SLB Fourth-Quarter and Full-Year 2023 Results Prepared Remarks

James McDonald—SVP of Investor Relations & Industry Affairs

Thank you, Leah.

Good morning, and welcome to the SLB Fourth-Quarter and Full-Year 2023 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. 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 fourth-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 discuss our fourth-quarter and full-year results, highlight a number of achievements, and share our thoughts on the outlook for 2024 and our financial ambitions.

Stephane will then provide more detail on our financial results, and we will open the line for your questions. Let's begin.

Strong Fourth-Quarter Performance

The fourth quarter was an impressive conclusion to the year's financial results. We grew revenue both sequentially and year-on-year, and we achieved cycle-high margins and cash flows during the quarter. Our strong performance was fueled by the international and offshore markets and was supported by robust sales in Digital and the integration of the acquired Aker subsea business.

Throughout the year, we witnessed continued growth in the international and offshore markets, where customers are focused on enhanced production and capacity additions. We've also seen further investments in digital technologies for planning and operational efficiencies—this is driving growth today and presenting opportunities into the future.

The international shift in investments has accelerated during the year, with fourth-quarter revenue growth driven by the Middle East & Asia and Europe & Africa, where we continue to benefit from long-cycle developments, capacity expansions, and exploration and appraisal activities. Specific to offshore, we delivered a very strong fourth quarter as we grew our legacy portfolio and harnessed a strong performance from our OneSubsea joint venture. On this note, I would like to extend my thanks to the entire Aker subsea team, who have joined us three months ago, and have already contributed very well to our strong year end results.

Exiting the year, our international revenue and margins reached new cycle highs, marking our 10th consecutive quarter of year-on-year double-digit revenue growth on the international front. And we delivered exceptional free cash flow of $2.3 billion in the quarter.

Impressive Full-Year Results

Next, let me reflect on our accomplishments for the full year.

We fulfilled our full-year financial ambitions, growing revenue by 18%, surpassing our revenue growth target for the year, and achieving adjusted EBITDA growth in the mid-twenties. Additionally, we generated $4 billion in free cash flow, our highest since 2015.

In the Core, across Production Systems, Reservoir Performance, and Well Construction, we grew revenue by more than 20% and expanded pretax operating margins by almost 300 basis points. This was driven by strong activity internationally and offshore, new technology deployment, and strong product sales. Notably, we achieved our highest-ever revenue in the Middle East, led by impressive growth in Saudi Arabia, the United Arab Emirates, Egypt, and the East Mediterranean. Offshore also continued its positive momentum, led by remarkable growth in Brazil and Angola, and very solid increases in the US Gulf of Mexico, Guyana, and Norway. This was supported by the contribution from the acquired Aker subsea business, which enabled us to expand in certain markets, mainly in Norway and Australia. Additionally, our Fit-for-Basin business model continued to deliver differentiated value in North America, resulting in revenue growth outperforming the rig count.

In Digital, we continue to witness the adoption of our Digital Workflow and Data/AI platforms as customers work to enhance efficiency and returns by integrating our connected and autonomous drilling, data, and AI solutions. We now have more than 6,000 Delfi™ users and have generated 125 million compute hours, both representing more than 40% growth year on year. As a result, we achieved full-year digital revenue of more than $2 billion, with our new technology platforms—comprised of cloud, edge, and AI— growing at a CAGR of 60% since 2021.

In New Energy, we forged new partnerships and made new investments in capture technology for Carbon Capture and Storage. We are seeing very positive momentum in this space, and we are actively participating in more than $400 million of CCS tenders globally. Additionally, in Geothermal and Geoenergy, we are partnering with government agencies in the Middle East on lower-carbon electricity and in Europe on zero-carbon heating and cooling solutions.

As we advanced our three engines of growth, we also continued to deliver for our customers and stakeholders by achieving our lowest recordable injury rate and highest level of operational reliability on record. This is also reflected in industry surveys, where we are growing customer satisfaction through performance and value creation. Finally, we reduced our emissions intensity across Scope 1, 2, and 3 on the path to achieving our 2025 emission reduction commitments.

Moving forward, we are well positioned to capture further growth and I look forward to building on this strong success in the year ahead. I want to thank the entire SLB team for delivering these impressive results.

Macro Update

Turning to the macro, the characteristics of breadth, resilience, and durability that have defined this cycle remain fully in place. This continues to be supported by the imperative of energy security to meet rising global demand, confirming our belief in the longevity of the cycle.

