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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the SLB Earnings Conference Call. (Operator Instructions) As a reminder, this conference is being recorded.

I would now like to turn the conference over to the Vice President of Investor Relations, ND Maduemezia. Please go ahead.

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

Thank you, Leah. Good morning, and welcome to the SLB Fourth Quarter and Full Year 2022 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'll be making today are forward-looking. These matters involve risks and uncertainties that could cause our results to differ materially from those projected in these statements. I therefore refer you to our latest 10-K filing and our other SEC filings.

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

With that, I'll turn the call over to you, Olivier.

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

Thank you, ND. Ladies and gentlemen, thank you for joining us on the call today. In my prepared remarks, I will cover our fourth quarter results and follow this with a quick review of our full year 2022 achievements. Then I will share some thoughts on the outlook for the full year. Stephane will then provide more detail on our financial results, and we will open for your questions.

To begin, we sustained growth momentum through the fourth quarter, delivering strong revenue growth and further margin expansion, both sequentially and year-over-year. The quarter was characterized by very strong activity growth in the Middle East and offshore and was augmented by robust year-end sales in Digital.

Growth was once again broad-based, and our operational, commercial and earnings performance was outstanding. We ended the fourth quarter with sequential revenue growth and margin expansion in North America and in all international areas. In the international markets, quarterly revenue topped $6 million for the first time in more than 4 years. Additionally, our international revenue growth rate has visibly outpaced international rig count growth since the cycle trough in 2020. Service pricing, new technology and digital adoption all continued to trend positively.

Looking broadly over the second half of the year, the pace of growth in North America significantly moderated. At the same time, international accelerated, growing in excess of 20% compared to the first half of the year, almost twice the growth rate of North America. We are clearly witnessing the start of a new phase of -- in the growth cycle, which will increasingly be driven by resilient international growth. This market dynamic led to a lower-than-usual cash flow performance at year-end. However, we further reduced net debt during the quarter and closed the year below our leverage target.

Overall, these fourth quarter results helped us surpass our revised full year revenue guidance, and we closed with EPS, pretax segment operating income and margins all at the highest levels in 7 years.

Switching to the full year. 2022 was pivotal for our industry and for SLB. It marked the second consecutive year of outperformance for the energy sector, providing further evidence of the multi-year up cycle and investment momentum that is underway. I would like to take a few minutes to reflect on what we achieved.

We announced our new brand identity with sustainability embedded in everything we do and opened a new chapter for the company. This, firmly positioned SLB to benefit from the underlying macro trends that will shape the future of energy: Oil and gas technology innovation, industrial decarbonization, digital transformation and new energy systems.

We executed consistently for our customers, achieving our best safety and operation integrity performance on record. We advanced our technology leadership and service quality differentiation, leading to more contract awards, higher technology adoption and increased pricing premium.

In our Core divisions, we expanded pretax operating margins by more than 300 basis points. This was led by well construction, which expanded margins by more than 550 basis points. We also launched new products, service and solutions that increase efficiency and lower operational emissions. You have seen many examples of this in today's press release.

Our fit-for-basin, technology access and Transition Technologies portfolio have fueled growth and margin expansion in every division and every geographic area throughout the year. And we continue to strengthen our Core portfolio for growth and position for future resilience and returns with the acquisition of Gyrodata and the announced joint venture with Aker Solutions for Subsea.

In Digital, we had strong growth in exploration data, INNOVATION FACTORI and AI solution sales, and the adoption of our new tech digital platform is accelerating. We ended the year with more than 270 DELFI customers, more than 70% growth in DELFI users, and our SaaS revenue more than doubled. These positive undercurrents, combined with higher APS revenue, contributed to the Digital & Integration division expanding pretax operating margins by more than 170 basis points.

We continue to build adjacent expansion opportunities for our Digital business, both in operation data space and beyond oil and gas, such as carbon management.

And in New Energy, we progressed technology development milestones, established new partnerships, particularly in CCS and made new investments that have created a focused yet comprehensive portfolio that offers promising growth opportunities for the future. Today, this portfolio comprises 5 business areas: Carbon solutions, hydrogen, geothermal and geo-energy, critical minerals and stationary energy storage. And we are accelerating our R&D efforts to develop technology solutions that address hard-to-abate industrial and power generation emissions.

As you see, our 3 engines of growth are on solid footing and are positioned for market success. In sustainability, we reduced our own carbon emissions intensity in Scopes 1 and 2. And we continue to be one of the highest-ranked companies in our industry across the 4 rating agencies.

We also made significant advances, launching SLB End-to-End Emission Solution, or SEES, an industry first to help our oil and gas customers address methane and other greenhouse gas emissions.

Finally, for our shareholders, we demonstrated our commitment to superior returns. We increased our dividend by 40% in April 2022, followed by a further 43% increase announced today. And we resumed our share buyback program this month.

