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OVERVIEW:

Company Summary

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PRESENTATION

Operator

Good morning. My name is Sarah and I will be your conference operator today and would like to welcome everyone to the second quarter SLB earnings call. (Operator Instructions) As a reminder, this call is being recorded. I will now turn the call over to James R. McDonald, Senior Vice President of Investor Relations and Industry Affairs. Please go ahead.

James McDonald - *SLB NV - Senior Vice President of Investor Relations and Industry Affairs*

Thank you, Sarah. Good morning, and welcome to the SLB second quarter 2026 earnings conference Call. Today's call is being hosted from London 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. For more information, please refer to our latest 10-K filing and other SEC filings, which can be found on our website. Our comments today also include non-GAAP financial measures, additional details, and reconciliations to the most directly comparable GAAP financial measures can be found in our second-quarter earnings press release, which is on our website.

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

Olivier Le Peuch - *SLB NV - Chief Executive Officer, Director*

Thank you, James. Good morning, ladies and gentlemen. Thank you for joining us. Today, we'll begin with our second-quarter performance. Then I will discuss the evolving macro environment and strategic growth areas for SLB. And finally, I will close by sharing our outlook for the third quarter and how we will exit the year.

Stephane will then provide additional details on our financial results. And after that, we'll open the line for your questions.

Let's begin. This was a solid quarter for SLB, marked by broad-based international growth and rebound in North America. Excluding the Middle East, revenue increased sequentially across all divisions. was supported by higher offshore activity in Latin America, including Brazil, Guyana and Mexico; in Europe & Africa, across Scandinavia and Nigeria; and in Asia including China, Indonesia, India, and Australia.

Additionally, we saw a rebound in US Land, with higher sales of production chemicals, artificial lifts and valves, driven by strong demand for production and recovery solutions. In the Middle East, we continued to navigate the conflict during the second quarter, while maintaining our focus on protecting our people and facilities across the region. Activity resumed in several countries, although operations in Iraq remain constrained by security challenges.

While uncertainty persists, we continue to work closely for our customers to gradually restore activity. That said, returning to full activity will take time, and the pace of recovery will vary by country, customer and operating environment.

Turning to the divisions, I was very pleased with the continued momentum in Production Systems and Digital. In Production Systems, growth was supported by higher demand in artificial lift, valves, surface Production Systems, and production chemicals, as well as stronger subsea activity, particularly in North America and Latin America.

This reflects clear and durable customer priorities, improving production, enhancing recovery, and extending the life of existing assets, which are fully aligned with our increased focus in the core toward production and recovery.

Production Systems adjusted EBITDA margins returned to above 20%, supported by strong execution. ChampionX also continued to provide acceptive margins to Production Systems, despite facing cost inflation in chemicals. Notably, ChampionX delivered sequential margin expansion for the third consecutive quarter.

Digital also delivered very strong results, supported by a favorable business mix. This included higher exploration data licenses and transfer fees in Brazil and Indonesia, which had Digital adjusted EBITDA margins to reach approximately 35% for the quarter. Additionally, annual recurring revenue increased by 15% year-over-year.

As we shared during our Digital Investor Day last month, the future of our industry is digital. And we are confident that the key growth drivers highlighted at the event, Digital Operations and AI will continue to build strong momentum across the industry. You can see several examples of recent customer contracts and deployments in the quarterly highlights included in today’s earnings press release.

Meanwhile, revenue in Well Construction and Reservoir Performance declined slightly as a result of activity disruption in the Middle East. However, the impact was largely offset by stronger activity in North America and across other international markets.

Data Center Solutions also continued its strong growth trajectory, with revenue increasing 33% sequentially and 80% year on year. Growth was supported by the addition of new hyperscaler customers and a broader scope of offerings as we evolve beyond manufacturing into data center design, integration as exemplified by the recent announcement with [Meta].

All in all, this was a strong quarter against a difficult backdrop, with solid financial results and steady progress in our strategy execution.

I want to thank the entire SLB team for delivering these results in a very dynamic market. I continue to be impressed by your performance, your innovation and your commitment to our customers.

Now, let me turn to the macro environment, which continues to evolve following the disruption in the Middle East. There are several structural drivers of upstream investment that have been heightened by the conflict in the Middle East.

This includes the replenishment of commercial inventories and strategic reserves that have been depleted during the conflict, increased efforts to diversify supply, and the development of domestic resources to strengthen long-term energy security.

These priorities support a favorable investment backdrop across both short- and long-cycle markets, and they are bringing a renewed focus on exploration to unlock new reserves and an increasing production and recovery from existing assets.

In this context, we expect a range-bound commodity environment that is constructive for upstream investment. Indeed, inventory replenishment and the need to rebuild spare capacity should provide support at the lower end of the range. And at the same time, higher price will encourage the development of new supply while unlocking new opportunities for our business.

Let me now turn to regional activity dynamics. The market is starting to exhibit the characteristics of an upcycle. International and deepwater activity is growing, supported by the fundamentals I've just discussed.

Notably, according to third-party reports, final investment decisions for long-cycle projects are expected to increase by approximately 30% year-on-year in 2026. This will support higher exploration spending and upstream CapEx growth across the product markets during the second-half of 2026, led by Africa. And we expect a more meaningful impact in 2027, with growth extending to Latin America, the Mediterranean and Asia.

Meanwhile, North American land will remain tied to short-cycle market dynamics, including commodity prices, inventory level, and the pace of restocking. Our position in North America has been strengthened by ChampionX and by the increasing need for technology innovation in production and recovery.

In the Middle East, we see the impact as largely transitory. Restoring production to prior levels will require higher services intensity, particularly in well intervention, along with increased equipment demand, infrastructure repairs and realigned shipping logistics.

