Schlumberger First-Quarter 2022 Results Prepared Remarks

Ndubuisi Maduemezia *Schlumberger Limited – VP of IR*

Good morning, everyone, and welcome to the Schlumberger Limited First-Quarter 2022 Earnings Conference Call. Today's call is being hosted from Oslo, 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 10K filing and our other SEC filings.

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

Olivier Le Peuch *Schlumberger Limited – CEO*

Good morning, Ladies and Gentlemen. Thank you for joining us on the call today. In my remarks, I will cover our first-quarter results and achievements followed by our latest view of the market environment and our outlook for the second quarter and the rest of the year, particularly internationally. Stephane will then give more detail on our financial results, and we will open the floor for your questions.

Considering the global context during the first quarter, I am very pleased with our start of the year. Sequentially, the quarter broadly reflected typical seasonal patterns, except for additional effects of the Russian ruble devaluation and a more pronounced sequential decline in Production Systems.

Year-on-year, we delivered a strong increase in earnings and revenue growth along with operating margins expansion. Our results were particularly strong in Well Construction and Reservoir Performance, where we are maximizing our leading market positions, our top-tier technology, performance, and enhanced operating leverage to full effect, both internationally and in North America.

- All Divisions and Areas grew year-on-year, resulting in 14% overall growth. This was achieved through double-digit revenue growth internationally, and by fully capitalizing on our North America exposure—with 32% revenue growth. Operating margins expanded in both North America and in the international markets, and we start the year with the highest first-quarter margins since 2015. This establishes an excellent foundation for our full-year margin expansion ambition.

- Well Construction and Reservoir Performance—our core services Divisions—had very strong momentum to start the year. In addition, we secured several new multiyear contracts and improving commercial conditions in a number of geographies and services. Digital & Integration also posted double-digit growth compared to the same

period last year, with new critical commercial contracts, and significant advance of our digital platform strategy with the launch of our first INNOVATION FACTORI in North America.

- In Production Systems—our core equipment Division—year-on-year growth was muted by the impact of supply chain bottlenecks, which have pushed deliveries into subsequent quarters. Despite these transitory challenges, I am very pleased with the quality and size of the backlog and orders secured in the past twelve months. With improving supply conditions, I am confident that the execution of our response plan will significantly improve backlog conversion, resulting in an accelerated revenue growth dynamic in the coming quarters.

- In Russia, the onset of the tragic conflict in Ukraine and corresponding sanctions impacted the later part of the quarter. We swiftly initiated a series of actions to ensure the safety of our people and implemented restrictive measures concerning new investment and technology deployment to our Russia operations. We continue to closely monitor this dynamic situation and remain hopeful for the quick cessation of hostilities.

Overall, and despite unique challenges, I am very pleased with the results of the quarter. I would like to extend my thanks to the entire Schlumberger team for successfully navigating these developments and delivering an excellent start to what promises to be a year of solid growth and achievement.

Turning now to the macro environment, the energy landscape has evolved significantly over the past few months. Recent events have, on one hand, resulted in a change in the pace of demand recovery, while energy security and supply diversification have also emerged as preeminent global drivers that will shape the future of our industry—in addition to decarbonization, capital discipline, and digital transformation. This new dimension will have long-lasting positive implications for energy investment over the next few years.

I would like to share how we see these dynamics developing over the short- and long-term horizons, and more importantly, how these conditions will play to Schlumberger's differentiated strengths.

- First, in the short term, commodity prices are elevated, as supply conditions continue to tighten due to the impacts of capital discipline, consistent OPEC+ policy implementation, and the potential impact of supply dislocation from Russia.

  The industry is responding to this high commodity price environment with accelerated short-cycle investment in North America—led by the private producers—and a gradual increase in investment by the public operators, albeit tempered by capital discipline and bottlenecks in capacity and supply chain. Internationally, short-cycle investments are set to accelerate with the seasonal rebound in the second quarter and more strongly in the second half of the year, led by the Middle East and the key international offshore basins.

- Second, the elevation of energy security as a priority will drive further capacity expansion and optionality to deliver a more diverse oil and gas supply. This will support additional long-cycle development projects, exploration activity, and brownfield rejuvenation programs.

- Third, favorable conditions for product and services net-pricing improvements have clearly emerged and are expanding across both North America and the international markets. This will be a defining characteristic of this upcycle, considering the service sector's newfound capital discipline and commitment to margin expansion. These improvements are absolutely critical to support returns and investment in capacity that will be needed to deliver on both the short- and long-term oil and gas supply the world needs.

