



Schlumberger Full-Year and Fourth-Quarter 2019 Results Prepared Remarks

Simon Farrant *Schlumberger Limited – VP of IR*

Good morning, good afternoon, good evening, and welcome to the Schlumberger Limited Fourth-Quarter and Full-Year 2019 Earnings Call. Today's call is being hosted from Houston following the Schlumberger Limited Board meeting held here this week. Joining us on the call are Olivier Le Peuch, Chief Executive Officer; Simon Ayat, Chief Financial Officer; and Stephane Biguet, VP Finance.

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

As always, before we begin, I would like to remind the 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.

Now, I'll hand the call over to Olivier.

Olivier Le Peuch *Schlumberger Limited – CEO*

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

I'm going to comment on four topics this morning. First, our fourth-quarter performance and our expectations for the first quarter; second, our view of the industry macro conditions; third, the 2020 outlook and our goals for the year; and last, an update on our strategy for North America.

Before that, however, I would like to say how proud I am of the Schlumberger team's performance throughout 2019. The progress we made in operational execution in a challenging year has been outstanding. During the last six months, we set new benchmarks for safety and much improved our service quality performance. Execution matters greatly to our customers and is the foundation of our performance vision. I feel privileged to lead such a high-performing team.

Last quarter performance highlighted the value of our international franchise, where activity was very encouraging. For the first time since 2014, international margins improved sequentially from the third to the fourth quarter. This led to 100 bps margins expansion from H1 to H2 2019.

Several factors drove our international financial performance:

- Year-end product sales reached one of the highest level since 2014.
- We made early progress in reversing underperforming business units across several GeoMarkets.
- Finally, we saw a favorable technology mix on offshore exploration and digital, benefiting Reservoir Characterization at large and Wireline and Software Integrated Solutions (SIS) in particular—both of which had one of their best quarters since 2014.

In North America, our team managed—proactively—the sharp decline in land activity and pricing headwinds during the quarter, while concurrently launching and starting to execute our North America land strategy. I will elaborate on this in a moment.

Fourth-quarter free cash flow was also very strong, building on resilient cash flow from operations and further progress in the company's working capital efficiency. This, combined with the proceeds from two business transactions, enabled us to reduce net debt by \$1.3 billion during the quarter.

Overall, the fourth quarter was very solid internationally with expanded margins, and resilient in North America despite the severe drop in activity and weaker pricing. Taken together, these resulted into year-over-year growth in both EPS and cash flow generation.

As we transition to the first quarter, most business lines and geographies will experience the usual seasonal decline. However, following strong year-end sales and the limited impact of winter disruptions during the fourth quarter, we anticipate the International and Cameron business to record high-single-digit sequential declines in revenue—a seasonal impact marginally higher than in recent years. Also, we anticipate a low single-digit sequential decline in North America, primarily related to the execution of our NAL strategy and the seasonal offshore impact.

In addition, the recent and persistent market disruption linked to geopolitical risk or civil unrest continue to affect our international operations and represent a financial exposure during the first quarter. In particular, our activity in Iraq have been visibly reduced due to security risks, similar to our reduced activity in Lybia. Also, Argentina activity remains muted due to the difficult investment climate.

Looking now at the macro, the recent easing of the US-China trade conflict has reduced uncertainty on the economic outlook and the latest IEA forecast for oil demand indicates growth of 1.2 million bpd in 2020—slightly higher than in 2019.

US production growth, however, should slow significantly in 2020, and come well short of last year's growth due to heightened capital discipline and resulting drop in activity. Over time, this will create a pull on the OPEC+ and international non-OPEC production base.

These macro conditions will continue to support the international growth cycle. They will also increasingly stimulate the investment to renew activity in offshore and deepwater exploration and development as the year progresses.

Moving now to the outlook for 2020, we anticipate international E&P capex spending to grow in the mid-single-digit range. In contrast, we expect a second year of market contraction in the North America land with a decline in the high-single-digit to double-digit range. This aligns with the strength of our international franchise and

makes the execution of our NAL strategy even more critical to protecting our returns from any further activity downside.

With this market outlook, our ambition will be to grow internationally above mid-single-digit—excluding the impact of recent divestitures—revert Cameron group to growth on the back of long-cycle booking execution, and contain North America to high-single-digit decline, as a consequence of both market conditions and strategy execution.