Based on this condition, and our exposure to international deepwater and exploration, production and recovery, and Digital, our outlook for our business into 2027 is compelling.

Against this backdrop, SLB's strategy remains closely aligned with our customers' highest investment priorities. In the core, this includes restoring production capacity, developing advantaged resources, including deepwater, and improving capital efficiency.

Beyond the core, Digital remains both a key enabler of performance and a powerful growth platform for SLB. Data and AI will increasingly touch every part of the upstream lifecycle. Advantage is that Digital is grounded in deep domain expertise and connected to real-field operations.

We are embedding intelligence to the workflows that matter most, from subsurface interpretation and well delivery to production optimization and autonomous operations. Finally, we're accelerating our Data Center Solutions strategy around three priorities, diversifying our customer base, expanding internationally, and increasing the scale and scope of our offerings.

This quarter, we delivered on our strategic pathways, adding new hyperscaler customers to our portfolio, diversifying our end markets across Canada and Asia, and expanding our capabilities to include design, engineering, and system integration.

At the same time, we continue to leverage our off-site fabrication capabilities to scale up in response to accelerating demand and to compress delivery time for our customers. Our differentiated capabilities have resulted in our backlog growing ahead of expectations with new contract awards, strong customer engagement and international expansion.

This momentum gives us the confidence that we'll finish this year strong as we had previously guided, and we now foresee that Data Center Solutions will exit 2027 at an annualized revenue run rate exceeding $2 billion.

But this is just the start. Our ambition is to become an industrial technology partner to the data center industry, and our expanding role in design and integration provides us a platform to have adjacent capabilities, including decarbonized power and cooling solutions. These are natural extension of our domain expertise in process engineering and complex energy systems, and given the pace of market development, we can accelerate this strategy for our partnerships and acquisitions.

Examples of this include our recent alliance with Liberty Energy that will combine SLB's, modular infrastructure solution, and global market reach with Liberty's behind-the-meter power generation systems, in addition to our pilot with Ormat for next generation geothermal power development, to support future Data Center demand. These are exciting steps toward becoming a critical infrastructure partner for the AI economy.

Together, this strategic investment offers a broader and more resilient growth profile for the future, anchored in the core, accelerated by Digital, and expanded through Data Center Solutions.

Let me now turn to our outlook for the third quarter, followed by our preliminary view of the fourth quarter. Turning to our third quarter outlook. Our base case assumes a gradual recovery in Middle East activity, consistent with the pace we observe toward the end of the second quarter as we continue to remobilize operations across the countries affected by the conflict.

Based on this trajectory, we expect global sequential revenue growth between 3% and 4%, with adjusted EBITDA margin expansion of approximately 75 basis points. At the division level, we anticipate revenues of the core divisions to increase sequentially in the low to mid-single-digits, while Digital revenue is expected to grow in the low-single-digits.

The heightened tensions recently observed in the Middle East have not had a material impact on our current activity. However, we have developed a downside scenario to help model the potential impacts of the ongoing geopolitical volatility.

In the event of a significant re-escalation that disrupts ongoing remobilization efforts and results in flat sequential Middle East revenue, we estimate third-quarter revenue will be approximately $150 million lower than our base case assumption. This will translate into an adjusted EBITDA headwind of approximately $75 million. The impact of these downside scenario will be concentrated primarily in the Well Construction and Reservoir Performance divisions.

Looking ahead to the fourth quarter, our preliminary outlook assumes that Middle East activity reaches between $2.1 billion and $2.2 billion, or approximately 95% of the revenue achieved in the fourth quarter of 2025. Based on this assumption and supported by deepwater momentum in a typical year-end Digital and product sales, we'll expect fourth quarter revenue to surpass $10 billion, representing approximately 5% growth year-over-year.

We also expect adjusted EBITDA margin to be approximately 24% in line with the fourth quarter of last year. While this outlook remains dependent on certain conditions, primarily related to the Middle East conflict, we view it as an encouraging indicator of the underlying strength of the business and believe it will position us well to deliver solid growth in 2027.

I will now turn the call over to Stephane to discuss our financial results in more detail.

Stephane Biguet - *SLB NV - Chief Financial Officer, Executive Vice President*

Thank you, Olivier, and good morning, ladies and gentlemen. Second quarter earnings per share, excluding charges and credits, was $0.55. This represents an increase of $0.03 sequentially and a decrease of $0.19 when compared to the second quarter of last year. During the quarter, we recorded $0.03 of merger and integration charges, primarily related to the ChampionX transaction. Overall, our second quarter revenue of $9 billion increased 3% sequentially despite severe disruptions in the Middle East.

Strong performance in Latin America, Europe and Africa, US land and Asia more than offset the decline in the Middle East, where revenue fell 13% sequentially to $1.66 billion. Despite the headwinds from the Middle East, our pretax segment operating margin increased 49 basis points sequentially and our adjusted EBITDA margin increased 83 basis points sequentially.

As it relates specifically to the Middle East while the revenue shortfall was close to our expectations, we took some temporary cost actions to alleviate the detrimental effect on our earnings.

As a result, the sequential impact on our earnings per share was slightly below the low end of the $0.06 to $0.08 range that we originally indicated for the second quarter.

Let me now go through the second quarter results for each division. Second quarter Digital revenue of $697 million increased 9% sequentially driven by higher Digital exploration revenue and higher sales in platforms and applications.

Digital pretax operating margin of 27.8% expanded 683 basis points, while adjusted EBITDA margin of 34.7% increased 860 basis points. These increases were due to higher sales of exploration data licenses and transfer fees as well as improved profitability in Digital operations and platforms and applications.

