OVERVIEW:
Co. reported 2Q21 revenue of $5.6b and EPS of $0.30.
Corporate Participants
Ndubuisi D. Maduemezia  Schlumberger Limited - VP of IR
Olivier Le Peuch  Schlumberger Limited - CEO & Director
Stephane Biguet  Schlumberger Limited - Executive VP & CFO

Conference Call Participants
Arun Jayaram  JPMorgan Chase & Co, Research Division - Senior Equity Research Analyst
Chase Mulvehill  BofA Securities, Research Division - Research Analyst
Connor Joseph Lynagh  Morgan Stanley, Research Division - Equity Analyst
James Carlyle West  Evercore ISI Institutional Equities, Research Division - Senior MD
John David Anderson  Barclays Bank PLC, Research Division - Director and Senior North America Oilfield Services & Equipment Analyst
Marc Gregory Bianchi  Cowen and Company, LLC, Research Division - MD & Lead Analyst
Neil Singhvi Mehta  Goldman Sachs Group, Inc., Research Division - VP and Integrated Oil & Refining Analyst
Scott Andrew Gruber  Citigroup Inc., Research Division - Director, Head of Americas Energy Sector & Senior Analyst
Thomas Allen Moll  Stephens Inc., Research Division - MD & Analyst

Presentation
Operator
Ladies and gentlemen, thank you for standing by, and welcome to the Schlumberger 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 D. Maduemezia  Schlumberger Limited - VP of IR
Thank you, Leah. Good morning, and welcome to the Schlumberger Limited Second Quarter 2021 Earnings Conference Call. Today’s call is being hosted from Paris, following the Schlumberger Limited Board meeting held earlier this week.

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

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 second quarter press release, which is on our website.

With that, I will turn the call over to Olivier.
Olivier Le Peuch - Schlumberger Limited - CEO & Director

Thank you, ND, and good morning, ladies and gentlemen. Thank you for joining us on the call. In my prepared remarks today, I will cover 3 topics: our second quarter results, the near-term industry macro environment and the outlook for the third quarter and the remainder of the year. Finally, I will share my perspective on how Schlumberger is positioned for sustained outperformance in this macro context. Stephane will then give more details on our financial results, and we will open the floor for questions.

Our second quarter results demonstrate very broad strength in our core portfolio as we continue to fully capitalize on the short- and long-cycle activity recovery across divisions, operating environments and geographies, both in North America and internationally. The combination of revenue quality, solid execution and vastly improved operating leverage delivered our fourth consecutive quarter of margin expansion.

Let me share with you some performance highlights during the quarter.

Internationally, the depth and diversity of our portfolio enabled us to take hold of the recovery in the second quarter, restoring margins to pre-pandemic levels, ahead of the anticipated acceleration in these markets. In North America, we achieved our double-digit margin ambition, a key milestone in our 2021 financial targets. All divisions fully leveraged the activity recovery to post sequential top line growth and significant margin expansion, including Production Systems, which reached double-digit margins during the quarter.

Growth and margin expansion were led by Reservoir Performance and Well Construction, both posting growth internationally and in North America. Reservoir Performance growth was driven by the exploration and seasonal recovery, higher offshore activity and new technology adoption, all of which resulted in sequential margin expansion in excess of 370 basis points. Well Construction accelerated its rate of growth sequentially, outpacing rig count growth both in North America and internationally, with strong contribution from offshore basins.

In U.S. land, the Division grew more than 30%, double the sequential rig count growth rate over the quarter. This does not only reflect enhanced market participation, but also improving revenue quality.

And cash flow, finally, from operation was $1.2 billion, enabling us to begin deleveraging the balance sheet this quarter.

In addition to the impact of operating leverage, there were 2 contributing factors to this financial outperformance: first, the offshore activity mix; and second, technology adoption. The offshore rebound in the second quarter was led by high single-digit deepwater activity growth, partly in Brazil, and also included a mid-teens growth in exploration and appraisal activity across Europe and the Middle East. This market condition presented a favorable mix and resulted in higher revenue quality for both Reservoir Performance and Well Construction.

In addition, as customers commit to future offshore development activity, we received significant deepwater awards for our OneSubsea® business line, resulting in a doubling of the booking volume versus the prior quarter and a year-to-date book-to-bill ratio exceeding 1.5.

The other contributing factor is increasing new technology uptake. The rate of adoption of our latest generation technology increased by 1/3 during the quarter and included, in particular, Transition Technologies, digital and fit-for-basin solutions, which benefited all divisions and most basins. This is a clear recognition of the performance impact our technologies generate for our customers, and it gives us increased confidence in the contribution of technology adoption towards margin expansion in this up cycle.

In addition, we continue to advance our digital and new energy strategies, extending the reach of our digital platform with a number of key agreements and awards as customers forge ahead with their digital transformations. And in New Energy, we continue to progress all of our ventures, including the recently announced strategic collaboration with Panasonic North America to develop our new battery-grade lithium production process in Clayton Valley, Nevada.

Finally, during the second quarter, we announced our commitment to achieve net-zero greenhouse emissions by 2050. I'm very proud to lead the first service company that has set net-zero ambition that includes Scope 3 emissions. We have laid out an approach to climate change that is science-based aligned with the 1.5 degrees Celsius target of the Paris Agreement and is built on a comprehensive near-term road map to achieve our goal with interim milestones in 2025 and 2030.
As a company that prides itself on technology innovation, we aim to net the balance of emissions we produce in 2050 with carbon-negative actions.