These achievements highlight a remarkable year for SLB and speak to how we have successfully leveraged the breadth of our portfolio and our competitive strengths to deliver clear, leading outcomes for our customers and shareholders. We are primed for significant success and look forward to carrying momentum into the year ahead. I would like to extend my thanks to the entire SLB team for delivering an outstanding year.

Moving to the macro. We enter 2023 against a backdrop of market fundamentals that remain compelling for both oil and gas and low carbon energy resource.

First, despite concern for potential economic slowdown in certain regions, oil and gas demand growth remains resilient. The IEA forecasts that oil and gas demand will grow by 1.9 million barrels to reach approximately 102 million barrels per day. In parallel, markets will remain tightly supplied with modest production increase offset by the end of SPR releases, and well productivity declines in certain regions, most notably in North America.

Second, there is a greater sense of urgency around energy security. This is resulting in new investment in capacity expansion and diversity of supply. You will see this reflected in a number of new projects sanctioned, gas supply agreements signed and the return of offshore exploration, all at a pace unforeseen just 18 months ago.

And third, the secular trends of digital and decarbonization are set to accelerate, driven by significant digital technology advancement in cloud and AI, favorable government policy support in New Energy investments and increased spending on low carbon initiatives by operator globally. Underpinning everything, commodity prices remain at supportive levels for durable investment.

In North America, spending growth is expected to be more restrained after an exceptionally strong year in 2022. Capital spending growth is expected to increase in the high teens as rig counts potentially approach a plateau. Public companies, particularly the majors, are expected to increase short-cycle spending in key U.S. land basins, and drilling activity will remain strong to build up well inventory and support target production increases. In the U.S. Gulf of Mexico, where we have a significant presence, we expect the strong spending uplift to continue.

Turning to international. Markets are poised for strong growth in the Middle East and Latin America geographically and more broadly in offshore and in gas. In the Middle East, we expect record levels of upstream investment, with a ramp-up in various capacity expansion projects designed to deliver more gas production and a combined oil increment of 4 million barrels per day through 2030. Offshore activity will continue to strengthen as tieback and new development projects mobilize and new FIDs are sanctioned, while Russian activity is expected to contract.

Excluding Russia, customers' capital spending internationally is expected to increase in the mid-teens. The combination of long-cycle oil capacity expansion projects, offshore deepwater resurgence and strong gas development activity will be a key driver for the multiyear duration of this cycle. This outlook is very favorable for SLB with multiple paths for resilient growth in Core, Digital and New Energy.

On a full year basis, our ambition is to grow revenue in excess of 15% compared to 2022, supported by the step-up in international and offshore momentum, which will augment the growth established in North America. As a result, year-on-year adjusted EBITDA growth will be in the mid-20s, driven by further margin expansion.

More specifically, in the international markets, we foresee growth in the high teens, excluding Russia, which is set to decline this year. We expect the highest growth rates to be realized in the Middle East and in offshore markets, particularly in Latin America and in Africa. In North America, we anticipate about 20% growth supported by offshore strength, land drilling activity and higher pricing. Full year margin expansion will be driven by further positive pricing dynamics, increased technology adoption and improvements from our enhanced operating leverage, mainly internationally.

Let me share with you how we see this year unfolding. Directionally, during the first quarter, we anticipate a typical pattern of activity, beginning with the combined effects of seasonality and the absence of year-end product and digital sales.

Additionally, the first quarter will reflect some impact of year-on-year Russia activity decline. This will be followed by a rebound in the second quarter and further acceleration of growth trajectory in the second half of the year, particularly in the international markets. This typical pattern of activity and the favorable dynamics I described earlier combine to support the ambition we have set for full year growth and margin expansion.

In addition, the beneficial impacts of an earlier-than-expected reopening in China, the easing of inflationary trends and any further restrictions on Russia exports could lead to an acceleration of short cycle activity globally and fast tracking of FIDs internationally. This could present further upside over the second half of the year.

I will now turn the call over to Stephane.

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

Thank you, Olivier, and good morning, ladies and gentlemen. Fourth quarter earnings per share, excluding charges and credits, was $0.71. This represents an increase of $0.08 compared to the third quarter and an increase of $0.30 or 73% when compared to the same period of last year. In addition, we recorded a net credit of $0.03, which brought our GAAP EPS to $0.74. You can find details of the components of this net credit in the FAQs at the end of our earnings press release.

Overall, our fourth quarter revenue of $7.9 billion increased 5% sequentially and 27% year-on-year. All divisions posted sequential revenue growth, led by Digital & Integration and Reservoir Performance. From a geographical perspective, North America revenue grew 6% sequentially, while international revenue grew 5%, led by the Middle East.

