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Schlumberger Third-Quarter 2020 Results Prepared Remarks

Ndubuisi Maduemezia *Schlumberger Limited – VP of IR*

Good morning, and welcome to the Schlumberger Limited Third-Quarter 2020 Earnings Call. Today's call is being hosted from Houston following the Schlumberger Limited Board meeting held earlier this week. Joining us on the call are Olivier Le Peuch, Chief Executive Officer; and Stephane Biguet, Chief Financial Officer.

For today's agenda, Olivier will start the call with his perspective on the quarter and our updated view of the industry macro after which Stephane will give more detail on our financial results. Then we will open for questions.

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 10-K filing and our other SEC filings.

Our comments today may also include non-GAAP financial measures. Additional details and reconciliation to the most directly comparable GAAP financial measures can be found in our third-quarter press release. With that, I will turn the call over to Olivier.

Olivier Le Peuch *Schlumberger Limited – CEO*

Ladies and gentlemen, good morning. Thank you for joining us on the call today.

In my opening remarks, I would like to focus my commentary on three parts: first, our third-quarter operational and financial performance; next, progress with the implementation of our strategy; and third, our updated view of the near-term business outlook. After this, Stephane will provide greater details on our financial results.

In the third quarter, we had an opportunity to demonstrate the significance of the measures we have taken over the last few months and set a marker of outperformance—through top-line resilience, margin expansion, and by maintaining our strong cash generation track record.

In an ongoing activity trough, our third-quarter sequential performance was exceptionally strong. Yet again, we continued to maintain benchmarks of safety and service quality in our operations. Sequential margin expansion rebounded by more than 300 basis points for both IBT and EBITDA, and free cash flow was solidly positive. The strength of our margin expansion and free cash flow performance is even more impactful in the context of a slight topline decline and the exceptional items during the quarter.

I would like to thank the entire Schlumberger team for this remarkable performance, and for excellence in execution. These results represent a defining step in the reset of our earnings power at the trough of the cycle and set the stage for our long-term outperformance.

Starting with operations, in the third quarter, we maintained benchmark integrity performance, with year-over-year improvements at 30% in HSE incident frequency and 34% in reliability.

Operations integrity remains an area of strength for Schlumberger and the foundation of our performance strategy; our consistent service delivery earned several letters of commendation from our customers and is the basis of multiple new contract awards recorded in the quarter.

Financially, we posted higher sequential pretax operating margins, more than 20% EBITDA growth, and positive free cash flow—despite the severance payments and reduced working capital release versus the prior quarter.

These results clearly set us on the path to our intermediate goal of restoring 2019 EBITDA margins before the end of 2021.

Now, let me turn to our strategy. First, our restructuring program is progressing well, and we are on track to realize most of our permanent structural cost savings as we exit this year. We also began the transition to our leaner, customer-aligned structure—comprised of Divisions and Basins—designed to support the basin-specific innovation that will solidify Schlumberger's position as the performance partner of choice.

Next, in North America, we achieved key milestones on our scale-to-fit strategy, with two transactions that advance the high-grading of our portfolio while lowering capital intensity and volatility—the Liberty transaction and the low-flow divestiture.

The closing of these transactions will not only enhance our EBITDA margins at the global level but will further support lower capital intensity and an accelerated path to our financial goals for North America.

Looking ahead at the benefits of this strategy execution, we are set to significantly improve the company's future operating leverage, and as the market activity recovers from the current trough, we have the potential to restore EBITDA to the 2019 mark of $6.6 billion by recovering only half of the year-on-year revenue decline.

Our performance strategy also focuses on new horizons of growth, which include Digital and Production & Recovery. The industry is rapidly embracing digital enablement and shifting capital investment toward maximizing Production & Recovery from existing assets. Where these two industry shifts converge—in essence, where Digital intersects with Production & Recovery—Schlumberger has a unique opportunity to deploy the full power of our industry digital platform and domain expertise, spanning reservoir and production, for the benefit of our customers.