Within this market, the impact of our capital stewardship strategy—particularly the reduction of underperforming business units—will be material. At the same time, the impact of our transformation program should continue to enhance incremental margin performance and cash flow for most of the service product lines. We are confident that the shape and mix of international activity growth will support favorable revenue quality during the next four quarters with contributions from new technology adoptions, stronger offshore activity, and digital transformation. Offshore activity will increasingly grow towards deepwater basins in the later part of 2020, reflecting the acceleration in investment by IOCs and large independents.

Therefore, we expect international margins to further expand in 2020, building on the momentum from second-half of 2019. In addition, and as an outcome of the NAL strategy execution, we also expect North America margins to expand, despite the headwinds on activity and revenue contraction. This will be the first year since 2014 with such an improvement in financial performance, across international and North America markets. This aligns closely with our strategy focus on returns—both in margin and in cash generation.

I now have some comments on the NAL strategy content and execution to support our margin expansion in North America, despite the expected double-digit market contraction in 2020.

In September, part of our new performance strategy introduction included a specific scale-to-fit and technology access approach to restore North America to double-digit margins by prioritizing returns over growth.

For the most part, we have completed a review of our current business portfolio performance. We have mapped the outlook scenario and the anticipated market trends and documented all available options—both organic and inorganic—to achieve a step-change in returns and an asset-light portfolio transformation. Although this is still ongoing, we are ready to share key aspects of this strategy today.

First, and to address OneStim®—the largest element of our North America portfolio—we have decided to repurpose the business across three hubs to decentralize the support structure around the largest basins. This will further align our organization and capability with our key customers and maximize the positive impact of technology and integration.

This has resulted into a net reduction of 30% of deployed frac fleet capacity and impacted visibly our fourth quarter sequential decline. This will represent a new self-imposed capacity cap, compared to the levels of the third quarter of 2019, or a 50% reduction when compared with our total available capacity. The greater alignment with key customers and major basins will also increase the number of dedicated frac fleets to more than 80% of the total, leading to much reduced spot market exposure.

While we believe these actions improve OneStim performance—reshaping it for the better into a focused and profitable business line—we will keep our options open and be ready to participate into an enhanced market consolidation offering, given the right partner and economics.

Second, we will cease onshore coil tubing operations in North America, a market that we believe is commoditized and offers neither significant integration nor performance technology upside.

Third, we are pursuing opportunities for the future of our rod lift business line in North America. We believe that this portfolio is best served through regional players that can further leverage the distribution network and better align with the equipment market. We will continue to develop the business, support our people, and serve our customers until we find the right opportunity.

Finally, we will continue to accelerate our fit-for-basin strategy where we selectively franchise our technology access through a network of local, basin-specific partners. This was demonstrated with success by Drilling & Measurements in 2019. We will expand this asset-light model to other business lines to increase our market reach while optimizing our infrastructure and capex requirements.

In support of these decisions, we will continue to rationalize our facility footprint with an estimated 25% reduction in operating locations before the end of 2020 and adjust the support structure accordingly. We have already reduced our workforce by more than 1,400 employees since Q3 2019.

The actions related to the strategy execution, when completed, will generate savings in excess of \$300 million on an annualized basis when compared to the Q3 2019 run rate.

Our ambition for North America land in 2020 has been clearly set for margin expansion despite the unfavorable activity outlook. While our strategic decisions will result in revenue reduction greater than the decline in the market, they will contribute incremental earnings and cash flow compared to 2019. This will allow further prioritization of resources and capex allocation toward the International markets.

I hope that my comments this morning offered you more color on our fourth-quarter performance, as well as fresh guidance for our first-quarter and full-year ambition while also providing you with insights on our strategy for North America land.

Now before I handover to Simon Ayat, I'd like to recognize the contribution he has made over more than 37 years of his career with Schlumberger, and more than 13 years leading the Finance function of this company. Simon steps down next week but will continue as a senior strategic advisor to me. I'm also very pleased to welcome Stephane Biguet to the CFO role. I fully trust his experience and functional expertise.

With this, I turn it over to Simon.

Simon Ayat Schlumberger Limited – Executive VP & CFO

Thank you, Olivier. Ladies and gentlemen, thank you for participating in this conference call.

Fourth-quarter earnings per share excluding charges and credits was 39 cents. This represents a decrease of 4 cents sequentially, but an increase of 3 cents when compared to the same quarter of last year.

During the quarter, we recorded \$209 million of net pretax charges. This reflected \$456 million of restructuring charges offset by a \$247 million gain on the formation of the Sensia joint venture. The restructuring charges largely

relate to our North America operations. They consist primarily of write-offs relating to facility closures and exiting certain activities as well as severance.