Fourth quarter pretax operating margins of 19.8% improved 104 basis points sequentially and 393 basis points year-on-year. Notably, over 70% of our geo units posted their best margins since 2016. Adjusted EBITDA margin for the quarter of 24.4% was 219 basis points higher than the same quarter of last year, exceeding the guidance we provided at the beginning of the year.

Let me now go through the fourth quarter results for each division. Fourth quarter Digital & Integration revenue of $1 billion increased 12% sequentially with pretax operating margins expanding 386 basis points to 37.7%. This growth was driven by year-end exploration data licensing sales in the Gulf of Mexico and Africa, increased APS project activity in Ecuador and higher digital sales internationally.

Reservoir Performance revenue increased 7% sequentially, while margins expanded 146 basis points, primarily due to new projects and activity gains internationally, led by the Middle East and the offshore basins.

Well Construction revenue of $3.2 billion increased 5% sequentially due to strong activity from new projects and solid pricing improvements internationally, particularly in the Middle East and in Latin America. Margins of 21% declined 50 basis points as improved profitability from the higher activity in the Middle East and Latin America was more than offset by the onset of seasonal effects in the northern hemisphere.

Finally, Production Systems revenue of $2.2 billion was up 3% sequentially on higher international sales of artificial lift, completions and midstream production systems, partially offset by reduced sales of valves and subsea production systems. Margins improved 32 basis points due to favorable technology and project mix.

Now turning to our liquidity. Cash flow from operations during the quarter was $1.6 billion, and free cash flow was $855 million. This performance did not reflect the increase we typically experience in the last quarter of the year as free cash flow was $200 million lower than in the previous quarter. This was due to a combination of the following 4 factors.

First, we experienced extraordinary year-on-year fourth quarter revenue growth of 27%, representing incremental revenue of almost $1.7 billion.

Second, our inventory balance increased 22% year-on-year to support our increasing product backlog driven by the sizable share of tender awards we have secured going into 2023.

Third, we pulled forward certain investments in CapEx in order to fully seize the continued revenue growth expected in 2023, particularly in our Well Construction and Reservoir Performance divisions. As a result, our capital investments increased $255 million sequentially. Our full year 2022 capital investments were therefore $2.3 billion, as compared to our initial guidance at the beginning of the year of $1.9 billion to $2 billion. Despite this increase, the CapEx portion of our capital investments was still at the midpoint of our 5% to 7% of revenue target.

Lastly, lower-than-expected year-end accounts receivable collections contributed to reduced free cash flow. As you may recall, we had exceptional cash collections in the fourth quarter of 2021. We did not achieve the same level of year-end collections as last year. And as a result, our DSO in Q4 2022 was approximately 5 days higher than at the same time last year. However, it is worth noting that our 2022 year-end DSO was the second best we have achieved going back at least 2 decades. Therefore, this is just a timing issue.

Beyond free cash flow, our overall cash position was enhanced by the partial monetization of our investment in the Arabian Drilling Company, an onshore and offshore drilling rig company in Saudi Arabia. ADC completed an initial public offering during the fourth quarter. And in connection with this IPO, we sold a portion of our interest in the secondary offering that resulted in us receiving net proceeds of $223 million. We currently have a 34% interest in ADC.

We also sold an additional portion of our shares in Liberty, which generated $218 million of net proceeds during the quarter. We currently have a 5% interest in Liberty.

As a result of all of this, we ended the year with net debt of $9.3 billion. This represents an improvement of approximately $400 million sequentially and $1.7 billion compared to the end of 2021. This also represents our lowest net debt level since the first quarter of 2016. Consequently, our net debt-to-EBITDA leverage is now down to 1.4.

In addition, our gross debt reduced by almost $2 billion during the year. We repaid in the fourth quarter $900 million of debt that matured and repurchased $800 million of notes that were going to come due in 2024 and 2025. As a result of our strong operating results and the net debt reduction, our return on capital employed for 2022 was 13%, representing its highest level since 2014.

Now looking ahead to 2023. We expect total capital investments, consisting of CapEx and investments in APS and exploration data, to be approximately $2.5 billion to $2.6 billion as compared to $2.3 billion in 2022. Based on this, our capital investments will grow at a slower pace than our expected revenue growth in 2023.

As a result, and when taking into account our 2023 guidance for EBITDA to increase in the mid-20s when compared to 2022, we are confident that our free cash flow will increase significantly in 2023. Accordingly, we reaffirm our ambition to deliver a minimum average of 10% free cash flow margin through the 2021 to 2025 period. This will allow us to continue increasing returns to shareholders as we leverage both the length and strength of the current growth cycle. Specifically for 2023, we expect to distribute visibly more than 50% of our free cash flow to our shareholders between dividends and stock buybacks.

Today, we declared the 43% increase in our quarterly cash dividend to $0.25 per share, in line with our announcement at our recent Investor Day event. In addition, we have resumed our share repurchase program this month and are now targeting a minimum amount of $200 million for the quarter. For 2023, we are targeting to return a total of $2 billion to our shareholders in the form of dividends and buybacks.

