celebrate this milestone, I'm proud that we are not only honoring an extraordinary legacy, but also building the foundation for the next century of innovation, performance and leadership.

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

Operator

This concludes today's conference call. You may now disconnect.
