SLB Fourth-Quarter and Full-Year 2022 Results Prepared Remarks

Ndubuisi Maduemezia—*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 will be making today are forward-looking. These matters involve risks and uncertainties that could cause our results to differ materially from those projected in these statements. I therefore refer you to our latest 10K filing and our other SEC filings.

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

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

Olivier Le Peuch—*CEO*

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 billion dollars for the first time in more than 4 years. Additionally, our international revenue growth rate has visibly outpaced the 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 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 upcycle 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 positions SLB to benefit from the underlying macro-trends that will shape the future of energy: Oil & Gas Technology Innovation, Industrial Decarbonization, Digital Transformation, and New Energy Systems.

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

- 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, services, and solutions that increase efficiency and lower operational emissions. You have seen many examples of these 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 and 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 operations 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 five business areas: Carbon Solutions, Hydrogen, Geothermal and Geoenergy, 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 three 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 four ratings agencies. We also made significant advances launching SLB End-to-end Emissions Solutions 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 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 peer-leading outcomes for our customers and shareholders.

We are primed for significant success and look forward to carrying this 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 resources.

First, despite concerns for a 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 increases 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 investments in capacity expansion and diversity of supply. You will see this reflected in the 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 advancements in cloud and AI, favorable government policy support to new energy investments, and increased spending on low-carbon initiatives by operators 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 US land basins, and drilling activity will remain strong to build up well inventory and support target production increases. In the US 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 tiebacks and new development projects mobilize and new FID's 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 multi-year duration of this cycle.

This outlook is very favorable for SLB with multiple paths of 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-twenties, 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 re-opening in China; the easing of inflationary trends; and any further restrictions on Russian exports could lead to an acceleration of short-cycle activity globally and fast-tracking of FID's internationally. This could present further upside over the second half of the year.

I will now turn the call over to Stephane.

Stephane Biguet—*Executive VP & CFO*

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

Fourth-quarter earnings per share excluding charges and credits was 71 cents. This represents an increase of 8 cents compared to the third quarter and an increase of 30 cents or 73% when compared to the same period of last year.

In addition, we recorded a net credit of 3 cents, which brought our GAAP EPS to 74 cents. 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 GeoUnits 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 four 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 sizeable 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 to $2 billion. Despite this increase, the capex portion of our capital investments was still at the mid-point of our 5 to 7% of revenue target.

Lastly, lower-than-expected year-end accounts receivable collections contributed to the 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 two 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 a 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 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-twenties" 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%[i] increase in our quarterly cash dividend to 25 cents 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 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—*CEO*

Ladies and gentlemen, as we conclude today's call, I would like to leave you with four key take-aways:

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 our three engines of growth and communicated our new brand purpose and identity. This firmly positions SLB to be a leader in the energy sector across multiple opportunities and time-horizons.

Second, the macro-economic environment remains highly supportive of a resilient upcycle, in both oil & 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 upcycle 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 re-affirm our ambition to significantly expand shareholders' returns in 2023 with a commitment to more than double the returns when compared to 2022—through a combination of increased dividend and share buybacks.

I could not be more satisfied with SLB's position at the onset of 2023, and I 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.

[i] *This figure was originally read as 44% and immediately corrected to 43% on the call.*