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Schlumberger Fourth-Quarter and Full-Year 2021 Results Prepared Remarks

Ndubuisi Maduemezia *Schlumberger Limited – VP of IR*

Good morning and welcome to the Schlumberger Limited Fourth-Quarter and Full-Year 2021 Earnings Conference 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.

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 fourth-quarter press release, which is on our website. With that, I will turn the call over to Olivier.

Olivier Le Peuch *Schlumberger Limited – CEO*

Ladies and Gentlemen, thank you for joining us on the call today. In my prepared remarks, I will cover our Q4 results and full-year 2021 achievements. Thereafter, I will follow with our view of the 2022 outlook and some insights into our near-term financial ambitions.

Stephane will then give more detail on our financial results and we will open for your questions.

The fourth quarter was characterized by broad-based activity growth, with continued momentum in North America, activity acceleration in the international markets, and an accretive offshore market contribution—upon which we delivered strong sequential revenue growth, our sixth consecutive quarter of margin expansion, and outstanding double-digit free cash flow generation.

These financial results conclude an exceptional year of financial outperformance for Schlumberger at a pivotal time for the company and in our industry at large.

Underlying these results are the following highlights from the quarter:

- Geographically, sequential growth in North America exceeded rig activity, growing in excess of 20% offshore; and international revenue growth accelerated, closing the second half of 2021, up 12% versus the prior year. All international areas posted growth, driven by gains in more than 75% of our international business units.

- By Division, revenue in all four Divisions grew sequentially, and when compared to the same period last year. Digital & Integration led growth, posting double-digit sequential growth and record-high margins. Well Construction and Reservoir Performance, our predominantly service-oriented Divisions, outperformed expectations with strong sequential growth and approximately 30% growth year-over-year on a pro-forma basis. Production Systems recorded year-end sales, which drove mid-single digit growth, though partially impacted by logistics challenges.

- Operating margins expanded in spite of seasonality effects, improving further beyond prepandemic levels.

- And finally, we generated outstanding cash flow from operations—exceeding $1.9 billion in the quarter.

All in all, I am very pleased with our operational execution, our safety performance, and our financial results through the fourth quarter.

Now let me briefly reflect on what we achieved in 2021.

In our core, we fully operationalized our returns-focused strategy, leveraging our new Division and Basin organization to seize the start of the upcycle. In North America, this resulted in full-year topline revenue growth, excluding the effects of divestures, and significantly expanded margins—achieving double digits, one of the financial targets we laid out in 2019. Internationally, we also grew the top-line and expanded margins significantly, as international activity strengthened in the second half of the year. This also resulted in full-year international margins that exceeded 2019 levels.

Taken together, these margins resulted in the highest global operating margins of the last six years, setting an excellent foundation for further expansion, as activity accelerates and market conditions further support pricing improvement.

In Digital, our second engine of growth, I am very proud of the momentum we established during the year. We advanced on our goals to expand market access and accelerate adoption of our platform, AI capabilities, and powerful digital tools to reduce cycle time, improve performance, and lower carbon intensity.

We built partnerships to achieve comprehensive cloud access globally, collaborated with AI innovators to deploy machine-learning and AI solutions, and enabled digital operations through the automation of key workflows in well construction and production operations.

At the end of 2021, we have more than 240 commercial DELFI* customers, recorded more than 160% DELFI user growth year-over-year, and saw a more than tenfold increase in compute-cycle intensity on our DELFI cloud platform. We also made significant progress in our data business streams and in digital operations—advancing our OSDU commercial offerings, autonomous drilling, and the adoption of Agora* edge AI and IOT solutions with great success. The Q4 results, including significant uptake in digital sales and sizeable incremental margins, are a clear testament of this success.

In Schlumberger New Energy, we continued to advance the development of clean energy technologies and low-carbon projects. In 2021, we took a position in stationary energy storage—expanding our total addressable market—and advanced all of our ventures in hydrogen, lithium, geoenergy, and a suite of CCUS opportunities, including our bioenergy CCS project. Some notable milestones achieved include the signature of pilot agreements with Genvia, our hydrogen venture, with ArcelorMittal, Ugitech, Vicat, and Hynamics—leading companies in steel and cement.

And in Celsius, our geoenergy venture, we secured five commercial contracts in Europe and one in North America for a prestigious university campus.

This was also a pivotal year for us in terms of our commitment to sustainability. We announced our comprehensive 2050 net-zero commitment, inclusive of Scope 3 emissions, and launched the Transition Technologies* portfolio to focus on the decarbonization of oil and gas operations with much success. In addition, Schlumberger earned an AA Rating by MSCI, and won an ESG Top Performer Award by Hart Energy, recognizing our sustainability efforts, our enhanced disclosures, and our commitment to apply our technologies and capabilities towards helping the world meet future energy demand.