This plan also includes the launch of our Transition Technologies portfolio to support our customers on their journeys to net zero, such as the avoidance of flaring with Ora wireline technology and the track record of CYNARA CO2 membrane separation technology, as you have seen in this morning’s release.

Our net-zero ambition and the launch of Transitions Technology (sic) [Transition Technologies] is an opportunity to contribute to the decarbonization of the industry, building through innovation, a resilient future that delivers higher carbon -- higher value and lower carbon.

Overall, I'm very pleased with our revenue quality, solid execution, enhanced market participation, both in North America and internationally, and most importantly, the translation of all of these elements into another successive quarter of margin expansion.

I want to thank here the entire Schlumberger team as they continue to execute and deliver outstanding performance for our customers and our communities despite COVID impact in several parts of the world.

Next, I would like to share my view on the macroeconomic environment supporting our industry. While the rise of the COVID-19 Delta variant and resurgence of related disruptions could impact the pace of economic reopening, recent market projections continue to affirm an improving global economic outlook.

Global GDP growth is now expected to approach 6% in 2021 and more than 4% in 2022, which should continue to drive a progressive recovery of oil demand. This outlook is supported by recent oil demand updates, which reflect the anticipation of wider vaccine-enabled recovery, improved mobility and additional fiscal stimulus in large economies through the second half of the year.

Looking farther out, the IEA projects that global oil demand will reach 100 million barrels per day and surpass pre-COVID levels by the end of 2022 in the absence of further policy change.

With oil price at elevated levels, the supply response to this demand recovery is developing broadly as anticipated. Indeed, this combination has resulted in a call on short-cycle production as well as an uptick in long-cycle project, reflected in new FIDs and encouraging recovery in both offshore developments and near-field exploration activity through the second quarter.

In North America, this supply response is reflected in the rig count and frac fleet trends, which sustained strong growth through the first half of the year. Private operators led activity growth which resulted from the acceleration of DUC completion and increased drilling activity to replenish DUC inventory. By contrast, the embrace of capital discipline by the public operators is highlighted by the rig count still being significantly below the Q1 2020 total despite WTI price exceeding pre-pandemic levels.

In this context, despite a solid activity growth outlook, we maintain our view that the North American market will be structurally smaller than in previous cycles as a consequence of capital discipline and industry consolidation.

Moving to international markets. The deficit of investment needed to deliver the required oil supply presents a sustained growth opportunity, particularly in the low-cost, advantaged basins. We remain constructive on the structural pull on international supply and the resulting activity impact. This was already visible in the second quarter with a strong seasonal rebound and offshore recovery despite the impact of COVID disruption in part of Asia and in the Middle East. This also marked the second consecutive quarter of international rig count growth.

Looking further out, we see favorable conditions for durable investment growth driven by the combination of actions by NOCs, internationally focused investment by public E&P operators and the expectation of continued supply discipline by OPEC+, all in response to the steady evolution of demand. The current pace of international tendering contract awards and increasing book-to-bill ratio support this view. Against this backdrop, Schlumberger is extremely well positioned, both in international markets and in North America. Our market exposure is biased to accretive growth. And with a series of new contract wins, our leading digital and fit-for-basin technology portfolio and our performance strategy, we will create value for our customers and deliver industry-leading returns.
Turning to the third quarter outlook. In North America, we see another quarter of growth, albeit somewhat moderating in U.S. land, led by private operators and horizontal oil drilling and a seasonal recovery in Canada. North America offshore will remain resilient, albeit with the hurricane season in view.

Moving to the international markets. Positive growth momentum is expected to continue through the third quarter across all areas. Short-cycle activity will be augmented by longer-cycle project start-up.

In this context, directionally, we expect our global third quarter revenue to grow by mid-single digits led by Reservoir Performance and Well Construction divisions, while our pretax segment operating margins should further expand by 50 to 100 basis points.

With this outlook for the third quarter, we remain confident in achieving double-digit international growth in the second half of 2021 when compared to the second half of 2020. As a consequence, and absent further COVID setback in operational recovery, we now foresee full year revenue growth both internationally and in North America, when excluding the impact of divestiture.

With activity recovery ahead of us through the third quarter and strong signal of a durable recovery beyond that, we can now clearly see a path to the high end of our full year EBITDA margin expansion guidance for 2021.

Looking further ahead, the fundamentals remain very favorable, with a growing economic rebound, supportive oil prices and a demand and supply outlook all representing a set of unique conditions that will support an exceptional growth cycle. Furthermore, this cycle will be broad-based across geographies and operational environment, land, offshore, North America and particularly, international markets. The second quarter was a strong indication of the future outlook and a testament of our restored earnings power under these conditions.

In summary, I'm very pleased with our strong quarter -- second quarter results across our entire portfolio, which demonstrates the effectiveness of our strategy in delivering our long-term financial ambition.

I will now pass the call to Stephane.