I will now turn the conference call back to Olivier.

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

Thank you, Stephane. Ladies and gentlemen, I think we are ready for opening the floor to the questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question comes from the line of James West with Evercore ISI.

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

So I guess the first thing I wanted to touch on, Olivier, is the international business had a really strong second half, particularly strong fourth quarter. But from everything I understand and see in the market, is we're really just getting started with ramping activity, particularly in the Middle East, particularly in some of the offshore markets. But we're in the early stages of that. And so there should be a further acceleration in international activity. I know you gave some guidance for '23 in terms of what you're anticipating in terms of revenue and EBITDA.

But how would you characterize the next several quarters? We'll see, of course, the normal seasonality in 1Q. But as we get into kind of 2Q, 3Q of next year, we should see kind of big volume increases. And then of course price increases on top of that.

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

No, indeed. I think let me reframe a little bit of the guidance we shared. As we see today, the combination of offshore, Middle East and broad gas investments internationally will continue to support a very solid growth internationally.

We are seeing, as we have seen in the fourth quarter, an uptick into the rate of growth for Middle East, and that's driven by a commitment to oil capacity increase and further gas developments. And this, as I commented briefly in my prepared remarks, will lead Middle East investment to be on record, ever, as we anticipated in this year or next year. And as a result, will generate significant pull for our revenue going forward.

But I think what I will say is that what is characterizing international, as we see it, is that it has a lot of resilience because it's multi-pronged, it's multiple engines, short and long, oil and gas, offshore and onshore. And I believe that the multiyear commitments for capacity expansion and gas development in Middle East is combining with offshore long cycle, a return of deepwater, which is the operating environment that will see the most activity increase this year. And also the return or the acceleration of exploration and appraisal offshore, which should be one of the defining characteristics of the quarters to come.

So when you combine all of this, you are getting a very resilient multi-pronged and multiyear sustained growth pattern for the international market. And I think that's what we see. And it will indeed support not only growth this year, but it will support year growth next year and the years to come. And it will be multi-pronged and fairly broad and with multiple geographic impact.

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

Right. That's exactly what we're seeing. So excellent there. And then maybe if I could hone in just as a follow-up on the offshore markets because that's an area where Schlumberger has -- or sorry, SLB has an increased market share. It's also a high technology area of the business.

Could you maybe talk through some of the things that are happening in offshore, shallow water plus really the deepwater area? And especially, what you're seeing in exploration and appraisal? Because that's, as you said, the defining characteristic here. And we haven't seen exploration in, well, a long time. So I'd love to get your thoughts there.

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

Yes, absolutely. First, I think to define, offshore has been, I think, seeing an uptick that started about 18 months ago. We don't see it abating and we see it continue to steadily grow.

I think what is changing this year is that whereas the shallow water environment was leading the growth to a large extent in the early part of this offshore cycle expansion, we are seeing the deepwater to catch up. And including, indeed, exploration and appraisal activity that is set to visibly outpace international offshore activity actually. So deepwater will be the highest operating environment activity growth in 2023. And as part of it, exploration and appraisal will be also outpacing and certainly rebounding.

So it's visible in multiple regions. And I think you have seen East Mediterranean with a couple of announcements by 2 or 3 major announcements of gas discoveries that are set to be appraised further and then for future development. You have seen some, last year, announcement in the South Africa and Namibia Basin that also get additional appraisal and future development. And you have seen that the East Atlantic margin and/or Suriname and Guyana remains very hot. And finally, East Asia is also seeing some deepwater gas exploration at the same time.

So you have these 4 or 5 offshore mostly deepwater areas that are seeing exploration and appraisal. Results of gas and oil energy -- gas and energy security and oil -- pursuit of oil reserve replacements by major and by national -- large national oil companies. So I think this is happening.

And this builds on top of the very high shallow water activity that has already rebounded and is set to further accelerate in the Middle East, where, be it in Saudi, in UAE or in Qatar, we have a combination of oil and gas offshore development plans that are in place. So offshore outlook is strong and is here to stay for years to come.

Operator

Our next question is from David Anderson with Barclays.

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

Olivier. So 2 things really kind of -- 2 things really stood out to me today. I guess the first was you calling this a distinctive new phase of the cycle. But also really kind of what it means for the duration of the cycle, what I'd like to ask you about.

So first, on the Middle East. It's clearly now taken center stage. You've talked about a record level of upshoot in spending in the next few years. In a lot of ways, it's feeling like 2005 again. But I was wondering if you could talk about how this cycle could be different for SLB in this region, from the perspective of the types of work you're performing, how are the contracts being tendered differently? And really, what that means for the pricing opportunity, both within discrete services and integrated contracts?

