SLB First-Quarter 2023 Results Prepared Remarks

Ndubuisi Maduemezia—*VP of IR*

Thank you, Leah.

Good morning, and welcome to the SLB, First Quarter 2023, Earnings Conference Call.

Today's call is being hosted from Rio, Brazil, 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. 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—*CEO*

Thank you, ND. Ladies and gentlemen, thank you for joining us on the call today. In my prepared remarks, I will cover three topics.

I will begin with an update on our first quarter results; then, I will share our latest view on the macro and our positioning for long-term success; and finally, I will close with our outlook for the second quarter and full year.

Stephane will then provide more details on our financial results, and we will open for your questions.

It has been a great start of the year as we achieved results that set us on a solid footing for our full-year financial ambitions. On a year-on-year basis, our financial and operational results were strong across all geographies and Divisions.

Following the remarks that are shared in our earnings release this morning, I would like to emphasize a few key highlights from the quarter.

- First, we delivered very solid year-on-year growth at a magnitude last seen more than a decade ago.

- Geographically, year-on-year growth rates in North America and internationally were comparable. More importantly, the rate of change is tilting more in favor of the international markets, where sequentially we experienced the smallest seasonal decline in recent times.

- Collectively, our Core divisions grew year-on-year by more than 30% and expanded operating margins by more than 300 basis points. We continue to position the Core for long -term success with significant contract wins and technology innovations that improve efficiency and lower carbon emissions. A great example is EcoShield™, a geopolymer based cement-free well-integrity system and one of our latest Transition Technologies™, launched earlier this quarter. You will find many examples of these contract wins and the performance impact of our new technologies in today's press release.

- In Digital, we maintained strong growth momentum and also secured more contract wins. At a Division level, the amount of year-on-year revenue growth in Digital was somewhat masked by significantly lower APS revenue due to production interruptions in Ecuador and lower project revenue in the Palliser asset in Canada. Additionally, Digital continues to help us elevate our efficiency and margin performance in the Core, as we deploy these solutions at scale in our global operations.

- And in New Energy, we continue to make progress across our portfolio, notably with new Carbon Capture and Sequestration activities that raise our involvement to around 30 projects globally. CCS is recognized as one of the fastest-growing opportunities to reduce carbon emissions, and with the tailwinds from the US Inflation Reduction Act and other initiatives around the world, we expect more projects to move forward to final investment decisions in the next few years.

- Finally, we are delivering on our commitment to increase returns to shareholders. During the quarter, we relaunched our share buyback program, with repurchases totaling more than $200 million dollars' worth of shares.

I would like to really thank the entire SLB team for their hard work and for delivering yet another successful quarter.

Moving to the macro, we maintain a constructive multiyear growth outlook. Through the first quarter, the resilience, breadth, and durability of the upcycle have only become more evident. I would like to take a few minutes to describe these factors.

To begin, the underlying demand, investments, and activity during this cycle are resilient, despite short-term economic and demand uncertainties.

The combination of energy security, the initiation of long-cycle projects, and OPEC's policy, sets the conditions for a de-coupling of the activity outlook from short-term uncertainties.

Indeed, energy security remains a top priority for most countries, and is driving structural investments that are governed primarily by national interests. The extent of these investments is resulting into a broad-ranging growth outlook, comprised predominantly of resilient long-cycle projects in the Middle East, the international offshore basins, and in gas projects.

Collectively, we expect these market segments to reach or exceed more than two-thirds of the total global upstream spend and support a long tail of resilient activity over the next few years.

In parallel, the North America market, characterized by higher short-cycle exposure, is also set to benefit from positive demand outlook and supportive commodity pricing. However, this will be impacted by an anticipated activity plateau in the short term, which will subsequently be reflected in production volumes.

Moving to the dimensions of breadth and duration, these are also best emphasized by the latest activity outlook for the Middle East and Offshore market segments.

Fundamentally, the pivot to both segments as anchors of supply growth is a defining attribute of this cycle. This is providing an unprecedented level of investment visibility and a scale that is setting many records.

In the Middle East, the largest ever investment cycle has now commenced. This will support ongoing capacity expansion projects over the next four years, in both oil and gas. Consequently, this year we expect to post our highest revenue ever in the Middle East, putting us on track to achieve our multi-year growth aspirations.

Simultaneously, we are witnessing further activity expansion in the offshore markets. Offshore activity continues to surprise to the upside, with breadth and a diversity of opportunities across all major basins. In addition, the latest FID projections and industry reports indicate that the offshore sector is set for its highest growth in a decade, with more than $200 billion in new projects through the next two years.

This growth will be supported by three layers of activity:

First, the resumption of infill and tieback activity in mature basins, which was very visible across Africa in 2022. This will continue to strengthen in multiple geographies from this year onwards.

Second, ongoing large development projects in both oil and gas that are ramping-up and starting to scale. This is evident in Latin America such as in Guyana and Brazil, and in the Middle East such as in Saudi Arabia, UAE, and Qatar.