Stephane Biguet - Schlumberger Limited - Executive VP & CFO

Thank you, Olivier, and good morning, ladies and gentlemen. Second quarter earnings per share was $0.30. This represents an increase of $0.09 compared to the first quarter of this year and an increase of $0.25 when compared to the same period of last year, excluding charges. There were no charges or credits recorded during the first or second quarters of 2021.

Overall, our second quarter revenue of $5.6 billion increased 8% sequentially. North America revenue increased 11% sequentially, while international revenue increased 7%, both outpacing respective rig count growth.

Pretax operating margins were 14.3% and have now increased 4 quarters in a row. This represents the highest margin since the fourth quarter of 2015. Notably, margins expanded sequentially across all 4 divisions. This performance was driven not only by the seasonal rebound in the Northern Hemisphere, but also a favorable revenue mix as a result of increased offshore activity, new technology adoption and increased exploration and appraisal activity.

Company-wide, adjusted EBITDA margin of 21.3% for the second quarter increased 118 basis points sequentially and is the highest since the third quarter of 2018. I am very pleased with this margin performance, which reflects the benefit of significant operating leverage we have created through the combination of the high-grading of our portfolio and our cost reduction program. This performance also gives me the confidence that we will continue to increase margins in the third quarter and beyond.

Let me now go through the second quarter results for each division.
Second quarter Digital & Integration revenue of $817 million, increased 6% sequentially, while pretax operating margins increased 147 basis points to 33%. These increases were primarily driven by strong digital solution sales.

Reservoir Performance revenue of $1.1 billion increased 12% sequentially. This revenue growth was entirely driven by higher international activity, which resulted in international revenue increasing by 13%. Margins expanded 373 basis points to 13.9%, largely due to the seasonal recovery in the Northern Hemisphere and increased offshore and exploration activity as well as favorable technology mix in the Middle East and Africa.

Well Construction revenue of $2.1 billion increased 9% sequentially, while margins increased 209 basis points to 12.9%. These improvements were driven by strong performance both in North America and internationally. U.S. land revenue grew by over 30%, significantly outpacing the increase in rig count. International activity increased beyond the seasonal rebound as many countries experienced double-digit revenue growth.

Finally, Production Systems revenue of $1.7 billion increased 6% sequentially, and margins increased 146 basis points to 10.2%. These increases were primarily driven by higher activity in Europe, Africa and North America.

Now turning to our liquidity. During the quarter, we generated $1.2 billion of cash flow from operations, and positive free cash flow of $869 million despite severance payments of $72 million. The amounts included the receipt of $477 million U.S. federal tax refund relating to prior years. This refund helped support our deleveraging efforts during the quarter. In this regard, our gross debt decreased by $861 million during the quarter. We have begun to execute on our commitment to deleverage, as demonstrated by the early redemption in June of all $665 million of notes that were coming due in September. We also repaid $236 million of commercial paper during the quarter. Net debt decreased sequentially by $632 million to $13 billion, the lowest level since the fourth quarter of 2017.

During the quarter, we made capital investments of $351 million. This amount includes CapEx, investments in APS projects and multiclient. For the full year 2021, we are still expecting to spend between $1.5 billion to $1.7 billion on capital investments.

In total, during the first half of 2021, we generated over $1.6 billion of cash flow from operations and over $1 billion of free cash flow. These amounts are fully expected to increase in the second half of the year, consistent with historical trends. As a result, we remain confident in our ability to achieve double-digit free cash flow margin for the full year of 2021 and beyond. This will allow us to continue to deleverage the balance sheet and provide us with flexibility in our capital allocation.

One last item worth highlighting is that during the quarter, we replaced our EUR 750 million credit facility with a new 3-year EUR 750 million sustainability-linked revolving credit facility. The terms of this facility are aligned with the interim emissions reduction targets disclosed as part of our net-zero emissions commitment announced this quarter. This is a first for Schlumberger and further demonstrates our commitment to fully participate in the decarbonization of the industry.

I will now turn the conference call back to Olivier.

Olivier Le Peuch - Schlumberger Limited - CEO & Director

Thank you, Stephane. I think we are ready to open the floor for questions. Thank you.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question is from the line of James West with Evercore ISI.
James Carlyle West - Evercore ISI Institutional Equities, Research Division - Senior MD

So Olivier, really strong performance and execution in the second quarter kind of across the board and really strong margin performance, I thought. What's the sustainability of this type of margin improvement as we go through the back half of this year and in particular, probably 2022 when things really get going and the cycle really takes off?

Olivier Le Peuch - Schlumberger Limited - CEO & Director

Yes. Thanks, James. You are correct. I think we are very proud of this margin expansion. I think there were several factors I will highlight first on the second quarter and then project how we believe we have sustainability of margin expansion.

So first and foremost, I think the performance was led by revenue expansion, revenue growth. I think revenue growth has worked out to be at or ahead of our expectation, both internationally and in North America. I think credit to our team, credit to the customer centricity, the new organization and our performance.

Secondly, I think the -- we have seen a significant effect of our operating leverage as well as operational efficiency playing in full light during the quarter, and we expect this to be the base of our margin expansion for the quarters to come. So this was in full display in all divisions and has led to this significant margin expansion, particularly in the service-led Reservoir Performance and Well Construction.