In summary, 2021 was a great year for Schlumberger. Beyond these operational and financial results and our ESG accomplishments, we made excellent progress in our core, digital, and new energy—the three engines of growth that support our success now and well into the future.

Above all, I am most proud of our people—their unique ability to execute, remobilizing operations across the world through numerous pandemic constraints, adapting to logistics and supply-chain dynamics, and setting new performance benchmarks—all of which earned the recognition of our customers.

I would like to thank the entire team for delivering a year of outperformance on every metric. They surpassed all of our targets this year and created excellent momentum as we enter 2022, for which I would like now to share our outlook.

Looking ahead, we have increased confidence in our view of robust multiyear market growth. Tight oil supply and demand growth beyond the prepandemic peak, are projected to result in a substantial step up in capital spending—amid shrinking spare capacity, declining inventory balances, and supportive oil price. In addition, we expect more pervasive service pricing improvements in response to market conditions as technology adoption increases while service capacity tightens.

In essence, 2022 will be a period of stronger short-cycle activity resurgence—driven by improved visibility in the demand recovery and greater confidence in the oil-price environment. And as oil demand exceeds prepandemic levels in 2023 and beyond, long-cycle development will augment capital spending growth in response to the call on the supply.

This demand-led capital spending growth sets the foundation for a strong multiyear upcycle. Indeed, this scenario is already being established, as the number of FIDs increases, service pricing has begun to improve, and multiyear long-cycle capacity expansion plans have started—particularly internationally and offshore—as seen during the last quarter.

Turning to 2022 more specifically, we expect an increase in capital spending of at least 20% in North America, impacting both the onshore and offshore markets, while internationally, capital spending is projected to increase in the low-to-mid teens, building momentum from a very strong exit in the second half of 2021. All areas and operating environments—short- and long-cycle, including deepwater—are expected to post strong growth, with upside potential as Omicron disruptions dissipate as the year advances.

In this scenario, increased activity and pricing will drive simultaneous double-digit growth—both internationally and in North America—that will lead our overall 2022 revenue growth to reach mid-teens.

Our ambition is to, once again, expand operating and EBITDA margins on a full-year basis, exiting the year with EBITDA margins at least 200 bps higher than the fourth quarter of 2021.

In this context, let me share how we see the year unfolding.

Directionally, while we are still experiencing COVID-related disruptions, we anticipate typical seasonality in the first quarter, with revenue and margin progression similar to historical sequential trends, which will be seen most prominently in Digital & Integration.

This will be followed by a strong seasonal uptick in the second quarter across all Divisions with growth further strengthening through the second half of the year—supporting our full-year, mid-teens revenue-growth ambition and EBITDA margin expansion.

This growth and margin expansion trajectory gives us further confidence that we will reach or exceed our midcycle ambition of 25% adjusted EBITDA margin before the end of 2023, leading to adjusted EBITDA that should visibly exceed 2019 levels in dollar terms.

With this, I will now turn the call over to Stephane.

Stephane Biguet *Schlumberger Limited – Executive VP & CFO*

Thank you, Olivier. Good morning Ladies and Gentlemen.

Fourth-quarter earnings per share excluding charges and credits was $0.41. This represents an increase of $0.05 compared to the third quarter of this year and of $0.19 when compared to the same period of last year.

In addition, we recorded a net credit of $0.01 bringing GAAP EPS to $0.42. This consisted of a $0.02 gain relating to the sale of a portion of our shares in Liberty Oilfield Services, offset by a $0.01 loss relating to the early repayment of $1 billion of notes.

Overall, our fourth-quarter revenue of $6.2 billion increased 6% sequentially. All divisions posted sequential growth, led by Digital & Integration. From a geographical perspective, International revenue grew 5%, while North America grew 13%.

Pretax operating margins improved 31 basis points sequentially to 15.8% and have increased for six quarters in a row. This sequential margin improvement was driven by very strong digital sales, which helped sustain overall margins, despite seasonality effects in the Northern Hemisphere.

Company-wide [adjusted†] EBITDA margin remained strong at 22.2%, which was essentially flat sequentially.

Let me now go through the fourth-quarter results for each Division.

Fourth-quarter Digital & Integration revenue of 889 million increased 10% sequentially with margins growing by 268 basis points to 37.7%.

These increases were driven by significantly higher digital and exploration data licensing sales, which were partly offset by the effects of a pipeline disruption in Ecuador that impacted our APS projects.

Reservoir Performance growth further accelerated in the fourth quarter with revenue increasing 8% sequentially to $1.3 billion. This growth was primarily due to higher intervention and stimulation activity in the international offshore markets.

