Schlumberger

Schlumberger Third-Quarter 2019 Results Prepared Remarks

Simon Farrant *Schlumberger Limited – VP of IR*

Good morning, good afternoon, good evening, and welcome to the Schlumberger Limited Third-Quarter 2019 Earnings Call. Today's call is being hosted from New York City following the Schlumberger Limited Board meeting held here this week. Joining us on the call are Olivier Le Peuch, Chief Executive Officer, and Simon Ayat, Chief Financial Officer.

Our earnings call will take a slightly different format; we've shortened our prepared remarks in order to leave more time for your questions. Olivier will start the call with his perspective on the quarter, after which Simon Ayat will give more details on the financial results. Then we will open up for your questions.

As always, before we begin, I would like to remind the 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 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 third-quarter press release, which is on our website. Now, I'll turn the call over to Olivier.

Olivier Le Peuch *Schlumberger Limited – CEO*

Thank you, Simon. Ladies and gentlemen, good morning. I'd like to add to the earnings release my comments on the quarter before covering some of the points critical to our business.

First of all, as you have seen in our release this morning, we have taken a largely noncash $12.7 billion charge. This charge reflects the impact that market conditions have had on the valuation of our goodwill, intangibles, and fixed assets. None of this changes our ability to generate strong cash flow as this quarter has once again demonstrated—giving us the flexibility to navigate a more uncertain market landscape. Simon Ayat will discuss the charge during his remarks.

I will now comment on our Q3 operational performance, followed by the short-term outlook, and conclude with a brief update on our strategy implementation.

Our third-quarter results were very positive in a mixed market environment, driven by strong international performance. The international margins improved, and we delivered more than $1.0 billion in free cash flow. Additionally, we recorded the best-ever—the best-ever—quarterly safety performance for the company—an outstanding achievement setting new safety performance benchmarks for our industry.

All in all, a very solid quarter, aligned with our performance vision and our focus on returns. I am very pleased with the results, and I'm proud of the Schlumberger team that delivered this performance.

The financial results this quarter were driven by the strength of activity in the key international markets. Summer activity peaked in Russia, the CIS, and the North Sea. The Far East and Asia regions also saw strong growth, and new projects began in Sub-Sahara and North Africa. Only Latin America revenue was lower on reduced activity in Mexico and Argentina.

In North America, we experienced strong offshore sales offset by minimal growth on land. OneStim® activity was modestly higher, recovering from the spring break-up in Canada during Q2. Towards the end of the quarter, however, we saw lower pricing and increased gaps in the frac calendar as customer work programs were constrained by cash flow. North America land Drilling revenue was essentially flat, despite rig count reductions, as our fit-for-basin technology-access approach on equipment sales and leasing helped offset declines.

Cameron results closed in line with expectations. This included robust operating margins, building on sequential growth in most international regions, which were offset partially by declining activity in North America at the end of the quarter.

Our international performance this quarter was very solid with a high double-digit basis-point improvement in our margin on the back of 3% sequential revenue growth. More than two-thirds of our product lines and GeoMarkets posted both sequential revenue growth and margin expansion, leveraging in particular the favorable offshore and exploration activity mix and the deployment of new technology. At the closing of this quarter, half of our international GeoMarkets have posted year-to-date double-digit revenue growth.

This improvement in international margins was achieved despite the lingering and sustained effect of a handful of contracts that are highly dilutive. Without the effect of these underperforming business units, our growth in international margin would have been even greater.

We are making progress engaging with our customers on those contracts, working collaboratively to improve terms and conditions and to enlist their support to improve our operations. As part of this plan, I have been taking personal action during the last few weeks and anticipate visible progress during the coming months and quarters.

Margin improvements and stringent capital deployment are both part of our increasingly returns-focused approach under the new capital stewardship element of our strategy. As international activity increases, our deployment of capex will be further prioritized towards the business units with higher returns. This action, together with increasing activity, is starting to create some tightness in the market, which is a catalyst for pricing improvement.