Thirdly, the revenue quality, as I recall it, was led by activity -- favorable activity mix coming from the seasonal rebound in some basins, some regions. And that included an offshore mix that was favorable to those 2 division as well as an exploration and appraisal uptick, mid-teens exploration and appraisal offshore quarter-on-quarter during the second quarter. So when you combine this, this is representing a revenue mix quality that I think is unique. This was supplemented by technology adoption. Technology adoptions linked to our fit-for-basin solution for customers that are seeing success. Digital, as you heard during the remarks prepared by Stephane, and lately the new technology Transition Technologies portfolio, a combination of which is creating revenue quality that is then impacting favorably our margin.

Lastly, and this was only notable -- not noticeable in North America, we had a couple of green shoots on pricing on Well Construction that is also starting to be recognized.

So project this forward, I think the seasonal rebound will not always be there every quarter. The unique exploration and appraisal uptick mix that we got also will not repeat. But you can count on us to leverage the future growth in the industry, both in North America and internationally to seize the operating leverage and operating efficiency we have, the favorable mix and the technology adoption that should fuel our margin expansion going forward.

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

Right. Okay. Well, it certainly provided a good glimpse into what the renewed earnings power of Schlumberger is. Perhaps if we could touch on digital for a second because it’s kind of in a league of its own at this point. The technology adoption seems to be continuing to be strong and maybe accelerating. Margins were a bit ahead of at least what we were expecting. What is your outlook there on the digital side as we go through the next few quarters and especially again in 2022 and '23?

Olivier Le Peuch - Schlumberger Limited - CEO & Director

I think the progress we made this quarter was twofold. First, progress on our platform strategy. We continue to complete the platform foundations, the partnership, the enablement that give us extended market access, such as what we are using from the IBM Red Hat technology to access hybrid clouds and unlock, if you like, about 1/3 of the addressable market by this hybrid cloud and [in-country] solution we provide. And I think we have made much progress there, and I think we are in the eighth or the ninth inning, if you like, on the platform readiness for full scalability and expansion. And we made progress on the adoption of DELFI as you have seen some announcements, and we continue to progress on rolling out for the client
that have already adopted DELFI. Hence, our revenue on the DELFI and the new technology of digital was significantly accretive to our growth, significantly accretive to [D&I] and resulted into margin expansion flow-through that was visible this quarter.

So that will not continue the same every quarter. It depends on the seasonality and on the specific, but expect the -- directionally to continue to grow.

Operator

And our next question is from David Anderson with Barclays.

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

So clearly, we're starting to see the international upstream market starting to pick up as you noted double-digit increases in many countries. I noticed you didn't mention Saudi, which I would expect to start picking up in the coming months. So when do you think that piece falls into place? And how do you see the cadence for Middle East activity through the end of this year? And kind of what does that mean for '22 growth? I would think that kind of, at this point, I'd be surprised if growth wasn't up at least double digits internationally, especially with the positive commentary around offshore. Just wondering if you could comment, please.

Olivier Le Peuch - Schlumberger Limited - CEO & Director

Yes. First, in short term, I would like to reiterate my positive commentary on the second quarter growth. It was all basins, all divisions internationally so it was broad and inclusive of Middle East. Now in the context of the Middle East, in particular, the growth was maybe more muted or less aggressive and less accretive to the overall growth than other basins. And there are a couple of reasons for that.

And the first and foremost reason is relating to the supply constraints that are still outstanding on the back and as such, muting some of the short-cycle activity that we could have expected to rebound faster. So now going forward, there are a couple of factors that will play favorably short term and midterm.

Short term, there will be a relief of some of these supply constraints that will continue to inch up the short-cycle activity, including in Saudi. There is a commitment in Middle East for gas development. And I think Qatar was the first to expand their commitment, and we have benefited greatly from that rebound in activity for the last couple of quarters, and this will extend also to a couple of other countries, including Saudi.

And lastly, as we turn into 2022, we have heard some signal from a couple of countries in GCC that have signaled that they will commit to production capacity increase to fulfill their opportunity to gain share as there will be a pull on international supply. So this will result from 2022 in combination of short cycle, gas development, and long cycle across that region. And hence, they will catch up, and they will certainly be a region that will lead the activity growth and will support in second half our double-digit year-on-year H2 and next year into a strong growth going forward.

Finally, if I have to make a comment on this, I think you may have seen some contract wins and contract award in Middle East. And we believe that on top of this activity growth, we have the potential to outperform and then getting a further tailwind to our growth going forward.

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

So if we look a little bit further out, you’ve kind of talked big picture about EBITDA exceeding 2019 levels with only about 50% of that lost revenue coming back. Just wondering if anything has changed in that view, either in terms of the timing of that growth coming, that revenue coming back or the EBITDA level? Has anything sort of changed in that kind of longer-term view that we’re thinking about?
Olivier Le Peuch - Schlumberger Limited - CEO & Director

No. Obviously, with the results we just delivered, we are increasing our confidence in our ability to reach and expand our margin going forward as the cycle unfolds. So starting with the next 2 or 3 years, we see now a strong case for a double-digit floor as an activity growth with an upside scenario. We see that the contract wins and the market position we have will benefit us to pull from this additional growth going forward. And the operational leverage, the activity mix including offshore and the technology adoption in doing digital will all create the condition, as I commented earlier, to expand our margins.