Reservoir Performance revenue of $1.6 billion declined 2% sequentially, while pretax operating margin of 14.9% decreased 121 basis points. These decreases were primarily due to operational disruptions related to the Middle East conflict.

Well Construction revenue of $2.7 billion decreased 2% sequentially primarily as a result of the disruptions in the Middle East, partially offset by higher drilling activity in Latin America. Pretax operating margin of 15.2% and was essentially flat sequentially, as lower profitability in the Middle East was offset by improved profitability in North America and Latin America.

Finally, Production Systems revenue of $3.8 billion increased 7% sequentially, driven by higher revenue from OneSubsea as well as increased sales of artificial lift, valves, surface Production Systems and completions.

Production Systems pretax operating margin increased 138 basis points to 15.5% primarily due to improved profitability in OneSubsea and artificial lift. Margin also benefited from the accretive contribution of ChampionX's production chemicals and artificial lift businesses.

Now turning to our liquidity. We ended the quarter with net debt of $8.7 billion. We generated $1.4 billion of cash flow from operations and free cash flow of $716 million during the quarter. This represents a $739 million increase in free cash flow compared to the last quarter, which is largely due to seasonal improvements in working capital, including the absence of the annual employee incentive payouts in the first quarter.

Consistent with our historical trends, we expect our free cash flow in the second half of the year to be materially higher than in the first half on improved earnings, higher customer collections and lower inventories. Capital investments, inclusive of CapEx and investments in APS projects and exploration data were $643 million in the second quarter.

For the full year, we still expect capital investments to be approximately $2.5 billion. During the quarter, we repurchased $648 million of our stock and still expect to repurchase a minimum of $2.4 billion for the full year, in line with 2025. Lastly, we are still targeting to return more than $4 billion to our shareholders in 2026 through a combination of dividends and stock buybacks.

I will now turn the conference call back to Olivier.

Olivier Le Peuch - *SLB NV - Chief Executive Officer, Director*

Thank you, Stephane. I believe we are now ready for the question-and-answer session.

Thank you.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Scott Gruber, Citigroup.

Scott Gruber - *Citigroup Inc - Analyst*

Yes, good afternoon on your end, Olivier and Stephane.

Stephane Biguet - *SLB NV - Chief Financial Officer, Executive Vice President*

Yes, good morning.

Olivier Le Peuch - *SLB NV - Chief Executive Officer, Director*

Good morning, Scott.

Scott Gruber - *Citigroup Inc - Analyst*

Thank you. We appreciate the guidance on 3Q and 4Q given the moving pieces. You mentioned the Middle East getting back to, I think it was $2.1 billion to $2.2 billion in 4Q, 95% of last year. How much of a step up is that from 3Q? And how do you see the other geo markets stepping up in 4Q, if you can unpack that, that move to $10 billion.

And as we start to think about 2027 is that $10 billion a good run rate to think about the potential for your top line in '27 so call it something close to a $40 billion top line run rate next year. Is that reasonable?

Olivier Le Peuch - *SLB NV - Chief Executive Officer, Director*

I will not comment at this point on '27, but I can comment on Q4 and what it means for the setting and accompanying outlook that we see. First, to comment very broadly on the Q3 sequence and the Q4 sequence, obviously, Q4 step-up from the third quarter will be characterized by a combination of factors, the first being the further Middle East recovery that will indeed, we believe, step up and the assumption it will reach up to 95% of last year Q4.

The second factor will be the usual year-end sales into Digital and Production Systems and finally, data centers. But underlying all of this, as we would expect the growth sequentially both in North America and international at that stage are the fundamentals of the market that I believe give us a business outlook that is very compelling. That combines not only the rebound in the Middle East that will continue but also the setting up of the offshore deepwater environment that will add to it and the strengths we have developed into production and recovery to come into benefits in short cycle.

So it will be a long- and short-cycle exposure, long cycle to deepwater, short cycle to production and recovery and the kick of the Middle East recovery developing at scale in the fourth quarter and continuing throughout '27. So indeed, it is highly compelling adding to the secular trends of Digital and to the significant strength and scale that we are foreseeing in data centers going forward.

Stephane Biguet - *SLB NV - Chief Financial Officer, Executive Vice President*

And Scott, to clarify your specific question on the Middle East just to put the numbers back together. So first, Q2 actual revenue in the Middle East was $1.66 billion. And we have assumed in our base case scenario where the global revenue grows between 3% and 4% sequentially, but the Middle East will recover gradually in the third quarter. If it doesn't, if current escalation ceases the ongoing mobilization, but Middle East revenue would be $150 million lower than in our base case, then it would bring it back to more or less the level of Q2. So that gives you the range where it could end up in the third quarter.

Scott Gruber - *Citigroup Inc - Analyst*

Well, I appreciate that color. And then my follow-up is on exploration. You're witnessing a nice pickup currently in your data library sales. And I would assume kind of across wireline, et cetera. How are you thinking about the durability of the exploration cycle?

Is this just a reaction to the higher crude prices?

Do you think we'll see a multiyear improvement in exploration activity, given the need for the industry to locate new reserves, shale production growth slows and in order to improve the diversity of supply given the Middle East conflict, just your thoughts on the durability of the exploration cycle would be great.

Olivier Le Peuch - *SLB NV - Chief Executive Officer, Director*

Yes. I think indeed, the fundamental forces are favorable and constructive for the global exploration. And it's driven by energy security, by the resource -- exporting resource, natural resource, and the need for certain, if not the majority, of the customers to replace the reserves and to bring and build the long-term portfolio that includes deepwater, highly valuable resources. So we see that exploration cycle and appraisal is developing nicely.