And third, the resurgence of exploration and appraisal activity, which is starting to gather strong momentum in existing basins and new frontiers. From West & South Africa to the East Mediterranean, we are starting to see exploration and appraisal at a pace that was unforeseen just a few months ago. Additionally, the activity pipeline continues to elongate with new licensing rounds and new blocks awarded. As a result, we believe that we will continue to witness durable offshore investment for many years to come.

Let me spend a couple of minutes highlighting what this means for SLB.

As the cycle unfolds, the characteristics I have described continue to align with major strengths in our Core. This will support additional activity intensity for Well Construction; accelerated growth opportunities in Reservoir Performance through the return of Exploration & Appraisal activity; and further long-term growth potential for Production Systems.

One such example is the TPAO Sakarya project in the Southern Black Sea offshore Turkey. This project involved all our Core Divisions supporting the development of a challenging subsea gas asset and the simultaneous construction of a gas production facility, demonstrating SLB's unique ability to integrate at scale, from Pore-to-Process.

Looking more in-depth, our Production Systems Division is in a unique position as a long-cycle lever of growth for us with quarterly year-on-year results demonstrating our ability to fully harness its potential. We believe momentum is set to continue, benefiting from our strong market presence in the Middle East, and in the Offshore basins. In this Division, we anticipate cumulative bookings in the range of $10 to 12 billion in 2023, up significantly from 2022. We have taken a strong step forward towards this ambition with more than $3 billion in bookings in the first quarter, and the outlook supports continued strong bookings through at least 2025. Overall, this will provide durable revenue growth and a significant installed base for services in the years to come.

In this context, our exposure to the Deepwater subsea market remains an essential component of our growth opportunity, and we continue to strengthen this part of our portfolio with much success. In Subsea, we have grown 20% over the last two years and are already generating EBITDA margins in the high teens, building on our technology, performance in execution, and the depth of our processing portfolio. We expect strong momentum for this part of our business to be sustained through 2025 and beyond.

To conclude, we are in the midst of a unique cycle with qualities that enhance the long-term outlook for our industry—Resilience, Breadth, and Durability—all reinforced by a pivot to the Middle-East, Offshore, Gas, and a return of E&A.

We could not ask for a better backdrop to execute our returns-focused strategy.

During the early phase of this cycle, led by North America, our results have already demonstrated our ability to capture growth ahead of activity and expand margins visibly beyond pre-pandemic levels. Looking forward, we are positioned to fully harness the International and Offshore momentum that is now underway, and to further our margins expansion journey.

In the quarters ahead, we will continue to demonstrate our returns focus, capital discipline, and commitment to shareholder returns.

I am truly excited about the outlook for SLB.

Next, I would like to comment on our progress over the shorter term.

For the full year, our strong first quarter gives us renewed confidence in our financial ambitions for 2023.

We are primed for revenue growth and margin expansion through the year, underpinned by a very solid international outlook. In North America, we still expect tangible market growth but at a lower rate than originally anticipated at the start of the year, mainly as a result of ongoing weakness in gas prices.

Taken together, we expect the strong international growth to offset any weakness in North America—keeping our full year ambitions intact, with year-on-year growth in excess of 15%, which would support adjusted EBITDA growth in the mid-twenties.

More specific to the second quarter,....

Directionally, we expect revenue to grow about mid-to-high single digits with operating margins expanding by 50 – 100 basis points driven by a seasonal rebound in the International markets. Growth will be led by the Middle East & Asia Area, and continued momentum in the offshore markets.

Building on this, we expect our second quarter adjusted EBITDA to reach new highs in this cycle, further extending the earnings growth journey we initiated 11 quarters ago and taking another positive step towards achieving our full year ambitions.

I will now turn the call over to Stephane.

Stephane Biguet—*Executive VP and CFO*

Thank you, Olivier, and good morning, ladies and gentlemen.

First-quarter earnings per share excluding charges and credits was 63 cents. This represents an increase of 29 cents, or 85%, when compared to the first quarter of last year.

In addition, during the first quarter we recorded a 2-cent gain relating to the sale of all of our remaining shares in Liberty, which brought our GAAP EPS to 65 cents.

Overall, our first-quarter revenue of $7.7 billion increased 30% year-on-year as the growth cycle continues to unfold. This represents the highest quarterly year-on-year increase in more than a decade.

International revenue was up 29% year-on-year, while North America increased 32%.

Company-wide adjusted EBITDA margin for the first quarter was 23.1%. In absolute dollars, adjusted EBITDA increased 43% year on year.

As a reminder, our ambition is for adjusted EBITDA to grow, in percentage terms, in the mid-twenties for the full year of 2023. The first quarter was certainly a strong start towards achieving this goal.

On a sequential basis, revenue decreased 2%, mostly driven by seasonally lower revenue in Asia and Russia as well as lower APS revenue in Ecuador. Russia represented approximately 5% of our consolidated Q1 revenue.