So the ambition we have set to recover the net EBITDA dollar with less than half of the -- about half of the revenue recovery, I think, are still valid. And the mid-cycle ambition to expand the margin visibly is in full play.

Operator

Next, we have a question from Chase Mulvehill with Bank of America.

Chase Mulvehill - BofA Securities, Research Division - Research Analyst

I guess the first question -- Olivier, first question, I just kind of wanted to ask about inflationary pressures. Obviously, supply chain seems to be tightening across the industry. We hear about raw material cost inflation. So maybe if you could just take a moment and talk about your ability to kind of control the supply chain and control cost or either pass along cost on the OFS side and also on the Cameron side as well.

Olivier Le Peuch - Schlumberger Limited - CEO & Director

No, it's a very valid question, and it's something that we observe and some facts and some trends that has materialized in some index-- indices going up. But I believe that the toolbox we have and professional and very expanse organization we have in our planning and supply chain and manufacturing organization that are used to manage some inflationary pressure has allowed us to mitigate and hedge at this inflationary pressure and contain cost inflation into -- under our rules.

Now when and as this happens and on the specifics of logistics or specific material, we are engaging with our customers using the contract terms we have to leverage an adjustment, and we have done so success with several customers. So we are confident that the combination of our supply chain capability with global and local leverage and the customer-centricity engagement approach we have, ability to sit and discuss commercial terms give us the ability to support this and continue to drive forward and expand our margins.

Chase Mulvehill - BofA Securities, Research Division - Research Analyst

Awesome. A quick follow-up here, probably for Stephane. When we think about free cash flow, obviously, it's going to be accelerating as you get into 2022. You'll be doing deleveraging, as you talked about, paying down some debt. But at what point should we think about incremental cash coming back to shareholders, probably a dividend [bump] first and then maybe buybacks. But is there a certain leverage ratio that we should be looking at or thinking about you guys targeting before you kind of think about increasing?

Stephane Biguet - Schlumberger Limited - Executive VP & CFO

Yes, yes. So Chase, we do have a target leverage ratio at this stage. It is going down to less than 2x net debt to EBITDA. Now with our strong cash flow performance and the EBITDA expansion, we are quite confident that we can achieve this target sometime by the end of 2022.
Now we will, of course, need to continue investing in our core business to fully reap the benefits of this growth cycle, but this will be done with the same discipline we are exercising today and within the target range of 5% to 7% for the operating part of our CapEx, i.e., excluding APS and multiclient.

So accounting for this, however, we will still generate significant excess cash flow throughout the growth cycle. This is, of course, very good news. It gives us optionality in our capital allocation, particularly to execute our strategy and to fund our new horizons of growth.

Now whether it relates to our core portfolio or expansion into digital or new energy, any new investment will be looked at under the strict lens of our return-based capital allocation framework.

Beyond that, indeed, we will continue to review our shareholder distribution policy based on the sustainability of cash flows and potential exceptional cash inflows, for example, proceeds from divestiture. So this is where we will take it.

Operator
And our next question is from Scott Gruber with Citigroup.

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

Olivier Le Peuch - Schlumberger Limited - CEO & Director
Thank you, Scott.

Scott Andrew Gruber - Citigroup Inc., Research Division - Director, Head of Americas Energy Sector & Senior Analyst
So just as a clarification question to start. The 10% free cash conversion rate relative to revenues, we should be including the tax refund when we think about the conversion rate for the full year. Is that correct, Stephane?

Stephane Biguet - Schlumberger Limited - Executive VP & CFO
Yes, you should, actually. But you have a few offsets and not necessarily in the same quarter, but we continue to pay severance payments. I’m talking about offsets to the tax refund, Scott. So we continue to pay severance payments with the tail end. The process is finished, but there are still payments coming. So when you put all of it together, the tax refund is not fully a plus.

Now excluding the 2 exceptional items going opposite way, tax refund and severance, we can actually still generate the 10% plus free cash flow margin. So we should be exceeding now that we have the tax refund for sure.

Scott Andrew Gruber - Citigroup Inc., Research Division - Director, Head of Americas Energy Sector & Senior Analyst
Yes. Got you. And then I was actually surprised to see the Well Construction share gains in the U.S. is super impressive. Was that kind of a onetime catch-up just with high oil prices, customers now willing to pay up for your technology? Or do you see continued share gain potential onshore, whether it’s Well Construction or elsewhere, even in light of private really driving the growth? Are you seeing gains with private? Just some color on U.S. share gain potential would be great.
Olivier Le Peuch - Schlumberger Limited - CEO & Director

No. Absolutely, Scott, we are very proud of this achievement, and let me give you the 3 drivers for it in terms of top line growth. First and foremost, performance in the way we execute, and I think has led to from cementing to drilling, directional drilling or bits market share gain with both private and with operators, public operators in the U.S.

The second factor is that, as you remember, as part of our North America strategy pivot we did initiate 2 years ago, we accelerated our technology access, giving access of fit-for-basin technology to some local DD company that are then using, renting or buying our equipment and using it to serve their local customers, mostly, if not exclusively, private. So this has been going quarter-on-quarter, and this is helping us to reach market and expand our market share beyond what we could do to our service arm.