The combination of these effects creates an exceptional sequence for our sector, likely resulting in a cycle of higher magnitude and duration than previously anticipated.

Schlumberger has led the sector in reinventing itself over the past few years, aligning closely with industry shifts, customer needs, and increased shareholder value. Since launching our performance strategy, we targeted trends that are manifesting today by focusing on the development of fit-for-basin technologies—some of which are now unlocking much-needed energy supplies—and by reducing or eliminating GHG emissions with our Transition Technologies* portfolio and our new end-to-end emissions solutions. We have also expanded manufacturing capacity in key basins, such as in North America and in the Kingdom of Saudi Arabia, to tailor fit-for-basin technology delivery.

In Digital, we are enabling transformation in the sector, establishing the industry digital platform—DELFI; creating more powerful AI solutions; and leading innovation in autonomy. These advances in digital enablement are improving both customer operations and our own efficiency, as we evolve workflows and improve execution with insights from data.

Today, Schlumberger is best positioned to capture the benefits of this unique upcycle, given the steady execution of our strategy, breadth of our market presence, leading technology portfolio, and our ability to derive premium pricing through our performance execution and value creation for our customers.

Now I would like to share with you our outlook for the second quarter and the second half of the year.

Sequentially, we expect a solid quarter of growth in both North America and the international market. Growth in North America will be led by continued short cycle activity, offset by Canadian spring break-up. Internationally, growth will be driven by the seasonal rebound, albeit moderated by the absence of the usual second-quarter uptick in Russia, owing to the uncertainty around the ruble depreciation, impact of sanctions, and customer activity decline.

Taken together, this will result in global revenue growth around mid-single digits for the second quarter. We anticipate the operating margins to expand 50 to 100 basis points, driven by further operating leverage and the positive conditions I have outlined. In that context, our sequential margin expansion trajectory is set to resume and subsequently strengthen in the second half of the year—in line with our full-year guidance.

Looking further ahead, the second half of the year is shaping up to be particularly strong, based on our view of a significant pipeline of customer activity, upcoming product backlog conversion, and the growing impact of net pricing.

This period of the year is typically the strongest half, and 2022 looks to be no exception. While the dynamic situation in Russia and the potential reduction in pace of the demand recovery present near-term concerns, we believe the continued tightness in supply, elevated commodity prices, and supplemental investment intended to diversify oil and gas supply should represent a positive offset for 2022 and beyond.

Accordingly, second-half growth will be driven primarily by the international markets, led by the Middle East and key offshore basins.

Indeed, the offshore activity, already growing sequentially and visibly year-on-year, will benefit from secular growth—in both shallow and deepwater environments—as the acceleration of infill drilling and tieback developments will

combine with a resurgence of exploration drilling during the summer, and with an acceleration of long-cycle development projects ahead of 2023.

Similarly, the Middle East region will benefit from the combination of reinvestment in short-cycle barrels as we approach the end of current OPEC+ agreements, and from the commitment to capacity expansion in both oil production and gas developments.

Additionally, 2022 is set to benefit from higher discretionary spending and higher product sales and year-end deliveries as customers secure the necessary capacity for their 2023 growth plans.

Finally, and critically, we anticipate that net pricing impact will further extend in breadth and scale as the year progresses, to benefit margin expansion during the second half, and become a unique attribute of this upcycle.

With this backdrop, and despite the uncertainty linked to Russia, we believe that the favorable market conditions I outlined should allow us to maintain our full-year ambitions of year-on-year revenue growth in the mid-teens, and adjusted EBITDA margins exiting the year at least 200 basis points higher than the fourth quarter of 2021.

I will now turn the call over to Stephane.

Stephane Biguet *Schlumberger Limited – Executive VP & CFO*

Thank you, Olivier. Good morning, Ladies and Gentlemen.

First-quarter earnings per share, excluding charges and credits, was $0.34. This represents a decrease of $0.07 sequentially and an increase of $0.13 when compared to the first quarter of last year.

In addition, during the quarter, we recorded a $0.02 gain relating to the further sale of a portion of our shares in Liberty Oilfield Services, which brought our GAAP EPS to $0.36.

Overall, our first-quarter revenue of $6 billion decreased 4% sequentially, while pretax operating margins declined 84 basis points to 15%. These decreases reflect the seasonally lower activity and product sales that we typically experience in the first quarter.

The conflict in Ukraine also had an impact on our first-quarter results, although this was largely limited to the effects of the depreciation of the ruble witnessed during the last month of the quarter.