After a year of demand growth in 2023, we anticipate further growth in 2024 that will continue to support the ongoing multi-year investment cycle. In the international markets, growth momentum is set to continue with more than two-thirds of total investment taking place in the Middle East, offshore, and gas resource plays.

In the Middle East, growth will be led by Saudi Arabia and the United Arab Emirates, which continue to commit significant investments to increase production capacity in both oil and unconventional gas, followed by Iraq and Kuwait. Meanwhile, in Asia, countries such as China, Malaysia, Indonesia, and India are leading new gas exploration and development. And across other international basins, we anticipate strong activity led by Brazil and followed by West Africa and Australia.

Looking across this wide baseload of activity, a significant portion is taking place offshore, where capital expenditures will continue their growth momentum in 2024. As a result, the rig count will continue to rise, mainly in the Middle East and Asia, responding to a strong FID pipeline in both shallow and deepwater. All in all, we see the potential for more than $100 billion in global offshore FIDs in both 2024 and 2025, underscoring the enduring strengths of the offshore markets and supporting a very favorable subsea outlook for years to come.

In this context, although geopolitical tensions persist in several regions, we do not expect any significant impact to activity in 2024, absent further escalation. Additionally, although we have witnessed short-term commodity prices fluctuate over the past few months, long-cycle investments in the Middle East, offshore, and gas markets remain decoupled from short-term pricing, which will continue to support the resilience of these markets.

In North America, following a noticeable moderation of activity in the latter part of 2023, we anticipate capital discipline to continue. Consequently, investment levels will be sustained at 2023 exit rates, with minimal increase in activity, as the region focuses on sustaining its record output from last year. This will drive further adoption of technology, as operators aim to further improve efficiency and recovery rates.

Full-Year Guidance

Now, let me explain how we expect these factors to drive our performance in 2024.

In the international markets, we expect full-year revenue growth reaching the mid-teens, led by the Middle East & Asia and Europe & Africa. This growth will take place both onshore and offshore, with offshore benefitting from our newly formed OneSubsea joint venture, which enters the year with close to $4.5 billion of subsea production systems backlog. We expect to deliver more than $4 billion in additional subsea bookings in 2024, representing an increase of more than 25% year-on-year as the market continues to expand. For clarity, when excluding the impact of the Aker contribution and the expected decline in Russia, we expect double-digit international [revenue] growth for the year.

Meanwhile, in North America, although activity has moderated, we expect full-year revenue growth reaching the mid-single digits, driven by our technology-leveraged portfolio in both US land and the US Gulf of Mexico.

Turning to the divisions, we expect all Core divisions to grow, led by Production Systems and Reservoir Performance. Digital & Integration is also expected to grow, with Digital growing in the high teens—primarily driven by the new technology platforms—while APS remains flat.

Directionally, we expect further margin expansion driven by tight service capacity internationally, pricing, and increased technology adoption. This will result in year-on-year EBITDA growth in the mid-teens.

With continued growth in earnings, our proven ability to generate cash, and confidence in the long-term outlook, we are pleased to announce that the Board of Directors have approved a 10% increase in our quarterly dividend. And we will also increase our share repurchase program in 2024. Combined, we are targeting to return more than $2.5 billion to shareholders in 2024, an increase of more than 25% compared to 2023.

First-Quarter Guidance

Looking to the first quarter, we anticipate the typical pattern of activity, beginning with the combined effects of seasonality and the absence of year-end digital sales. As a result, on a year-on-year basis, we expect first quarter revenue growth in the low teens, and EBITDA growth in the mid-teens.

This will be followed by an activity rebound in the second quarter, and further acceleration of growth in the second half of the year, particularly in the international markets. This will support the ambitions we have set for full-year revenue and earnings growth.

I will now turn the call over to Stephane.

Stephane Biguet—*Executive VP and CFO*

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

Fourth-quarter earnings per share, excluding charges and credits was 86 cents. This represents an increase of 8 cents sequentially and an increase of 15 cents when compared to the same period of last year.

We recorded 9 cents of charges during the fourth quarter of this year—6 cents related to the devaluation of the peso in Argentina and the remaining 3 cents related to merger and integration costs associated with our acquisition of the Aker subsea business, which closed at the beginning of the quarter. We anticipate that we will incur additional charges as integration activities continue over the course of 2024.

Our full-year 2023 revenue of $33.1 billion grew 18% year on year. While this revenue is roughly the same as the pre-pandemic level of 2019, our adjusted EBITDA in 2023, in absolute dollars was 22% higher. As a result, our full-year 2023 EBITDA margin of 24.5% has expanded 430 basis points over this period on the similar revenue base. This highlights the high grading of our portfolio over the last few years, our significantly improved operating leverage, and our favorable market position, particularly internationally and offshore.