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

No. Thank you, Dave. Let me comment first on your remark on durability. I really believe that the cycle that we have entered internationally, that is characterized now by the Middle East joining the growth engine, if you like, is set to be very durable. I think -- and the driver of that, as I said, is a combination of 4 or 5 countries having committed capacity expansion for oil production for the future, and that are much in need as we can see that the tight supply is here to stay and to stretch the market. And also for regional gas development.

And this is happening simultaneously in multiple countries. So this is set to happen, and will not last 1 year. These are long cycle offshore, onshore, gas, and some of it unconventional and oil development. So this is first, durability is here to stay, and we are talking about years. And I think the targets are expanding anywhere from to 2027 to 2030, depending on the country, depending on the ambition they have on sustained capacity production.

So second is that what is quite unique, and this is a combination of offshore, onshore, oil, gas, conventional and unconventional. I think you have the Qatar conventional gas development, it is only set to further increase. You have the unconventional development in Saudi. And in UAE, you have the other gas development in the region, including the East Med that has a -- fundamental potential of East Med gas development. And then you have the mix of offshore, onshore that I think is quite unique, particularly on the rebound on the shallow water increase of activity that you have seen.

So that is unique and that gives us a unique opportunity to outperform and to use our fit-for-basin, to use our local content, to use our customer centricity and engagement that we have in the region, and to build on those market positions to really benefit. And we are poised to certainly have record revenue in Middle East in -- during this cycle, and eclipse previous 2014 peak by a margin.

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

And how are the contracts different? Before -- last cycle, I don't think we really talked about integrated drilling contracts or kind of the LSTK contracts. I think it was mostly discrete services. So is that different today? And how does that change sort of your business? Is there more opportunity? There is some more risk there as well.

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

I think that what would characterize this cycle is performance. It's all about performance. And I think our ability to perform in this integrated contract, and as you have seen, what we have shared during this press release on the Jafurah contract and been able to up our performance to peer some of the North America performance. And performance will dictate market allocation, market share allocation and will dictate technology adoption.

So our ability to fit for basin, our technology like we did in Qatar and other region, and local content like we're doing Saudi and other regions, I think, is giving us opportunity to earn this contract and to use a pricing premium for this technology adoption to deploy digital. And you have seen the announcement we made a few months back with -- in the sustainability platform with Saudi Aramco, and more announcements will come.

So we are building our future in Middle East on multiple engines, and we are building them on the performance in execution, technology adoption and differentiation. And LSTK, while being a part of the landscape of the way we operate, is not the largest piece of our business in the Middle East.

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

And just as a secondary question -- second question, just a follow-up on what James was asking about on the offshore side. Obviously, you feel confident in the duration. We're seeing this kind of shallow water business which you didn't really have in the Middle East before. But thinking about the deepwater side, we're seeing rig contracting picking up materially. Petrobras, it seems to be cornering the market on deepwater rigs. So I guess my question is sort of similar to my other question, how is this different this time?

Is the customer base changing much from what you see? Is it going to be the same big players that we saw the last time? And so is that changing much? And I'm just sort of thinking that should we be expecting to see a bit more of a pronounced inflection in the second half of the year as deepwater comes on?

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

Yes. I think that's what we are predicting as well. I think as I've indicated, the deepwater, we see the highest activity uptick compared to shallow and land because land is being impacted by the activity compression and decline in Russia internationally. And hence, this is what we anticipate as well, and we don't expect this to stop at the end of the quarter or next year -- this year. So this trend is set to continue, indeed.

Operator

Next, we go to Chase Mulvehill with Bank of America.

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

Obviously, you covered a lot of ground on kind of international, the outlook, the multiyear outlook, pricing momentum is starting to build. And we touched a little bit on Dave's question here on offshore. So I kind of want to dig into that a little bit more and talk specifically on subsea.

We keep hearing a lot of anecdotes out there, some really strong margins that are starting to get booked in backlog. So could you speak to the subsea market? What kind of fundamentals you're seeing out there? And I don't know if you're willing to kind of talk to -- if you think the industry, not necessarily Schlumberger, but if the industry can kind of get back to prior cycle peak margins on the subsea side.

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

I cannot comment on that industry. I think I can comment on what I see as activity outlook and what we see in our backlog and type of activity for subsea. So the undercurrent, if I was to use that terminology for subsea, are very strong because, on the outlook, the mid- and long-term outlook, because of this deepwater activity, that includes exploration, appraisal and future development. FID. Offshore FID for 2023 is set to be the highest since 2012, 2013, indicating that there is a pipeline of subsea activity in the horizon. And we have seen some of it materializing in our work this year.

We are seeing also some infill drilling, tieback activity, which benefited us in recent quarters. And we are very reassured that the market is inflecting for further growth. And indeed, the conditions are set for price to be accretive into the margin, into the backlog going forward to build up and to resume some extent previous subsea margin.