While margins were seasonally lower on a sequential basis, they did increase significantly as compared to the first quarter of last year. Pretax segment operating margin increased 229 basis points year-on-year, while company-wide adjusted EBITDA margins of 21% increased 94 basis points year-on-year, despite the inflationary factors we are facing. This reflects the strength of our operating leverage, new technology uptake, and increasing pricing traction.

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

First-quarter Digital & Integration revenue of $857 million decreased 4% sequentially with margins declining 372 basis points to 34%.

These decreases were primarily due to the effects of seasonally lower digital and exploration data licensing sales, partially offset by improved contribution from our APS projects in Ecuador, following the pipeline disruption of last quarter.

Reservoir Performance revenue of $1.2 billion decreased 6% sequentially while margins declined 232 basis points to 13.2%. These decreases were due to lower activity in Latin America and the seasonal activity reduction in the Northern Hemisphere.

Well Construction revenue of $2.4 billion was essentially flat sequentially as seasonal reductions in Europe, Russia, and Asia were offset by strong drilling activity in North America, Latin America, and the Middle East.

Margins of 16.2% increased 77 basis points sequentially—despite the flat revenue—largely due to improved profitability in integrated drilling projects.

Finally, Production Systems revenue of $1.6 billion decreased 9% sequentially and margins decreased 192 basis points to 7.1%. This was due to the effect of lower revenue following the traditionally higher fourth-quarter product sales combined with delayed deliveries and increased logistics costs resulting from global supply chain constraints. These are temporary challenges that we are diligently working to remedy. Once resolved, this will provide for favorable upside to our revenue and margins in future quarters, as our backlog is solid, and we will ultimately return to a normal pace of deliveries.

Now turning to our liquidity.

During the quarter, we generated $131 million of cash flow from operations and negative free cash flow of $381 million.

Our cash flow generation was seasonally low as a result of the increase in working capital requirements we always experience in the first quarter.

In addition to the typical payout of our annual employee incentives in the first quarter, we saw lower cash collections following the exceptional accounts receivable performance of the fourth quarter.

Our inventory balance also grew due to the product delivery delays in our Production Systems Division, but also to prepare for project start-ups in the second quarter and for the strong growth anticipated for the rest of the year. In addition, we took the decision to increase our safety stocks and lock in prices on certain long-lead items in order to secure supply and hedge against anticipated cost inflation.

Although it is reflected outside of free cash flow, our overall cash position was enhanced by the further sale of a portion of our shares in Liberty, which generated $84 million of net proceeds. Following this transaction, we hold a 27% interest in Liberty.

Our working capital and cash flow will improve each quarter for the rest of the year, consistent with our historical trends and we remain confident in our ability to generate double-digit free cash flow margin on a full-year basis. This will allow us to continue deleveraging the balance sheet and exceed our previously stated leverage target in 2022.

Based on this and the strengthening industry outlook that Olivier described earlier, we announced today a 40% increase in our quarterly dividend. The increase will be reflected in our July dividend and will result in approximately $140 million of additional dividend payments in 2022 and $280 million on an annualized basis. This will have a minimal impact on our leverage and we will, of course, remain focused on strengthening the balance sheet.

I will now turn the conference call back to Olivier.

Olivier Le Peuch *Schlumberger Limited – CEO*

In conclusion, I would like to leave you with three takeaways.

Firstly, our first-quarter financial results represent a strong start to what promises to be a significant year for the company. In particular, the resilience and strength of our core services Divisions and the full participation in the fast-growing North America market have contributed to a very solid year-on-year growth and margins expansion.

Secondly, the activity outlook is shaping up favorably as 2022 progresses and is set to support our full-year mid-teens growth ambition, despite the uncertainties on our Russia operations. Furthermore, in the later part of the year, we will gain from improving market conditions, favorable activity mix in key offshore basins and the Middle East, and broader net pricing impact across North America and international markets.

Our confidence in the favorable market conditions and our mid-term outlook supports our margin expansion ambition and our commitment to generate double-digit free cash flow. As a result, we have decided to accelerate cash returns to shareholders through a visible increase in our dividend.

Finally, we believe that the consequences of the current crisis will reinforce the market fundamentals for a stronger and longer upcycle, as the priority on energy security will favor reinvestment in oil and gas supply. Consequently, the outlook for the next few years is improving and, absent a global economic setback, should translate into an exceptional sequence for the industry.

Thank you very much.

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