And I think we see this not being a trend of one quarter, a long-term trend that will support reserve replacement across different basins, both in frontier, in infrastructure-led exploration, deepwater, but also in some land operations to further secure [incremental] (corrected by company after the call) development in some regions. So we see this as an underlying strength, and we have the portfolio to match it.

We have the Reservoir Performance wireline portfolio with unique differentiated technology that are being used on the vast majority of the high-value wells -- exploration wells that happen. We have the Digital offering, both in our platforms and applications, but also obviously, into our exploration data as it was highlighted this quarter. And we are introducing new technology in Well Construction, including AlphaSight, which is the latest generation of our geosteering tool that provides the best performing tool to place exploration wells in the spot for maximum success. So we believe we are very well placed to benefit from this global trend.

Scott Gruber - *Citigroup Inc - Analyst*

Great. I appreciate the color. Thank you.

Olivier Le Peuch - *SLB NV - Chief Executive Officer, Director*

Thank you.

Operator

James West, Melius Research.

James West - *Melius Research LLC - Analyst*

Thanks. Hi, Olivier, Stephane.

Olivier Le Peuch - *SLB NV - Chief Executive Officer, Director*

Hey, good morning, guys.

James West - *Melius Research LLC - Analyst*

So -- no problem. So Olivier, I wanted to just hone in on the Middle East situation. Obviously, people want to get back to work. We want to see a recovery post conflict. You've probably been in the region recently, and I'm sure you're in touch with everybody in the region.

What's kind of the level of urgency to get things flowing again, get back to work, get drilling activity and production activity going. And I know you've talked about 95% of fourth quarter of last year levels. But what do you think we look like kind of after we get back to activity?

Olivier Le Peuch - *SLB NV - Chief Executive Officer, Director*

So clearly, we see that the engagement level and frequency of engagement with our customers in recent weeks and days actually is increasing and to secure mobilization resources to plan and to tailor solutions to the recovery of the wells that have been shut or to plan for accelerating the deployment of resources to do the infill drilling, to catch up and expand the capacity. And I think it varies from country to country.

Some like Iraq are more concerned and are constrained by security, but we have seen activity restored and strengthening in UAE, in Qatar, to a lesser extent in Saudi. And I think these are the signs that I think activity is being built gradually. We have not seen a material impact in the recent complete re-escalation as we have seen in the last 12 days and customers are eager to restore production. And hence, they are looking for solutions for well intervention. They are looking for solutions that can assure that the shut-in wells can be restored and the solutions, be it the production and recovery solution or be it the intervention solution, can be deployed at scale in the coming weeks and coming months.

So yes, activity engagement is happening. And I think we are getting the strong signal that aside from reescalation and worsening of the conflict as it stands today, we see a gradual recovery unfolding in the third quarter.

James West - *Melius Research LLC - Analyst*

Okay. Great. And then maybe to hone in a little bit more on the exact nature of the work you think you'll see initially? I'm assuming it's going to be a lot of production-related work. Is that a fair assumption that it will be a lot of interventions and a lot of the ChampionX business getting active first before we see kind of new well drilling.

Olivier Le Peuch - *SLB NV - Chief Executive Officer, Director*

I think I see threefold, three vectors of activity. One, we lead the combination of production and recovery that includes well intervention in ChampionX capability that includes coiled tubing intervention to restore or to kick wells back into production. I see also Digital being -- considered being a new catalyst, this crisis being an occasion catalyst for accelerating Digital deployments to unlock the potential of existing wells and to ensure our best performing -- best performance, and we are being involved in several contracts in the region to make it happen.

And finally, for the company and the region of the country that can mobilize rigs for infill drilling and expansion of capacity going beyond the intervention, beyond restoring production and accelerating capacity to respond to the lost supply in the last few months.

James West - *Melius Research LLC - Analyst*

Great. Thanks, Olivier.

Olivier Le Peuch - *SLB NV - Chief Executive Officer, Director*

Thank you, James.

Operator

David Anderson, Barclays.

David Anderson - *JPMorgan Chase & Co - Analyst*

Hi, good morning, gentlemen. So an improving offshore business is clearly an underlying theme for you this quarter. FIDs this year have already surpassed full-year '25; deepwater rig count is higher as well. I would think you'd have better visibility here than just about any other part of your business for '27? So kind of the question I'm just wondering is, should we at least see double-digit growth in offshore next year for both the production side with OneSubsea and higher activity in Well Construction?

Olivier Le Peuch - *SLB NV - Chief Executive Officer, Director*

I think directionally, it's fair to say that the acceleration of FID, we see finally setting in place this year and the pipeline even growing next year that will set the tone for indeed, a deepwater activity that will certainly go directionally well to next year. We have set an ambition, as you know, that our subsea booking will reach $9 billion over two years, and hence, being visibly accretive to our current revenue rate into '26 and '27.

So yes, globally and directionally, we expect visible growth, difficult to say at this point, depending on the whole mobilization and timing of mobilization throughout the second half of this year and throughout next year and the exact timing of the FID that will still dependent upon all parties and, including the host country, to find agreement and this will still push or pull some FID approval here and there, but we see significant activity already starting in Africa, West Africa and East Africa in the coming months.

We see Mediterranean to be a nice setup in 2027. We see East Asia following the FID and some contract award to be also very prolific for gas development, and we continue to see Latin America from Brazil to Guyana and Suriname to be -- continue to go and to be an engine of growth. And not forgetting the mature basin of North Sea, Norwegian sector and Gulf of America that continue to look for a capital-efficient solution, including boosting, as you have seen some announcements and we continue to develop at pace, the proven reserve and focus on infrastructure-led development.

So you combine all of this, you have a setting that is highly favorable. That was in the making and that to some extent, this crisis created the catalyst to secure and accelerate going forward as energy security, exploiting resource, has become a priority and gas development continue to be a driver as well.