Sequentially, our pretax segment operating margins declined 178 basis points largely due to seasonality and lower APS revenue. From a year-on-year perspective, margins expanded 298 basis points with significant margin growth in three of our four Divisions.

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

First-quarter Digital & Integration revenue of $894 million decreased 12% sequentially with margins declining 8 percentage points to 30%.

These decreases were primarily due to lower APS project revenue and seasonally lower digital and exploration data licensing sales. The APS revenue decline was mostly a result of a pipeline disruption in Ecuador that temporarily reduced production and lower commodity prices impacting our project in Canada. As a result of these issues APS revenue declined year-on-year, but this effect was more than offset by strong digital growth, including a more than 50% increase in our cloud and edge solutions.

Margins for the Digital & Integration division are expected to improve in Q2 as the pipeline issue in Ecuador has been resolved and as digital sales will increase sequentially in line with the usual seasonal trend.

Reservoir Performance revenue of $1.5 billion decreased 3% sequentially while margins declined 207 basis points to 16.1%. These decreases were primarily due to seasonal activity reductions in Europe and Asia and lower revenue in Russia.

Year-on-year, revenue grew 24% and margins increased 291 basis points driven by strong growth internationally, both on land and offshore.

Well Construction revenue of $3.3 billion increased 1% sequentially, while margins of 20.6% decreased 44 basis points. However, year-on-year revenue grew 36% while margins expanded 444 basis points with very strong growth across all Areas on higher activity, increased pricing and a favorable technology mix.

Finally, **Production Systems** revenue of $2.2 billion was essentially flat sequentially and margins declined 148 basis points to 9.3% due to seasonality and the activity mix in Europe and Asia.

Year-on-year, revenue increased 38%, while margins expanded 217 basis points driven by strong activity across all areas led by Europe, Latin America, and North America. Margins also improved compared to the first quarter of last year as supply chain and logistics constraints continued to ease.

Now turning to our liquidity.

Our net debt increased approximately $1 billion sequentially to $10.3 billion.

During the quarter, we generated $330 million of cash flow from operations and negative free cash flow of $265 million reflecting the seasonal increase in working capital we typically experience in the first quarter. This largely reflects the payout of our annual employee incentives and the build-up of working capital that will support our anticipated growth throughout the year.

Our second quarter free cash flow is expected to be materially higher and to continue to increase into the third and fourth quarters.

Capital investments, inclusive of capex and investments in APS projects and exploration data were $595 million in the first quarter. For the full year, we are still expecting capital investments to be approximately $2.5 to $2.6 billion.

During the quarter, we monetized our remaining investment in Liberty, which resulted in net proceeds of $137 million. We also spent $244 million, net of cash acquired, on acquisitions and investments in other businesses, the majority of which relates to the Gyrodata acquisition.

Finally, we resumed our stock repurchase program and repurchased 4.4 million shares during the quarter for a total purchase price of $230 million. We will continue to repurchase shares in the coming quarters and, as previously announced, we are targeting to return a total of $2 billion dollars to our shareholders this year between dividends and stock buybacks.

I will now turn the conference call back to Olivier.

Olivier Le Peuch—*CEO*

Thank you, Stephan. Ladies and gentlemen, we will now open for your questions.

Olivier Le Peuch—*CEO*

Ladies and gentlemen, I want to give a close to this call, it's almost to the hour. So, to conclude today's call, I would like to leave you with the following take-aways:

First, the quality of the unfolding upcycle in Oil & Gas is improving, with unique attributes of resilience, breadth, and duration. This is very much evidenced by the strengthening outlook in both the Middle East and Offshore markets, and further reinforced by the tight-supply balance as demand forecasts approach new highs at year-end.

Second, our strong start to the year gives us further confidence in our full-year financial ambition. Directionally, the dynamics in international markets will likely offset the moderation of activity growth in North America. In fact, we are witnessing a gradual shift from short to long-cycle investment and a further transition to international, with both effects closely aligned with our strengths, and paving the way for an exciting outlook for years to come.

Third, our overall performance demonstrates the strength of our portfolio, focused on the most attractive and resilient market segments globally – both in Oil and gas and low-carbon solutions. Our divisions continue to align with customers' utmost priorities on value delivered though performance and integration, with digital transformation and de-carbonization as industry mandates. Additionally, pricing continues to trend positively, enabling us to extract more value for our products and services.

As a result, we re-affirm our ambition to further expand margins as the cycle unfolds, to grow earnings to new levels in this cycle and to significantly increase returns to shareholders, as further demonstrated this quarter.

I remain very confident in the alignment of our strategy with the fundamental trends in the energy market, and fully trust the SLB team to continue outperforming in this context.

Now, before I close, I wanted to announce that ND Maduemezia will be moving to a new career opportunity at SLB after a remarkable stance in his position as Investor Relations VP over the past three years.

Thank you, ND, for the support and positive engagement with investors and market analysts.

Replacing ND is James McDonald, who is transitioning from his previous role as Americas Land basin President. Welcome James.

With this, I will close today's call and wish you all the best. Thank you, good day everyone.