But I cannot comment on the industry at large, but I believe this is an industry that is very critical to the success of offshore development, and where we see a lot of collaboration, engagement, technology development. And critical technologies like subsea processing, boosting, and trends are positive as we see it.

And we are -- as you know, we made a strategic decision to align with -- to form a JV with Aker Solutions and Subsea 7 to address that market opportunity. And that, this announcement, reflects our view on the market.

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

Absolutely. All right. Just one follow-up, unrelated. If we kind of look at 1Q and just kind of think about the moving pieces, you walked through some of this with international seasonality. I didn't hear anything kind of explicitly on North America. But I don't know if you can kind of just step us through 1Q, moving pieces between North America and international. And maybe some color around margins.

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

Yes, first, because you pick on it, I think I'd like to first reflect on North America. North America has been a fantastic success in the last 18 months, 24 months. I think the rate of growth that the team has achieved, both in offshore and in land market, has outpaced the regrowth visibly. The success in our technology offering and fit and tech access model, that has been very successful there.

I think as we expanded margin, as you have seen, our margin, the very, I would say, distant if not very accretive level today in North America. So this is a very good base to be on.

And as the market 2023 unfolds, first there is a little bit of a shift to drilling to rebuild the DUC inventory that will favor us in a month and a couple of quarters to come, before the usual plateauing or a moderation of growth in the second half.

But we see an increased level of rig activity in North America. And clearly, on the momentum of -- and it's typically -- it happens in the early part of the year before it plateaus in the second half, and that's nothing new. That's a pattern that we expect, hence it will have an impact on the first quarter. And then we see a continuation of the offshore strength and in -- be it in Gulf of Mexico, in East Canada or further North in Alaska. And this activity is set to continue to grow in 2023.

So NAM will be indeed an engine that will support growth in the first half. And by contrast, as I said, the usual pattern of seasonality internationally in the Northern Hemisphere will be offsetting this. And we will also, this year, have the effect of the Russia year-on-year decline that we expect to impact negatively. So you have a mix there that I think we have described. And -- but NAM will be an engine of growth in the second -- the first half.

Operator

Next, we go to Arun Jayaram with JP Morgan Chase.

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

I wanted to get your thoughts, Olivier, on the level of service intensity that you're seeing, particularly in the Middle East, perhaps relative to the 2009, '14 cycle, as well as thoughts on the spare -- OFS capacity in markets like the Middle East and offshore.

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

Yes. I think let me reflect first on the -- indeed, the service intensity. I think the -- again, as I said, I think there is a significant expansion happening at the same time concurrently. And there is a significant focus on performance. So this has led to an increase of service intensity in the contracts where we operate. We are fully participating to this, and we are leading on many of them based on our performance.

But at the same time, we have much increased and much improved asset efficiency. And hence, we are able to deliver that service intensity, that performance-focused delivery to our customer without increasing our CapEx intensity. And we remain with our target of 5% to 7% total CapEx, as you have seen in our guidance today. So that's -- I think that's one aspect that I think is critical. And we use that discipline in our CapEx, that capital stewardship, to indeed use this to help us extract and guide further up, the pricing in the market.

So the pricing is driven by, first and foremost, performance. As we see it, our performance gives us a premium. Technology, a unique technology that either impacting performance or impacting decarbonization as transition technology, or that is fit for the basin. And then obviously, the stretch in the capacity market that is now being obvious and is being tested in the Middle East and in offshore, is driving another undercurrent of pricing positive trends.

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

Great. And just, I want to follow up on this -- on performance. Olivier, how are your key, call it, NOC partners, differentiated in between performance and, call it, the lowest-cost bid in terms of tender awards? Are you seeing more direct awards? But how is this -- how are the tendering process being impacted by this focus on performance?

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

I think it has been a significant impact. I think if you look at the Kimberlite survey that has been just published, I think we remained the best performance supplier, as indicated by the total survey, based on technology, based on the delivery, service quality and operational efficiency that we deliver. And I think this is recognized. This is leading to either of 2 things: I would say, direct awards or -- and ability to negotiate premium on our service pricing or technology pricing to reflect our differentiation in performance.

So the industry is measured by performance. And we believe that we have set the benchmark, and we continue to pursue collectively in our organization, through technology, through a process in operational efficiency, through digital operation, so that we can extract this performance and offer it to the customer, and they recognize it and they give you the premium.

Operator

Our next question is from Scott Gruber with Citigroup.

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

You guys posted some pretty impressive margins in North America last year. Do you think most of the margin benefit overall and the share gain benefit within drilling services from your new strategy has now been captured? Because it does appear that the market is going to stagnate here onshore for a period. I'm just curious about your ability to potentially still deliver exit-to-exit growth onshore in North America. Or whether the benefits, from a share perspective and from a margin perspective, had largely been captured.