David Anderson - *JPMorgan Chase & Co - Analyst*

I appreciate the color there. If I could make my second question, more of a macro question here. On the Middle East, you had mentioned production is going to take longer to return. I think that's a little bit controversial. I think the broader market seems to think that production comes right back very quickly within a couple of months.

Can you tell us why you think that's going to take a little bit longer? Is that certain countries that are a little bit different? Is it -- I mean, I know we're talking about the intervention work and everything happening. If you could just provide a little bit -- a little bit more detail on kind of what you're seeing in kind of the ground level and why you come to that conclusion?

Olivier Le Peuch - *SLB NV - Chief Executive Officer, Director*

Yes. We believe that it's -- it will not be prudent to assume that things will restore in weeks. And we believe that the condition that have not met yet and partially around security in some countries, specifically Iraq and for production capacity in Kuwait will not necessarily give, in short term, the capability to unlock and come back to the full production. Not only talking about the export capacity from the straight or pipelines.

But -- so I think this will take time. Now well intervention and the capacity that many countries have to restore, yes, it will take weeks and months. And yes, as we exit this year. Certain countries will already be well on their way to have restored full capacity, if not being on our way to expand capacity beyond. And I think we know that, but it's a mix.

And I think here, I cannot do more than comment on the [gradient], the mix, from the ones that are untouched, like Oman, or the ones that are severely damaged, such as Bahrain, Iraq, and Kuwait, and in between UAE and Saudi [Aramco], so you put all this into a different phasing and depending on the mobilization of resource, you'll have a [gradient] (corrected by company after the call) of recovery of production.

But yes, gradually, it will improve and gradually will be over weeks, months or quarters depending on the conditions at asset and depending on how the resolution of the conflict will pan out to be. Always positive in our opinion and already gradually growing going forward but it's very difficult to pinpoint a time where this will intersect the previous capacity or the previous production total.

David Anderson - *JPMorgan Chase & Co - Analyst*

Appreciate your thoughts. Thank you.

Olivier Le Peuch - *SLB NV - Chief Executive Officer, Director*

Thank you.

Operator

Neil Mehta, Goldman Sachs

Neil Mehta - *Goldman Sachs Group Inc - Analyst*

Hey, good morning, Olivier and team. I really appreciate all the color you provided around data center -- data center opportunity set and the path to $2 billion of exit rate revenue. I guess there are a couple of components around it, but for those of us who have probably spent less come on these modular systems.

Can you just simplify what exactly is the product that you're providing here for every part of the data center and with the value add to customers. And then, can you just talk about how we should think about the economics of this? I would imagine it's a little bit lower EBITDA margin, but higher free cash flow conversion. So just thinking about the economics and then helping us simplify what the product offering is.

Olivier Le Peuch - *SLB NV - Chief Executive Officer, Director*

Yes. So I think to take a bit simple and to explain how did we develop the right-of-play into this market. I think you have to run the tape for two or three years. And I think we have realized that we could deliver highly -- high-quality, high reliability, modular construction equipment off-site to package this modular equipment destined towards the server hall of the data centers, destined towards the cooling equipment of the data centers and then package this in -- with modular construction so that they are delivered from an off-site large-scale manufacturing site to the diversity of the data center site in any state or ultimately in any country.

So it brings -- the benefit brings to the hyperscaler, it brings a reliable, scalable and value assurance of delivering at a shorter lead time, flexibly across different data centers. We have delivered, as we noted, in the one announcement we did last week, 1.3 gigawatts of various equipment capacity across more than 20 or 30 different data centers from one single site of manufacturing at large scale and that's the beauty of it.

So the value proposition and economics from the hyperscaler is that it provides reliable delivery at the lower -- shorter lead time and it can demonstrate scalability for any data center in any state. So it brings simplicity. It brings quality.

And I think that's what we've built on and both for the server hall infrastructure or cooling solutions and it's built on a capability that we can transfer from our engineering processing and engineering capability, both the logistics, the manufacturing and the engineering capability, and we are starting to add design capability to it, as you have seen from the NVIDIA announcement, future-fitting of equipment, commissioning equipment as well, as you will see in the Meta announcement that we have made. So all in all, a very interesting capability for the hyperscaler and something that they look for, and we are getting a lot of requests and a lot of pull, actually.

Stephane Biguet - *SLB NV - Chief Financial Officer, Executive Vice President*

So now, Neil, on the financial profile of this business to your question. Yes, from a pure margin standpoint, this business is currently not accretive to SLBs overall margins, but of course, it's very accretive to top line growth and very accretive to earnings growth. And as you alluded to, it is a capital-light business model that we have and the type of contract and contractual terms we have result into very strong free cash flow generation. We are quite happy to see the earnings growth and the free cash flow of this business.

Neil Mehta - *Goldman Sachs Group Inc - Analyst*

And maybe you can unpack the new announcement here around the gigawatt data center in Canada with Meta, how many more opportunities like that are there? And can you give us a sense of what are the constraints to scaling this business? I would imagine the demand for prefab work is enormous. So what is the constraint? Is the facility size in Shreveport, for example, what's the limitation?

Olivier Le Peuch - *SLB NV - Chief Executive Officer, Director*

I think we have been able to scale this beyond what we had planned originally by expanding, by improving, by optimizing, and by starting to scale within the constraints of the compass we have set, but for the specific Canada setup that we are preparing with Meta, we set up a sister center, if you like, sister campus, to what we have done in Shreveport -- we know how to start from scratch easily. This is, relatively speaking, a low-capital intensity and we'll be ready to scale this because we have the lessons learned.