The best example of this was the application of our Agora* edge AI and IoT solutions on our APS project in Ecuador. By connecting field equipment to the cloud and running predictive AI at the edge, we boosted production 30% on Agora-connected wells while significantly reducing field crew visits to these wells and, as such, cutting HSE exposure and environmental impacts.

This created revenue and margin on an APS project where we captured the value directly, and is just an example of what is possible at scale when we use the power of the industry digital platform to blend hardware and software to enable people—wherever they are located—to make performance impacts with digital.

In addition, we continued to expand the reach of our digital platform, as demonstrated by the IBM Red Hat OpenShift agreement, further enabling adoption of our platform around the world, and particularly, with NOCs.

In the quarter, we have also secured notable subsea and artificial lift contracts in the Gulf of Mexico and in the Middle East, which will result in the growth of our installed base and greater exposure to Production & Recovery capex and opex—a strong platform for the future.

Finally, we continue to develop our New Energy portfolio, with progress in our hydrogen technology venture—Genvia—and the creation of a geothermal project development company, which complements our low-heat geothermal venture, Celsius Energy. These exciting ventures represent a mix of unique opportunities for Schlumberger to create a differentiated market position through the energy transition.

In parallel, we continue to develop avenues to contribute to the decarbonization of oil and gas operations, leveraging our technology, expertise, and execution platform to reduce our environmental impact while helping our customers reach their environmental goals.

Let me take a few moments now to talk about the outlook.

In the short- to mid-term horizon, the market uncertainties persist as the economic recovery remains fragile. The pace of demand recovery could possibly slow or pause as a result of a second wave of pandemic outbreaks or heightened pandemic control measures. Similarly to the third quarter, we also face risks of lingering COVID-19 operational disruptions internationally as we enter the winter season. In this context, we will continue to focus on what we can control and react promptly if necessary.

Now, absent of a pause in demand recovery or higher COVID-19 disruption, the fourth-quarter activity will likely extend the trends experienced as we closed the third quarter, with the continuation of a modest activity uptake in North America and the stabilization towards a steady activity internationally—albeit with visible seasonal variations—the combination of which resulting into an about flat outlook overall for the quarter.

Looking out farther, the prevailing uncertainties make it much too early to call.

However, directionally, and absent of a slowdown in the pace of economic recovery, we anticipate the overall activity to consolidate gradually during 2021. In line with the most recent IEA projections, we see that the conditions will exist to rebalance demand and supply, with improving demand recovery supported by economic stimulus measures and continued supply discipline from the major producers—ultimately resulting in a visible activity rebound.

North America land is expected to continue its subdued recovery in frac and drilling activity towards production maintenance levels. Internationally, as demand recovers, a pull on short-cycle supply will result in an activity inflection, this being anticipated by most operators currently evaluating options to restore activity.

Having shared our view on the outlook, let me now hand over to Stephane who will talk more about our financial results.

Stephane Biguet *Schlumberger Limited – Executive VP & CFO*

Thank you, Olivier. Good morning ladies and gentlemen.

Third-quarter earnings per share, excluding charges and credits, was $0.16. This represents an increase of $0.11 sequentially and a decrease of $0.27 when compared to the same quarter of last year.

During the quarter, we recorded $350 million of pretax restructuring charges. These charges primarily relate to facility exit costs, as we continue to rationalize our real estate footprint. As a result of these charges, our pretax operating income will increase by approximately $15 million per quarter going forward due to reduced lease and depreciation expenses.

Overall, our third-quarter revenue of $5.3 billion decreased 2% sequentially. Pretax segment operating margins increased 355 basis points to 10.9%. More importantly, company-wide adjusted EBITDA margins increased 371 basis points to 19.4%. As a reminder, our full-year 2019 adjusted EBITDA margin was 20.2%.

In other words, we are well on our way to restoring our precrisis EBITDA margins of 2019, despite the severe revenue reduction we have experienced. This will be achieved through the combination of our restructuring actions and the high-grading of our portfolio.

As a reminder, our restructuring program will permanently remove $1.5 billion of fixed costs on an annual basis. We have achieved more than 80% of these cash savings as of the end of the third quarter. We expect to complete most of the remaining actions as we exit the fourth quarter.