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

No. I believe that the market has still room to grow. I believe first, from the activity, as I described, albeit I think it's very well known that the limited access to the Tier 1 inventory and acreage and the stretch on capacity in the market has created a negative inflection onto the well productivity. But we expect the major -- the public to this extent, and much less the private, to drive the growth this year.

In this market, we are well positioned because we have a technology access model and fit-for-basin technology that has, in drilling onshore, made a performance impact and has been recognized, hence has earned a premium.

We have a production portfolio -- production system portfolio that is set also through our ESP or frac trees to succeed. So we see further runway, both in growth and in margin expansion, as the market is still stretched. And similar to international market, the market recognize the opportunity to differentiate to performance, particularly the public company.

So our view is that in the North America, both land and offshore, there is not only activity-based growth coming this year, not to the same magnitude in land markets like last year. And still support also pricing, considering the stretch and considering the recognized premium on fit technology and on performance. And part -- and this is true both on land and on offshore environment.

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

Great. No, I appreciate all that color. And then just turning to Russia, you mentioned that Russian activity will be trending lower in '23. Is that a market comment? Or does that apply to your activity in the country as well?

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

No. That's -- I think we are clear, that's a market comment directionally and in line with some independent market analysts' view. This is 5 to -- or single-digit to teens digit decline, and we align with this view. And I think our market activity will decline accordingly.

Operator

From the line of Roger Read from Wells Fargo.

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

I'd just like -- I'd like to come back to your positive commentary on the increase in the offshore, and particularly deepwater. I was just curious, to the extent you can share it with us, kind of the way to think about the impact on Schlumberger -- excuse me, SLB, as we go from kind of a conventional land rig, an international land rig, shallow water and then deepwater, right? Like so what's the sort of multiple of revenues, potential margin expansion as you go across those?

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

Yes. I think we have commented this before, and we have commented that offshore is an intensity of 5x revenue intensity per rig. And we maintain that view, whether this can expand depending on the intensity, depending on the market mix, depending on the pricing, I think, is, I would say, a floor to some extent.

But yes, we see the deepwater accelerating. And I think it's something that is not only in one region, but I think it's pretty broad. As I commented, it's Latin America, it's Africa, it's East Med and is to some extent also East Asia. Hence, this addition.

I mean, we're not talking about necessarily 50 rigs, but 1 and 2s and 3s rigs in those regions. And the fact that they are relating to also a content of exploration and appraisal is creating a mix that is favorable in the quarters to come, I will say.

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

Okay. And then my unrelated follow-up is to come back on the CapEx. Understand '22 running a little hot and the growth rate a little slower in '23, based on that accelerated CapEx. But what's the right way for us to think about CapEx as a percent of revenue? Because for a bit, it seemed like kind of 5% to 6%, running a little above that in '22. And by my own calculations, maybe still running above that in '23. So I just wondered if there's been a change in how you're thinking about it, or it just reflects market conditions as we look into '23 and the middle of the decade.

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

I think you clearly have to distinguish the CapEx portion which is directly correlated to the level of activity and the APS investments. So together, as we guided, this is a total envelope for 2023 of $2.5 billion to $2.6 billion.

Within this, the CapEx portion, as we said, we will continue to target a range of 5% to 7% of revenue. So it allows us to flex it based on activity, but we will not go above this, and it will be probably pretty similar to the percentage we saw in 2022.

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

Okay. Great. So no change in how you're thinking about the investments and how that affects return on capital employed and everything going forward.

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

No, no, not at all. It's in still the same target range.

Operator

And our next question is from Luke Lemoine with Piper Sandler.

Luke Michael Lemoine ***Piper Sandler & Co., Research Division - MD & Senior Research Analyst***

Olivier, you've outlined '23 international growth, and at your investor event kind of give us some parameters around '25. But then your comments today about international growth could keep going through '27 and possibly to 2030. I think we're all pretty familiar with Middle East, strong growth. Offshore as well growing substantially. But what do you see as some kind of the later-cycle growers? Or is this cycle mainly Middle East and offshore?

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

Yes, I think, again, to make sure we are clear on the commentary we have shared. I think I was specific about the later part of the year, the '27 to 2030, oil capacity and gas development commitments in the Middle East, okay? Offshore, similarly, I think it's a typical development and FID that are being blessed and sanctioned this year and years to come, have a 3 to 5 years horizon. So combining the -- what is expected to be the FID and dollar value in offshore environment in 2023 in the last 10 years with a pipeline that is still strong going forward, we indeed expect 3 to 5 years follow through on offshore from today.

And combining with Middle East, the rest, I think, is more related to short cycle and is difficult to combine. But I think these 2 major growth engine internationally, I think, have the potential to sustain a very resilient growth of international environment for years to come. Indeed, that's correct. And that's our opportunity at this point.

Operator

Next, we go to Kurt Hallead with Benchmark.