We have done it at scale. We're delivering quite a capacity every month from the Shreveport campus. So we'll expand this into Canada and we will continue to do that as a new business and new projects unfold. And in this particular case, we are doing a little bit more than just delivering modules. We are fitting the module in place onto the data center. We are commissioning these, and we are passing into the level of system integration design that expands our capability set and prepares us for the next project award.

Neil Mehta - *Goldman Sachs Group Inc - Analyst*

Thank you.

Operator

Arun Jayaram, JPMorgan.

Arun Jayaram - *JPMorgan Chase & Co - Analyst*

Yes, Olivier, good morning. I was wondering if you could talk a little bit more about your Middle East pipeline, we've seen a number of, call it, tender announcements from some of your OFS peers in Saudi Arabia and Iraq. And I was wondering if you could just talk a little bit about your pipeline of potential opportunities and maybe just general relative positioning in light of some of these awards.

Olivier Le Peuch - *SLB NV - Chief Executive Officer, Director*

No, we feel very good about our position in Middle East. We have -- first, we have built quite a backlog of contracts in the last 18 months. The Mutriba award, including some awards in Saudi, Iraq, and UAE that we -- and in Kuwait that we're executing and part of our backlog, and we feel very good about those wins and those contract awards. And we believe that we have maintained, if not reinforced, in most of the countries our market position.

And you should expect more awards to be coming in the coming weeks or coming months that will solidify our market position. So again, we are proud of what we are delivering to our customers in the Middle East. We have a lot of fit-for-basin capabilities that are in place that are recognized. We have a pretty large integration capability set in Saudi Aramco, in Saudi and in other, including Kuwait or in Iraq that I think we're leveraging.

And we are more and more successful with our Digital capability in the region and the current recovery of Middle East is calling upon our production and recovery capability, well intervention, chemistry, and production solution that we can fit for the market. So we're very pleased and you see the size of our -- and the scale of our business today, and we're not concerned about leaving behind an opportunity, and we will have a nice growth in the second half of this year as we have guided, and we expect this to only expand into 2027.

Arun Jayaram - *JPMorgan Chase & Co - Analyst*

Got it. And my follow-up, offshore clearly a theme with this print. Olivier, I was wondering maybe you could give us a little bit of an update on the OneSubsea JV. We did notice quite a number of awards this quarter. You mentioned the $9 billion order ambitions.

How is SLB evolving your product and solutions capabilities within the JV? I'd love to hear more about that.

Olivier Le Peuch - *SLB NV - Chief Executive Officer, Director*

No, I think we're indeed very happy with the momentum that we are seeing in OneSubsea JV. I think we are benefiting from the portfolio we have. I think the portfolio that includes now what we needed to expand to be having a more complete portfolio of trees and manifolds and umbilicals as you have seen that I think that complements what we used to have in OneSubsea before. So I think we have a more comprehensive portfolio that addresses all the basins and that makes us competitive in all the basins, and that have fit solution for all the water conditions and all the geology and all the characteristics of the fluids, gas or oil assets that we are addressing.

In addition, I think we continue to see significant momentum in our processing solution, and we have seen some recently announced award on the boosting solution. We continue to work with customers in the domain of production and recovery to link the future recovery capability of their reserve with processing -- subsea processing capability that we have that are unique. So we continue to develop processing to differentiate. We continue develop Digital capabilities, and we continue to standardize and modularize our solution to make it more effective for deployment and to be more competitive into the tree-and-manifold solutions.

So again, we are successful across different basins in Africa, in Asia, in Latin America, while continuing to build on our legacy Gulf of America and the North Sea. And you have seen that we have also strategically entered into alliance with Equinor and with BP, particularly, to develop and to work side by side early -- an early FEED and design to optimize the subsea architecture to leverage long-term solution that we foresee, could unlock more economics for the customer and to position ourselves for life-of-field solution.

Life-of-field solution is the last part where we are investing to find a solution to intervene those wells and done some acquisition in that sense. And also continue to work with partners like Subsea7 to provide end-to-end allowance solution for development or for intervention going forward. So very pleased with progress and certainly at the right time in this deep water cycle rebound.

Arun Jayaram - *JPMorgan Chase & Co - Analyst*

Great. Thank you.

Olivier Le Peuch - *SLB NV - Chief Executive Officer, Director*

Thank you.

Operator

Derek Podhaizer, Piper Sandler.

Derek Podhaizer - *Piper Jaffray Inc - Senior Research Analyst*

Hey, good morning. I wanted to ask about your margin outlook in the core, OneSubsea, ChampionX some of the synergy pull-through there, Well Construction held up really well. just thinking about this margin momentum as you head into 2027 off that 24% EBITDA margin that you stated for your expectation for fourth quarter this year. So maybe just talk towards the core as far as the momentum you're seeing into next year.

Stephane Biguet - *SLB NV - Chief Financial Officer, Executive Vice President*

So on the OneSubsea side, if you remember, we had a few transitory issues and start-up costs in the first quarter and the good news is that the margins increased in the second quarter. This is why you see Production Systems increasing margins as well. So, in the second half, OneSubsea will continue to increase margin as well. So it's a gradual increase throughout the quarter for OneSubsea.

You mentioned ChampionX as well. And as Olivier indicated, we are quite happy to see quarter after quarter ChampionX margins continuing to increase despite some inflationary pressure we have on chemicals, but mostly come from the Middle East conflict by the way.

But regardless, because synergies are unfolding, we continue to see ChampionX margins increasing. And Well Construction, yes, through despite the severe disruption in the Middle East, they managed to hold the margins flat because we had -- we had a good mix of activities in Latin America and North America.

So you put all this together, you, of course, will have end-of-year sales in Digital as well. Digital is always recording the best quarter margins in the fourth quarter. So that's what will get us to this more or less the same level in Q4 as we were in Q4 of last year, around 24%.