Margins were essentially flat at 15.5% as a result of seasonality effects and technology mix, largely driven by the end of summer exploration campaigns in the Northern Hemisphere.

Well Construction revenue of $2.4 billion increased 5% sequentially due to higher land and offshore drilling, both in North America and internationally.

Margins of 15.4% were essentially flat sequentially as the favorable combination of increased activity and pricing gains was offset by seasonal effects.

Finally, Production Systems revenue of $1.8 billion was up 5% sequentially, largely from new offshore projects and year-end sales. However, margins decreased 85 basis points to 9.0%, largely as a result of the impact of delayed deliveries due to global supply and logistics constraints.

Now turning to our liquidity.

Our cash flow generation during the fourth quarter was outstanding. We delivered $1.9 billion of cash flow from operations and free cash flow of $1.3 billion during the quarter. This was the result of a very strong working capital performance driven by exceptional cash collections and customer advances.

Cash flows were further enhanced by the sale of a portion of our shares in Liberty, generating net proceeds of $109 million during the quarter. Following this transaction, we hold a 31% interest in Liberty.

On a full-year basis, we generated $4.7 billion of cash flow from operations and $3 billion of free cash flow. We generated more free cash in 2021 than in 2019, despite our revenue being 30% lower. This is largely attributable to our efforts of the last two years relating to the implementation of our capital stewardship program and the high grading of our portfolio.

As a result of all of this, we ended the year with net debt of $11.1 billion. This represents an improvement of $2.8 billion compared to the end of 2020. We are proud to say that net debt is now at its lowest level of the last five years.

During the [quarter‡], we also continued to reduce gross debt by repaying $1 billion of notes that were coming due in May of this year. In total, our gross debt reduced by $2.7 billion in the last twelve months thereby significantly increasing our financial flexibility.

Now, looking ahead to 2022.

We expect total capital investments, consisting of capex and investments in APS and exploration data, to be approximately $1.9 to $2 billion, as compared to just under $1.7 billion in 2021. This increase will allow us to fully seize the multiyear growth opportunity ahead of us, while still achieving our double-digit free cash flow margin objective.

We are entering this growth cycle with a business that is much less capital-intensive as compared to previous cycles. As a reminder, during the last growth cycle of 2009 to 2014, our total capital investment as a percentage of revenue was approximately 12%. We are, therefore, well positioned to fully reap the benefits of this growth cycle with the potential for enhanced free cash flow margins and return on capital employed.

With this backdrop, I would like to emphasize that based on the industry fundamentals and positioning of the Company that Olivier highlighted earlier, our financial outlook for 2022 is very strong. We have high expectations and, in 2022, we expect a “triple double” consisting of: double-digit return on capital employed; double-digit return on sales; and double-digit free cash flow margin.

It is worth noting that we have not experienced this combination in a single year since 2015.

Finally, I am pleased to announce that we will hold a Capital Markets Day in the second half of the year. This event will allow us the opportunity to provide you with additional details relating to Schlumberger’s strategy and financial objectives. Further information regarding this event will be forthcoming shortly.

I will now turn the conference call back to Olivier.

Olivier Le Peuch *Schlumberger Limited – CEO*

Before we close the call, I would like to leave you with a few takeways:

Firstly, the quality of our results during the fourth quarter—particularly the cash flow generation and our digital sales—have helped us close a remarkable year with financial outperformance during 2021, supporting significant EBITDA margin expansion and very sizeable reduction of our net debt. Credit to the entire Schlumberger team for outstanding execution across all Basins and Divisions.

Secondly, our performance strategy execution has resulted in significant progress in the adoption of our digital platform, the deployment of our fit-for-basin and Transition Technologies, and the successful acceleration of our new energy ventures—each developing towards a sizeable addressable market.

Thirdly, during 2021, we have enhanced our market positions with key customers, ahead of the significant upcycle, and we will fully benefit from the scale and breadth of the favorable activity mix unfolding across all basins during ‘22 and beyond. This will result in significant growth and further margin expansion and will support our double-digit free cash flow ambition.

Finally, the macro environment is increasingly supportive of a potential supercycle. As these favorable market conditions extend both onshore and offshore, well beyond 2022, we have increased confidence in reaching our mid-cycle EBITDA margin ambition of 25% in the second half of 2023.

Ladies and Gentlemen, 2021 was a defining and transformative year for Schlumberger, and 2022 presents a unique environment to substantially build upon our success and accelerate our growth into the future.

Thank you very much.

[†]On the conference call, the speaker unintentionally omitted a word. The intent was for the statement to refer to adjusted EBITDA margin.
[‡]On the conference call, the speaker unintentionally stated year. The intent was for the statement to refer to quarter.
*Mark of Schlumberger.