Kurt Kevin Hallead ***The Benchmark Company, LLC, Research Division - Research Analyst***

So Olivier, I wanted to kind of follow up as you kind of laid out your financial targets back from your Analyst Day in November, and it looks like you're very much on track to kind of meeting those targets. And I just want to get a sense now as we're kind of entering into 2023, are you getting a feeling that the market momentum in both international and offshore is even better than you thought it was when you laid out your plans on the Analyst Day in November?

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

No, I think generally speaking, I think, directionally, I think the market assumption we took, the macro backdrop we anticipated, are roughly the same. I think I will only put 2 comments. I think first is that the dynamic of this year has, as I commented in my remarks, a little bit of an upside, depending on the China economic rebound and opening. And that could lead later in the year to up cycle and FID acceleration. And that will have an uptick on the year outlook.

And secondly, I think the -- and I think building on the recent visit I had in the Middle East and the engagement I had with a lot of customers there, I think the strength of the -- and commitment to this capacity expansion and to this gas development program I think is here to stay, and will be resilient to your market condition, I would say.

So I believe that the duration of the cycle. I think we limited our guidance to 2025, but it's obvious -- becoming increasing obvious, that this cycle will expand and we'll have the strength to expand growth beyond '25, both on offshore and Middle East growth engine that will materialize.

Kurt Kevin Hallead ***The Benchmark Company, LLC, Research Division - Research Analyst***

Okay. That's great color. And then a lot of great information around your Core businesses. Just kind of curious now, what -- if you could give us a brief outlook on what's happening on the New Energy side.

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

No. I think New Energy, I'm very pleased with the progress. I think we crystallized our strategy very much in the last 6 months. I think we have been commenting on it extensively during the Capital Market Day to outline the 5 selected domains in which we are investing in technology. We're investing in partnership. We're investing into equity and critical partners to accelerate our go-to-market, to accelerate our success.

So continue to make progress on each of these 5 domains. And we have seen some announcements relating to CCUS, which I believe has a lot of momentum, and we are involved in dozens of projects this year. And we have crystallized and materialized some partnership, including the partnership with Linde for blue ammonia, blue hydrogen and gas processing. And we have been investing in RTI as well for carbon capture. And we continue to make progress, and you have seen some announcement on geoenergy with Celsius, which is a very critical technology that is being assessed and being recognized in Europe as something that could really have an impact as a new technology, as a new domain that could transform a little bit the way the heating and cooling of buildings and cities are done.

So we have a great long-term outlook on this, and more will come on this chapter. But in general, we are making progress on each of these domains, be it in pilots, be it in early commercial contracts, be it in technology milestones. We'll continue to inform you on these milestones so that you can judge the progress and continue to assess the potential.

And then keep us -- we will keep you informed on our journey towards 2030 and the mission we have to the next decade. So I'm still positive and encouraged -- continue be encouraged with what the feedback we're getting from our partners and from our customers.

Thank you. Thank you very much. So it's time to conclude. So ladies and gentlemen, as we conclude today's call, I would like to leave you with 4 key takeaways.

First, our 2022 results represent another positive step in our financial and operational performance journey. Financially, we realized broad revenue growth and margin expansion, closed the fourth quarter with year-on-year EBITDA margin expansion ahead of our initial guidance and further reduced net debt. Operationally, the year was transformative, as we executed our strategy across 3 engines of growth and communicated our new brand purpose and identity. This firmly positions SLB to be the leader in the energy sector across multiple opportunities and time horizons.

Second, the macroeconomic environment remains highly supportive of a resilient upcycle in both oil and gas and low-carbon energy solutions. This is fundamentally driven by demand growth amidst very tight supply and further boosted by the prioritization of energy security and decarbonization. These market conditions will continue to support steady growth in global oil and gas upstream investment for years to come and will prompt additional investments in low carbon energy solutions for a balanced planet.

Third, the oil and gas industry is entering a new phase in the up cycle marked by the inflection in the Middle East and the strengthening of offshore activity. Taken together, this signals the onset of a new growth pattern internationally. These dynamics are closely aligned with our strengths and will enable us to benefit from a favorable pricing environment and further technology adoption. Additionally, we believe that the secular trends in digital transformation and decarbonization will only accelerate across all markets, presenting an advantaged position for SLB.

Finally, based on our confidence in the strength of the upcycle, our favorable market exposure and strong financial results, we reaffirm our ambition to significantly expand shareholders' returns in 2023 through a commitment to more than double the returns when compared to 2022 through a combination of increased dividends and share buybacks.

I could not be more satisfied with SLB's position at the onset of 2023, and have full confidence in our team's ability to fully seize the new phase of this upcycle and accelerate our investment for the future. We look forward to once again exceeding your expectations throughout this year.

Thank you very much for your time.

Operator

Ladies and gentlemen, that does conclude your conference for today. Thank you for your participation. You may now disconnect.