Derek Podhaizer - *Piper Jaffray Inc - Senior Research Analyst*

Got it. Great. That's helpful. And then maybe sticking on Digital a very solid quarter. Growth across all four of your subsegments understand exploration can be a little lumpy for the year, but clear adoption and momentum across the other three segments as this dynamic you really laid out for us at the recent Digital Day.

Maybe if you could talk to us about some of your recent wins and really the primary drivers behind that growth and how you see adoption evolving over time?

Olivier Le Peuch - *SLB NV - Chief Executive Officer, Director*

I think you have seen in the in the prepared remarks and reiterating what we have highlighted during the Digital Market Day. I think Digital Operations and AI will be the key lever of growth and dynamic and adoption in the market. But in addition to this, our platform approach from Delfi to Lumi to Agora, which is our edge platform, and Tela, which is our AI platform. I think combining to give us the -- I would say, the comprehensive differentiated offering that I think is attracting market award.

And I think you have seen the diversity of what you have announced across the different geographies, across the different customer landscape, and we expect this to continue because we see track record. We see -- we can help customers create value through

Digital solutions, be it in the planning cycle or a be it in operation, partly in drilling operation, we are seeing a lot of success adoption of autonomous or automated solution drilling, and we're starting to unlock the value and production solution by establishing new autonomous solutions that can unlock. And we do that with a customer actually in Middle East, and we are expanding this in other regions. So all across Digital approach and AI, we shape the future of adoption, but it is built on our platform, it's a built on our domain, our partnership and our global scale.

Derek Podhaizer - *Piper Jaffray Inc - Senior Research Analyst*

Great. Thank you for all the comments. I'll turn it back.

Olivier Le Peuch - *SLB NV - Chief Executive Officer, Director*

Thank you.

Operator

Keith Mackey, RBC.

Keith Mackey - *RBC Capital Markets Inc - Analyst*

Hey, thanks, and good morning. We've been hearing more about conversations happening in Venezuela. You also announced a framework agreement with PDVSA recently. Can you just discuss how that agreement is important to growing your business in Venezuela and just what is happening there more broadly? And when you think that it could be -- start to become a little bit more of a major contributor? .

Olivier Le Peuch - *SLB NV - Chief Executive Officer, Director*

I think first, I wanted to give a word to the discussion in Venezuela. Unfortunately, a few weeks back, there was an earthquake that really shocked the whole country. And I think this is still a country under recovery. And I think -- first, I think a word the whole industry there and to the whole country as we witnessed this and it’s a tragic incident.

Now we have been, I would say, for the last two years, working already in country, scaling our source, scaling our capability, working under an OFAC license with an IOC, Chevron, and I think having a large scope of -- to support them, and you have used this to continue to develop our capabilities, continue to prepare for the recovery and to work at by side of the new entrants that are preparing a re-entry at scale into the country.

So this year, it means that we are securing contracts. We are securing work scope with international companies that are -- that either were there or that are reinforcing their position in country, and we are accompanying them into preparing and planning mobilizing resources as we speak with significant setup that will happen in the next few months to give us a significant exit rate that will enter 2027 with multiple customers and multiple contracts that will shape 2027 in a significant growth curve compared to where we were in '25 and where we are in '26.

So as a reminder, I think we used to have more than 3,000 people. At a peak we used to generate more than visibly more than $1 billion in this country. Difficult to say when we will reach or will we reach this level, but it's clear that having the dynamic of reinvestment under certain right condition will support high growth, and we have positioned ourselves very well and we already are securing the contract and the additional work scope beyond what we have done for the last 2 years to scale in '26 H2 and to scale in '27.

Keith Mackey - *RBC Capital Markets Inc - Analyst*

Okay. I appreciate the comments there. And just maybe stepping back a little bit on the FID comment. So 30% increase in long-cycle FIDs and bodes well for 2027. Can you just comment generally on the revenue conversion to SLB of FIDs of this nature?

Does it generally lead to multi years of growth? And what is the time lag between an FID and sort of when your revenue off that might peak?

Olivier Le Peuch - *SLB NV - Chief Executive Officer, Director*

The only good answer to this is it depends. I think depending on the FID, depending on the deepwater contract, depending on the position we earn on that FID. I think between any FID and the first well drilled, I think there is typically at least 12 months. And FID, typically this year, these days, two to three years as a minimum, if not three to five years, depending on number of wells, number of subsea trees and the more phases of those projects.

So between contract award and first revenue a few quarters and then the duration of any of this FID deepwater is typically to the order of two or three years as a minimum. And typically, the coming phases as the customer are prudent in the way they plan and scale this large deepwater investments. And hence, these deepwater go through 2 or 3 phases typically that last in excess of 5 to 6 years and hence create momentum for the years to come. So that's where it is.

Keith Mackey - *RBC Capital Markets Inc - Analyst*

Perfect. Yes. It sounds like we're setting up for a multiyear up cycle offshore .Thanks for the color. Appreciate it.

Olivier Le Peuch - *SLB NV - Chief Executive Officer, Director*

Thank you.

Operator

Saurabh Pant, Bank of America.

Saurabh Pant - *Bofa Merrill Lynch Asset Holdings Inc - Analyst*

Hi. Good afternoon, Olivier.

Olivier Le Peuch - *SLB NV - Chief Executive Officer, Director*

Good morning.

Saurabh Pant - *Bofa Merrill Lynch Asset Holdings Inc - Analyst*

Olivier, I want to touch on the Middle East a little bit. It's kind of a 2-part question, but these are some of the recent themes that we have been leaving the first part, is on the pricing dynamics in the Middle East. There was a little bit of noise around some LSTK contracts being awarded that's a pretty old mature business model in the country, right? But maybe just talk to the broader pricing dynamics in the Middle East that you're seeing.