As it relates to the high-grading of our portfolio, we achieved two significant milestones this quarter with the signing of an agreement to divest our North American low-flow artificial lift business in a cash transaction, followed by an agreement to contribute our OneStim® pressure pumping business to Liberty Oilfield Services in exchange for a 37% equity interest in Liberty. We received antitrust clearance for both transactions and we anticipate each of the closings to occur before the end of the year. It is worth noting that both transactions will be accretive to our earnings in 2021.

Let me now go through the third-quarter results for each segment.

Third-quarter Reservoir Characterization revenue of $1 billion decreased 4% sequentially, while margins decreased 90 basis points to 16.7%. These decreases were primarily due to lower sales of WesternGeco® multiclient seismic licenses in North America offshore.

Drilling revenue of $1.5 billion decreased 12% sequentially while margins were essentially flat at 9.5%. The revenue decrease was driven by an activity decline in US land where the rig count dropped significantly combined with COVID disruptions and customer budget adjustments in several international GeoMarkets. Despite the revenue drop, margins were resilient as a result of cost reduction measures.

Production revenue of $1.8 billion increased 12% sequentially and margins increased 11 percentage points to 12.6%. These increases were largely the result of a resumption of activity in our APS projects in Ecuador following last quarter's production interruption caused by a major landslide. OneStim also increased on higher fleet utilization, while profitability improved across each of our Completions, Artificial Lift, and Well Services product lines due to cost reduction measures.

Cameron revenue of $1 billion decreased 5% while margins decreased by 162 basis points to 6.3% on lower OneSubsea® revenue in Asia and Europe as well as lower Surface Systems equipment sales in North America.

Now turning to our liquidity.

I was again very pleased with our cash flow generation. During the quarter, we generated $479 million of cash flow from operations and $226 million of free cash flow, despite making $273 million of severance payments. This performance confirms that our cash flow generation capabilities remain intact. As a result, we will generate excess cash once our restructuring efforts are complete and, therefore, be in a position to deleverage the balance sheet.

We ended the quarter with total cash and investments of $3.8 billion. Our net debt at the end of the quarter was $13.9 billion, an increase of $149 million compared to last quarter, but down almost half a billion when compared to the same time last year.

During the quarter, we spent $200 million on capex and invested $28 million in APS projects.

Our total capital spend for 2020, including APS and multiclient, is still expected to be approximately $1.5 billion. This represents a 45% decrease as compared to 2019, mostly coming from lower capex in North America and reduced investments in APS projects.

We took further steps to strengthen the balance sheet during the quarter. We issued $500 million of 1.400% Notes due 2025. The proceeds will be used to repay 2.200% Notes that mature in November. We also issued 350 million of 2.650% Notes due 2030. The proceeds were used to pay down commercial paper borrowings.

Finally, we ended the quarter with available liquidity of $10.8 billion.

Before I conclude, and just as a reminder, due to our corporate reorganization, we will report our results on the basis of the four new Divisions starting in the fourth quarter. We are working to provide historical restated financial information based upon the new Division structure and expect to publish this in November. I will now turn the conference call back to Olivier.

Olivier Le Peuch *Schlumberger Limited – CEO*

Before we end the call, I would like to leave you with four key takeaways.

Third quarter was another quarter of operational and financial outperformance, made possible by discipline in execution. We made significant progress on the execution of our strategy, with key milestones in restructuring, North America strategy, and expanding the reach of our digital platform.

The reset of our earnings power is progressing very well. We anticipate significantly improved operational leverage when we put the trough behind us and activity rebounds, providing us with the platform to materially expand our EBITDA margins and earnings.

The quarter was another strong free cash flow performance in the cycle trough—a meaningful step closer to our double-digit free cash flow ambition, that will support our priority on deleveraging our balance sheet.

Lastly, the deployment of our new customer-focused organization and our fit-for-basin approach provide us with a great platform to capitalize on the market recovery and deliver on this path.

In conclusion, we are executing our performance strategy and are determined to continue taking bold actions to secure resilience and reposition ourselves as clear leaders—both in performance measured by our customers and in returns measured by our shareholders. Thank you.

*Mark of Schlumberger.