And finally, as I mentioned in my -- in one of my response earlier, we had some green shoots where our performance was in high demand, our directional drilling equipment was seen as unique to deliver the curve. Hence, we could extract some pricing premium. So the combination of these 3 have delivered this [30% plus] quarter-on-quarter top line delivery, far outpacing the rig count growth.

So there were some exceptional, as always, but I would expect that the dynamic and directionally this to continue going forward, partly the market share gain.

Operator

Next, we go to Connor Lynagh with Morgan Stanley.

Connor Joseph Lynagh - Morgan Stanley, Research Division - Equity Analyst

I wanted to ask about labor. Obviously, you had to take the challenging decision to reduce your workforce dramatically last year. I'm curious as we now look back towards growth, how well positioned are you to capitalize on the market demand? Do you have excess labor? Do you need to hire substantially? And I'm particularly curious in international regions where you may have some more long-cycle constraints on that.

Olivier Le Peuch - Schlumberger Limited - CEO & Director

Yes, it's a very good question. It's something that we're working out to continue to make progress. But I think in a nutshell, I think the step change we did in some of the operational environment, our operational practice, including digital operation, has given us the opportunity to respond on the first peak of this cycle without deploying the same resource set as we had in the past, hence, getting direct efficiency gain as we mobilize and grow with the cycle.

Going forward, and already initiated in some geographies where we had more than double-digit growth, as I mentioned, we had access to some resource that we onboarded during the quarter to respond to the contract we are winning. So the long cycle actually nature of international give us a bit more long-term visibility to this condition. Hence, our market approach is to target specific geographies and business line where we believe we can be generating accretive returns and growth and prepare for it by mobilizing ahead the resource or moving resource to address those.

So I think we have a global access to talent. We are using a lot and at scale this remote operation. So it is a challenge for us to respond to high demand, but we believe that we have the operational environment to make it a success.

Connor Joseph Lynagh - Morgan Stanley, Research Division - Equity Analyst

That's helpful context. Sort of a similar question, but on the steel or equipment side of things, basically, I'm wondering if you could based on your expectations for how much activity will grow over the next, call it, 6 to 12 months, as you look in some of the more differentiated markets and the
more consolidated supplier markets, call it Middle East, offshore, et cetera. Do you feel that there is adequate equipment to meet continued growth beyond that point? Do you feel the capacity will be tightening significantly? Just appreciate an update there.

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

I think in the early part of the cycle, I think we will use and the industry will use the excess supply that came from the compression of activity that came for the last 2 years. And -- but again, we have very much professionalized our planning and supply organization. And I think from the Cameron to the asset that we have to deploy, I think we are trying to take a long-term view and scenario-based view on the future, looking beyond the 12-month horizon, and I’m starting to prepare and put some options so that we can respond to this growth going forward. Early part will not necessarily create a tightness, but the mid-cycle for sure, before the mid-cycle, this will create the condition for tightening supply and hence, some pricing conditions.

**Operator**

Next, we go to Neil Mehta with Goldman Sachs.

**Neil Singhvi Mehta** - Goldman Sachs Group, Inc., Research Division - VP and Integrated Oil & Refining Analyst

The first question is around portfolio optimization, perhaps you guys can weigh in on how you’re thinking about the path for asset monetization, I’m thinking Canada, maybe the Middle East? What are the opportunities? And how large could the asset sale market be for Schlumberger?

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

So look, Neil, we -- as it relates to the divestitures we disclosed last quarter, first, the APS asset in Canada, it’s -- both are progressing as planned by the way. So in Canada, we have more than 10 parties actively looking at the information in our data room, and we plan to receive first round offers by the end of next month. Good news is that the economics keep on improving. So we are hopeful we can achieve a successful transaction.

The Middle East rigs, likewise, progressing. We are negotiating with the shortlisted bidders. We have completed their due diligence, and it’s going as planned. So I think really, these are the 2 divestitures that we have over equity positions where we have options for monetization in the future such as our Liberty stake, but this is something we will -- the timing and the magnitude we’ll look at in due time.

**Neil Singhvi Mehta** - Goldman Sachs Group, Inc., Research Division - VP and Integrated Oil & Refining Analyst

Yes. Great. And then I would appreciate some of the comments you made on Saudi broadly, but maybe you could just step back and talk about OPEC+, including other regions within that cartel or in the plus side of OPEC. How are you seeing activity trends here? And what role do you think Schlumberger is going to play in terms of building out capacity that they are talking about?

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

I think, first, we have, I’ll say, a privileged market position with most of the NOCs in this OPEC+ consortium. We have seen across the broad spectrum of these NOCs’ activity starting to build back, seasonal rebounds playing strongly in Russia. And we expect, as I said, this short cycle to recover for the next 2 to 4 quarter as the demand will be lifted as the constraints will be lifted, and we see that more than 1 or 2 countries will actually commit to this capacity expansion.
And we have the footprint. We have the relationship. We have the fit-for-basin to leverage and then to respond to this capacity buildup and this growth opportunity in those from Russia to Middle East, particularly. So I feel confident that these market share pursuits that as the market comes back from ’22, ’23 will be giving us an opportunity to leverage our market position and move up.

Operator

Next, we go to Arun Jayaram with JPMorgan Chase.