These restructuring charges and related write-offs were all recorded at the end of the quarter. Therefore, the fourth quarter results do not include any significant benefit as a result of this charge.

Our fourth-quarter revenue of \$8.2 billion decreased 4% sequentially, as the 2% growth in our international operations was more than offset by a 14% decline in North America.

Pretax segment operating margins decreased by 60 basis points to 12.2%.

Highlights by product group were as follows:

Fourth-quarter Reservoir Characterization revenue of \$1.6 billion was essentially flat sequentially, while margin increased 59 basis points to 22.4%. The margin increase was primarily driven by higher SIS software sales.

Drilling revenue of \$2.4 billion was also essentially flat, as lower revenue in Russia and North America land was offset by increased drilling activity in the Middle East.

Margins were flat at 12.4%.

Production revenue of \$2.9 billion decreased 9% sequentially, driven by a 33% [decline] in OneStim revenue in North America land due to lower demand and pricing pressure. This decrease was partially offset by strong international Completions activity.

Margins of 8.8% only decreased slightly by 32 basis points primarily due to the effects of the lower OneStim activity, partially offset by improved international margins from higher activity.

Cameron revenue of \$1.4 billion increased 2% sequentially as OneSubsea®, Surface Systems, and Drilling Systems each grew. These increases were partially offset by the effects of the divestiture of the Measurements business in connection with the Sensia transaction.

Margins decreased 359 basis points to 9.1%, primarily as a result of lower margins on OneSubsea projects and impact of North America on the short cycle activity.

The book-to-bill ratio for the Cameron long-cycle business was 1.5 in Q4.

The OneSubsea backlog increased to \$2.2 billion at the end of the fourth quarter.

Now turning to Schlumberger as a whole, the effective tax rate, excluding charges and credits, was 16% in the fourth quarter, which was consistent with the previous quarter.

I was very pleased with our cash flow in the fourth quarter, as we generated \$2.3 billion of cash from operations. This brings the total year of 2019 to \$5.4 billion from operations and \$2.7 billion of free cash flow. In addition, during the quarter, we received approximately \$590 million of net proceeds as a result of the closings of the Sensia joint venture and the Drilling Tools divestiture.

Our net [debt] improved by \$1.3 billion during the quarter to \$13.1 billion. We ended the quarter with total cash and investments of \$2.2 billion.

Over the course of the fourth quarter we repurchased an additional \$1.1 billion of outstanding notes, the vast majority of which were due to mature over the next two years. These repurchases, combined with the actions we took last quarter, will serve to reduce our interest expense going forward while at the same time improving our debt maturity towers.

During the quarter, we spent \$494 million on capex and \$255 million of capitalized costs relating to Asset Performance Solutions (APS) projects, formerly known as SPM. We also made \$692 million of dividend payments. We did not buy back any stock during the quarter.

Full-year 2020 capex, excluding APS and multiclient investments, is expected to be flat with 2019.

Before I turn over the call to the operator for Q&A, I would like to take the opportunity to thank you, our shareholders, and analysts. I know we've been through tough times due to industry conditions, and overall, it has been a very productive relationship. I ask you to please welcome Stephane as the new CFO and extend him the same courtesy. As a departing statement, please remember: cash is king.

Olivier Le Peuch *Schlumberger Limited – CEO*

Ladies and gentlemen, I'd like to highlight my key message to conclude—to close on this call.

First, the solid results of the fourth quarter and the full year have highlighted the significant progress we have made in our international franchise and the early steps we took in the execution of our North America land strategy. The momentum across the organization and the feedback from our customers continue to be very positive and support well our ambitions for 2020.

Our view for 2020 remains positive on the international market, which will be loaded on the back-end of the year, particularly in deepwater activity. Internationally, we will benefit from further improvement in activity mix and revenue quality, which when combined with our capital stewardship and performance program, will drive further margin expansion, as a continuity of progress made in second half of 2019.

In contrast, we face another year of declining North America market condition but will accelerate our NAL strategy to fast track our commitment to restore double-digit margins. Our actions—including scale-to-fit capacity reduction, rationalization towards asset-light through technology access, and anticipated business-unit exits—will combine to reverse margin decline and with the ambition to grow both earnings and cash flow in contrast to 2019.

While 2019 opened a new chapter for the company, 2020 offers the opportunity to amplify the impact of our new performance vision for the benefit of our customers and to accelerate key strategy elements to improve returns for the benefit of our shareholders.

Thank you very much for your participation today, good day to everyone, and I look forward to seeing many of you in the coming weeks. Thank you.