And then the other part of the question is around the logistics disruption and the cost inflation that we saw early in the conflict, but it sounds like things might be getting a little better as you learn to live with it, you sought out your supply chain or everything rewires and your costs start to moderate a little bit. But maybe if you can touch on those 2 points, pricing dynamic and then just the cost setup and if that's improving as we go forward?

Olivier Le Peuch - *SLB NV - Chief Executive Officer, Director*

Yes. Indeed, and building on your second part of the question first, I think indeed, we are learning how to adjust, as I said in my prepared remarks, the logistics and the supply and localize the local supply differently to prevent -- to avoid some of the excessive costs and the same to continue to operate and provide business continuity and efficiency into the scalable solutions that we apply as we mobilize back within the country. So this is -- this will fade away. And as regard to recover, we'll put this part, and I think will have an impact will gradually remove this impact.

Now from the pricing, pricing has been generally speaking, globally a headwind in 2026, and partly in large competitive tenders be it in integration, in stimulation and subsea has been something that has been with us -- now the market is tightening as the market is starting to normalize for additional growth in national capacity naturally and gradually, the outlook will improve as capacity will tighten, and then we expect this to be something that will say being a headwind as we go forward in 2027 and beyond.

Saurabh Pant - *Bofa Merrill Lynch Asset Holdings Inc - Analyst*

Fantastic Olivier. That's good color. I want to just switch gears a little bit towards your Data Center Solutions business. Just on the point you made about widening your scope trying to capture a bigger portion of the pie. You noted for the Canada data center, you would be doing engineering and design and then we think thermal management, decarbonized power will come later on. But maybe just give us some context on what portion of the pie of the overall data center spending is addressable for SLB right now?

And where do you think that can go? And how can you capture that organically versus inorganically?

Olivier Le Peuch - *SLB NV - Chief Executive Officer, Director*

I think it's -- I don't -- I don't think we'll have time to go into the detail and to explain this in -- that can address your question. I think the simplest way to answer this is that we have the confidence that they would exit rate and continue to grow organically to the diversity of the hyperscaler, the solution and the scope expansion including international between Asia and Canada and the US to support an exit rate that will exceed $2 billion by the end of this year -- around next year. So that is, in essence, giving us a significant growth. And I think the time is -- I don't want to -- the time will continue to grow, obviously, as we expand the scope, but the sky is the limit at the moment and our growth rate.

Saurabh Pant - *Bofa Merrill Lynch Asset Holdings Inc - Analyst*

Right. Okay. Fantastic, Olivier. I'll turn it back.

Thank you.

Olivier Le Peuch - *SLB NV - Chief Executive Officer, Director*

Thank you.

Operator

Marc Bianchi, TD Cowen

Marc Bianchi - *Cowen and Company LLC - Analyst*

Thank you very much. [Sorry, you caught me finishing up] (corrected by company after the call) the question that I had. But maybe, Olivier, you could talk a little bit more on the point to get to the $2 billion run rate. How much of that currently sits in backlog? And how much do you need to go get? And maybe you could talk a little bit more about the pipeline of opportunities, maybe how many different projects you're looking at?

Does it include other parts of the equation besides the cooling that you're talking about?

Olivier Le Peuch - *SLB NV - Chief Executive Officer, Director*

First, to keep it simple. I think the backlog is already in place to support this $2 billion or more. So that gives us opportunity to chase for more and to perform our future and to hire and to develop our scope from design to expanding our capability set and to try to participate to design and start to expand as well. So, no, it's already in the pipeline that is the reason why we feel confident to announce it. Now we will continue to build we'll continue to explore.

We continue to work with the different customers we have secured in the last six to nine months to explore how we can develop this further, how we can add value and not only scale in manufacturing on but also scale into the product and the technology offering that can help optimize the performance of those data centers and expand beyond the inside of the data center and start to touch the cooling loop, full optimization as well as touch into the power -- the carbon as power provision for some of the centers. So that's the combination of expansion that we are looking in that will go beyond the $2 billion level I just mentioned.

Marc Bianchi - *Cowen and Company LLC - Analyst*

Yes, very good. Thank you, Olivier. I'll leave it there.

Olivier Le Peuch - *SLB NV - Chief Executive Officer, Director*

Thank you very much. Thank you, Marc.

Operator

I will now turn the call over to SLB for closing comments.

Olivier Le Peuch - *SLB NV - Chief Executive Officer, Director*

Thank you. Ladies and gentlemen, as we conclude today's call, I would like to leave you with the following reflections. First, the market is beginning to exhibit the characteristics of an upcycle. The need to replenish inventories, diversify supply, develop domestic resources and rebuild spare capacity is supporting increased customer investment across both short-and long-cycle markets. This will drive higher activity with deepwater, in particular, expected to accelerate into 2027.

Combined with the increased activity that will be required to restore production capacity in the Middle East as conditions allow, these dynamics create a compelling outlook for our Core business.

Second, we continue to capture exciting growth beyond the Core. Our Digital and AI solutions are becoming increasingly critical to our customers' operations, while Data Center Solutions is expanding our reach into critical infrastructure for the AI economy.

Both businesses are gaining momentum, extending our capabilities into new markets, and creating additional avenues for long-term growth.

And third, we are well positioned to capture the opportunities ahead. Our leadership in international and deepwater, combined with our expanded capabilities in production and recovery, align SLB with where our customers are directing investment. And as the cycle strengthens, we expect this position to translate into differentiated growth and performance.

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

Operator

This concludes today's conference call. You may now disconnect.