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

Maybe just a follow-up to Neil’s question on NOCs. I guess you’re seeing some positive activity trends from the NOCs. And would you characterize these activities thus far as just more regarding sustaining capital requirements? Or are you seeing any potential mix shift in terms of increasing productive capacity? And again, we did note some increases, I guess, on the exploration side in terms of your revenue base.

Olivier Le Peuch - Schlumberger Limited - CEO & Director

Yes. I think as I commented before, we have to distinguish first the gas and the oil market. And on gas market, I think the activity has been more sustained and as seen in Qatar, a significant commitment to accelerate the North field redevelopment and expansion. So that has been very positive, and we have the benefit of that exposure. And the gas remained steady and supported elsewhere.

On oil, you have a mix. But in short term, it’s mostly a short cycle in anticipation of the supply constraints relief. And for 2 or 3 of the country that participate to the GCC, they have already made public commitments that they will expand, and they will participate at scale into the post rebalance, if you like, of the supply and then participate to the capture of international share of supply into 2023. So that will mean plan that will materialize from planning, from contract and from execution into 2022.

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

Great, great. Olivier, you recently provided some longer-term outlook comments for new energy citing, call it, the 10% kind of growth CAGR as you help your clients decarbonize. I was wondering if you could give us some thoughts on maybe the baseline for that long-term forecast and areas of your Transition Technologies portfolio that you’re seeing perhaps the greatest traction as we sit here today.

Olivier Le Peuch - Schlumberger Limited - CEO & Director

Yes. Let me first clarify and not mix in the same umbrella. The New Energy portfolio that we have developed with the purpose to create a new chapter beyond oil and gas to participate at scale to the energy transition from hydrogen to CCS and geo energy or lithium, as you have heard, from the Transition Technologies that we believe are very pertinent to the decarbonization of our oil and gas industry, helping our customers to reduce their footprint, CO2 footprint, to reduce their GHG emission. And in this context, we are focusing on flaring elimination or reduction, and you are using, in particular, the Ora wireline technology to avoid returning the fluids to the surface and burn and dispose through flaring and do the reservoir characterization and testing in situ, if you like. And that’s a unique technology that has significant impact on both efficiency and on the CO2 footprint for everyone using it.

And we are looking at methane emission detection and containment. And we are looking at, as you have seen in the press release this morning also the CYNARA CO2 membrane that have superior performance for large acid gas treatment, if you want, to do CO2 sequestration and capture.

So you have these 2 aspects. So the Transition Technologies will come more and more into play. And most of the customer I meet are asking us whether we can help them and have a conversation engagement on to methane detection, flaring or other techniques that eliminate or reduce
significantly the footprint of CO2 on every operation on their Scope 3 [upstream], if you like, in addition to their Scope 1 direct emission. And then (inaudible) and that will be part of our technology growth, technology adoption in the quarters to come.

And then longer term, we will build on our New Energy portfolio that we are building. And then once we have -- continue to build this, we will grow at scale from hydrogen to CCS and [geo] (corrected by company after the call) energy with Celsius for the heating and cooling of buildings to lithium production of the pilot that we are initiating, and the contribution from Panasonic give us the opportunity to do so. So these are 2 different avenue for growth short term and long term.

Operator

Next, we go to Tommy Moll with Stephens.

Thomas Allen Moll - Stephens Inc., Research Division - MD & Analyst

I wanted to start on your Digital & Integration margin. Your second -- your incremental this quarter was notably higher versus the trend and an impressive one at that. Fair to say that the full year for 2021 ought to be shaping up above the 30% type of range that we talked about last quarter. And then as you look beyond, is there any kind of through-cycle or normalized way you would frame the incremental margin opportunity for us there?

Stephane Biguet - Schlumberger Limited - Executive VP & CFO

So look, Tommy, yes, it is shaping up to be slightly above the 30%. At this level, we are happy anyway with 30% in Q2. There is a bit of seasonality actually on software and maintenance sales, which are lower in Q1. So it's kind of normal to see a nice uptick between Q1 and Q2.

So -- however, throughout the year on a full year basis, yes, we'll be a bit above 30% now. This is the kind of margins, which throughout the cycle, this is a fixed cost business. So as we accelerate the deployment of our digital solutions and the adoption improves, we could see margins increasing from there. So it's quite a healthy business, and this is why we are focusing on it basically.

Thomas Allen Moll - Stephens Inc., Research Division - MD & Analyst

That's helpful. And I wanted to follow up with a big picture question on your New Energy strategy. If you think about from a strategic standpoint, you're the largest service -- you're the largest platform globally with the oil and gas incumbents. What, if any, advantages does that confer on you vis-a-vis some of the smaller pure plays attacking some of these markets, the scale and the customer relationships that you have?

And then if you also think about the other side of the equation where their cost of capital may, in fact, be much lower than yours, so you potentially have a different algorithm by which you decide how to allocate capital across these opportunities. So how do you think about when to put capital to work versus when the ask may be a little bit too rich and you're going to preserve your dry powder for another opportunity?

Olivier Le Peuch - Schlumberger Limited - CEO & Director

No, very good question. I think first and foremost, I think let me highlight the, I think, 2 different, I would say, factor that will indeed leverage our current platform.