Now I will move on to the short-term outlook for our business.

Based on our Q3 year-to-date results and our outlook for Q4, we still expect full-year high single-digit International revenue growth, excluding Cameron. Sequentially, however, Q4 will include the seasonal activity decline in the Northern Hemisphere, and we anticipate only muted year-end sales. We are also closely monitoring the situation in Ecuador following the recent events and are preparing for further decline in Argentina.

In addition, we expect seasonal weakness in North America as the fourth quarter develops. We were anticipating a year-end slowdown in North America similar to last year due to operator budget constraints. However, this year, the activity reduction has started earlier than last, and we anticipate the sequential decline in Q4 to be more pronounced than last year.

Moving onto the macro and medium-term view, the market environment remains challenged with limited visibility—particularly in view of the global trade concerns that are challenging world economic growth and the rate of oil demand growth. At the same time, the US production growth rate has declined for the last eight months, and it is expected to drop further in 2020 as a result of the reduced activity this year.

Therefore, and absent of a recession, the prospects for international activity growth remain firmly in place.

In this market context, our approach to North America land is under evaluation—for both the medium and the long term. We are already scaling-to-fit the OneStim business and will be stacking fleets as the market contracts during the fourth quarter. At the same time, a strategic review of this market is well under way and will be completed during the fourth quarter for execution early next year.

This gives me the opportunity to update you on our strategy execution.

Last month, we presented four key elements of that strategy that included leading and driving digital transformation in our industry, developing fit-for-basin solutions, capturing value from the performance impact for our customers, and fostering capital stewardship. Performance is at the heart of this new strategic direction.

We are already off to an excellent start on digital. We presented our vision of the E&P industry to 800 customers and technology partners at the Global SIS Forum in September. There, we demonstrated our firm commitment to an open digital environment that we believe can unlock further customer performance. This forum marked a new chapter for the digital future of our industry. The interest from our customers and digital partners was far beyond our expectations and is already translating into sizeable opportunities. The Sensia JV is also an important part of our digital strategy, and the announcement of its closing re-enforces our leadership of and commitment to the industry’s digital transformation.

We are also making progress with our new fit-for-basin strategic approach. In the release today, there are multiple examples of fit-for-basin technology, all of which drive our customers’ performance, such as NeoSteer* at-bit steerable system and Ageis* drill bit technology.

In addition, in North America, I am pleased to report early success of the technology access strategy with sales and leasing of rotary steerable tools. This is a new channel that accesses a new market where our participation was previously minimal.

Also in North America, our flagship project with Oxy in the Aventine Basin is now operating at scale, with continuously improved operational efficiency setting new frac records in the Delaware. The value being created is shared through an aligned commercial model and is a good example of our new strategy’s performance model approach.

Finally, as an update on our SPM strategy, we have made progress in our diverstiture of [the] Argentina asset, as we have a few offers in hand that we are reviewing with the anticipation to finalize with the other party during the upcoming weeks.

Since taking the role as CEO for Schlumberger, I have made a point of visiting many of our customers, our people, and our locations. The reception by our customers to both our engagement and strategic direction has been very positive. The enthusiasm of our people has been highly motivating and their commitment is evident. The industry is acknowledging the need for higher performance in a new era.

All in all, I am very pleased with the initial steps of our strategy execution, and with the internal and external alignment with our vision to become the performance partner of choice in our industry.

I will now pass the call over to Simon.

Simon Ayat *Schlumberger Limited – Executive VP & CFO*

Thank you, Olivier. Ladies and gentlemen, thank you for participating in this conference call.

Third-quarter earnings per share was $0.43, excluding charges and credits. This represents an increase of $0.08 sequentially and a decrease of $0.03 when compared to the same quarter last year.