Fourth-quarter revenue of $8.99 billion increased 8% sequentially with the acquired Aker subsea business accounting for approximately 70% of the increase.

Fourth-quarter pretax operating margin of 20.8% improved 52 basis points sequentially and 101 basis points year on year.

Adjusted EBITDA margin for the fourth quarter of 25.3% was 95 basis points higher than the same period of last year.

I will now go through the fourth-quarter results for each Division.

Fourth-quarter Digital & Integration revenue of $1 billion increased 7% sequentially with pretax operating margin expanding 197 basis points to 34%.

This growth was due to increased Digital revenue across all areas, led by the Middle East & Asia and Europe & Africa.

Reservoir Performance revenue of $1.7 billion grew 3% sequentially primarily due to increased activity internationally, mainly in the Middle East and Africa.

Pretax operating margin increased 88 basis points to 21.4%, representing the highest level of the cycle, driven by higher activity and improved pricing.

Well Construction revenue of $3.4 billion was essentially flat sequentially as international growth of 2% was offset by a decline in North America revenue resulting from lower US land rig count. Pretax operating margin increased 35 basis points sequentially.

Lastly, Production Systems revenue of $2.9 billion increased 24% sequentially largely due to the acquired Aker subsea business. Excluding this effect, revenue grew 4% sequentially due to strong international sales.

Pretax operating margin expanded 153 basis points to 15%, its highest level this cycle, on higher sales of midstream, artificial lift, and subsea production systems.

Looking ahead to the full year of 2024, we expect continued margin expansion in our Core, driven by sustained operating leverage, a favorable geographic mix, and pricing tailwinds.

In our Digital & Integration division, we expect margins to remain approximately at the same level as 2023 as digital margins will increase due to the accelerated adoption of our new technology platforms, while APS margins will decrease as a result of higher amortization expenses.

All-in-all, as mentioned by Olivier, strong year-on-year revenue growth and continued margin expansion will result in adjusted EBITDA growth in the mid-teens in 2024 when compared to 2023.

Now turning to our liquidity.

We generated $3 billion of cash flow from operations and $2.3 billion of free cash flow during the fourth quarter. This exceptional performance resulted in full year free cash flow of $4 billion, which is the highest level we have achieved since 2015. This was due to a combination of very strong year-end receivable cash collections, increased customer advances, improved inventory turns, and the receipt of a prior year tax refund.

As a result of this exceptional free cash flow performance, we reduced our net debt by $1.4 billion during the quarter to $8 billion. This represents our lowest net debt level since the first quarter of 2016.

Capital investments, including capex and investments in APS projects and exploration data, were $742 million in the fourth quarter and $2.6 billion for the full year.

Looking ahead, we will continue to be disciplined as it relates to our capital investments. Despite the continued revenue growth, our 2024 capital investments will remain at approximately the same level as in 2023.

Finally, during the fourth quarter, we repurchased 1.8 million shares of our stock for a total purchase price of $100 million.

For the full year we returned a total of $2 billion to shareholders in the form of dividends and stock repurchases.

Our continued capital discipline, combined with the confidence we have that 2024 will be another year of strong cash flow generation, will enable us to increase our return to shareholders in 2024.

In this regard, when combining the increased quarterly dividend that we announced today with increased share repurchases, we are targeting to return more than $2.5 billion to our shareholders in 2024.

I will now turn the conference call back to Olivier.

Olivier Le Peuch—*CEO*

Thank you, Stephane. Ladies and gentlemen, we will now start the Q&A.

Olivier Le Peuch—*CEO*

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

First, our fourth quarter and full year 2023 results underscore SLB's differentiated ability to generate returns throughout the cycle. We delivered strong revenue growth and free cash flow above expectations and continued to expand EBITDA and operating margins. With momentum across our three engines of growth and our returns-focused strategy in place, we will continue to build on this success in the year ahead.

Second, the macro environment remains very compelling for our business, with investment and activity predicated in the international and offshore basins. Combined with tight service capacity and an emphasis on performance and digital, we are well positioned to expand our lead by delivering exceptional value to our customers.

Finally, I remain very confident in our strategy and impressed by the outstanding performance of our teams. I am fully confident in our ability to deliver our 2024 financial targets and continue increasing shareholder returns. I look forward to sharing our progress with you throughout the year.

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