First is the global deployment capability we have. We can industrialize and ship technology and deploy technology anywhere in the world, and we have done so for more than 80 or 90 years. And I think our ability to create franchise in every country from technology developed centrally or we developed locally, I think, is something that is unique, and I think that differentiates from many of the pure plays.
The relationship we have and the customer base we have today will be occasionally, and I think will be in the sense of the CCS where our customers have the opportunity to participate or in some of the downstream operation where they have a carbon capture or blue hydrogen opportunity would be an opportunity for us to continue to work with that customer base and expand. And at the same time, some of this company are turning into integrated energy company that will also participate at scale in the same market as we do. So that relationship will be useful, but I will more, I would say, highlight the global deployment capability.

Now when it comes to capital allocation and capital deployment, I think it's very difficult to pinpoint too specific here. I think we will look again -- continue to mature this venture, prepare for scale as we start to, I would say, progress on our milestones, progress on our partnership and progress on the business model and the supply chain model that are quite different from the one we experience today. And then in that context, we'll make the appropriate capital allocation decision to be accretive to our long-term growth and to our returns.

Operator

And ladies and gentlemen, our final question comes from Marc Bianchi with Cowen.

Marc Gregory Bianchi - Cowen and Company, LLC, Research Division - MD & Lead Analyst

Olivier, you mentioned the return to 100 million barrels of consumption and sort of a share shift from North America to international where the oil is coming from. I'm curious if you think that the international activity needs to surpass 2019 levels to deliver that much oil and what you think the timeline is to get there.

Olivier Le Peuch - Schlumberger Limited - CEO & Director

I think in short term, the rebalance will be mostly down to the release of the spare capacity that exists. Now if you look at the current production of the U.S., which is 1.5 million barrels or about below in U.S. land, below what it was in early 2020, this gap has not yet been breached. And I think I do not expect this to be breached as we exit 2022. So there will be an increment of oil supply that will pull on international market that the market can deliver today. But for sustainability in '23 and '24, the market will have to commit capacity. Hence, this is the reason why in Middle East and other country, you see this (inaudible) commitment of capacity. And this is the reason why you see the return of offshore and the commitment of FID.

We have 50 FID about already to date. We expect to be 100 FID, most of them in offshore at the end of the year. This is 50% more than it was last year, and the trajectory is towards 150, another 50% increment after that.

So now going forward and expanding beyond, I would expect within the next 2 to 3 years, obviously, with this dynamic and the pull on the international supply will create the floor of activity to reach and/or exceed the level of 2019 activity within that time frame.

Marc Gregory Bianchi - Cowen and Company, LLC, Research Division - MD & Lead Analyst

Okay. Great. Very helpful. Separately, on -- you mentioned APS a couple of times in the press release. It sounds like maybe activity has ramped a bit in Canada, where you have a bit more oil price exposure. I'm just curious how investors should think about the sensitivity to oil price from APS at this point. And then if you do have a successful transaction and sell the business, just how material of a shortfall in cash flow would that create just vis-a-vis what we're seeing right now?
Stephane Biguet - Schlumberger Limited - Executive VP & CFO

I'll take these questions. So look, the -- actually, the activity itself didn't really change, and activity here is more measured in terms of production, of course. So we did have a bit of a nice windfall on increased WTI in the second quarter from our Canada asset, but it's -- in the grand scheme of things, it's not material.

In Ecuador, by the way, at this level of WTI, our tariffs are either fixed or when they are variable, they are capped. And we have passed that cap. So there is little sensitivity to oil price at this level besides Canada.

Now it makes it a very good time to actually monetize our assets, right? It's -- it has generated cash flow lately because of the oil price and the investment level we put in there.

Historically, it's an asset that requires quite a bit of CapEx. And so when we close the transaction, we shouldn't see a big impact on our cash flow, and we'll get, of course, hopefully, very good proceeds from the transaction.

Operator

And speakers, I'll turn the conference back over to you for closing remarks.

Olivier Le Peuch - Schlumberger Limited - CEO & Director

Thank you very much. So to conclude the call, I would like to leave you with a few key takeaways. First, the second quarter results clearly demonstrate both the strength of our market position, particularly internationally, with sequential growth in all divisions and basins, and our significant operating leverage, resulting in more than 200 basis points of operating margin expansion internationally with all divisions contributing significant fall-through.

Second, the activity and customer trends observed during the quarter reinforce our conviction in an increasingly favorable outlook, a broad recovery across all basins and operating environments and with a much improved contribution from new technology adoption.

Third, and absent further COVID setbacks impacting activity or economic rebounds, we are confident that the momentum for this up cycle, both North America and internationally, will continue during the second half of 2021 and will lead to another quarter of growth and margin expansion.

As a consequence, we remain confident in our second half guidance shared previously for international growth and have increased our confidence in our full year margin expansion and cash flow generation.

Finally, as we look further ahead, the conditions are set for an exceptional growth cycle in response to the call for supply in 2022 and future demand growth in subsequent years. This will increasingly favor international supply impacting land and offshore, short and long cycle globally.

Ladies and gentlemen, our returns-focused strategy, international footprint, digital, decarbonization, and new energy strategic initiatives are highly differentiated, and we support our outperformance ambition throughout the cycle and beyond as we continue to write a new chapter for the company. Thank you very much.

Operator

Ladies and gentlemen, that does conclude your conference for today. Thank you for your participation and for using AT&T teleconference. You may now disconnect.