During the quarter, we recorded $12.7 billion of pretax charges driven by market conditions. These charges primarily relate to goodwill, intangible assets, and fixed asset impairments.

As such, this charge is almost entirely noncash. Details of the components of this charge can be found in the FAQs at the end of our earnings press release.

These impairments were calculated as of August 31, 2019. Accordingly, the third quarter's results benefited from a $27 million reduction in depreciation and amortization expense.

Approximately $21 million of this $27 million monthly reduction relates to the Production group. The remaining $6 million is reflected in our "Corporate & other" line item.

The after-tax impact of this one-month reduction is approximately one-and-a-half cents in terms of EPS.

Our third-quarter revenue of $8.5 billion increased 3% sequentially, largely driven by our international operations.

Pretax segment operating margins increased by 113 basis points to 12.8%.

Highlights by product group were as follows:
Third-quarter **Reservoir Characterization** revenue of $1.7 billion increased 6% sequentially, while margins

increased 149 basis points to 21.8%. These increases were primarily driven by strong international Wireline activity and higher WesternGeco® multiclient license sales in North America.

Drilling revenue of $2.5 billion increased 2% driven by stronger drilling activity in Russia, China, and Australia.

However, this was partially offset by lower revenue in North America land and Saudi Arabia.

Margins were flat at 12.4%.

Production revenue of $3.2 billion increased 2% sequentially primarily driven by strong international completions activity.

Margin increased 148 basis points to 9.1% primarily driven by improved international margins from higher activity.

The reduction in depreciation and amortization expense as a result of the third-quarter impairment charge accounted for just under half of the margin improvement.

Cameron revenue of $1.4 billion increased 3% sequentially primarily driven by OneSubsea®; margins increased 29 basis points to 12.7%.

The book-to-bill ratio for the Cameron long-cycle business was 0.8 in Q3.

The OneSubsea backlog increased—decreased—to $1.8 billion at the end of the third quarter. This decrease reflects a cancelled project in the North Sea.

Now turning to Schlumberger as a whole, the effective tax rate, excluding charges and credits, was 16% in the third quarter as compared to 16.7% in the previous quarter.

We generated $1.7 billion of cash flow from operations during the third quarter.

Our net debt improved by $347 million during the quarter to $14.4 billion. We ended the quarter with total cash and investments of $2.3 billion.

We received $250 million in cash just after the quarter as a result of the closing of the Sensia joint venture.

During the third quarter, we issued three tranches of 500 million Euros notes each: the first due in 2024 at 0%; the second due in 2027 at 0.25%; and the third due in 2031 at 0.5%.

These notes were subsequently swapped into US dollars with a weighted average interest rate of 2.5%.

During the quarter we also repurchased $783 million of our outstanding 3.00% Notes due in 2020 and $321 million of our outstanding 3.625% Notes due in 2022.

These actions have served to improve the company's capital structure.

During the quarter, we spent $79 million to repurchase 2.2 million shares at an average price of $36.64. Other significant liquidity events during the quarter included capex of $413 million and capitalized costs relating to SPM projects of $194 million. During the quarter, we also made $692 million of dividend payments.

Full-year 2019 capex, excluding SPM and multiclient, is expected to be between $1.6 and $1.7 billion.

And now I will turn the conference call over to operator for Q&A.

Olivier Le Peuch *Schlumberger Limited – CEO*

Before we conclude the call today, I would like to reiterate three key points.

First, our Q3 performance was very solid. We expanded international margins while mitigating the North America land activity headwinds. We delivered strong free cash flow and a record safety performance.

Second, the new company vision is gaining industry-wide acceptance, and the initial progress on the strategy execution is very encouraging.

Third, we have adopted capital stewardship as an operational mindset, to deliver increased returns through investment discipline, optimization of working capital, and overall margin expansion.

Ladies and gentlemen, thank you very much for your participation today. Leah, you may now conclude the call.

*Mark of Schlumberger or Schlumberger companies.