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SLB - Q1 2020 Schlumberger NV Earnings Call

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OVERVIEW:

Co. reported 1Q20 revenues of $7.5b and EPS (excluding charges and credits) of $0.25.

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. Welcome to the Schlumberger Earnings conference call. (Operator Instructions) As a reminder, this conference is being recorded.

I would now like to turn the call over to Simon Farrant, Vice President of Investor Relations. Please go ahead.

Simon Farrant - *Schlumberger Limited - VP of IR*

Good morning, good afternoon, good evening, and welcome to the Schlumberger Limited [First Quarter] (added by company after the call) 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 with--the call with his perspectives on the quarter and our updated review of the industry macro, after which, Stephane will give more details on our financial results. Then we'll open up for questions.

As always, before we begin, I'd like to remind the participants that some of the statements we're 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 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.

Now I'll turn the call over to Olivier.

Olivier Le Peuch - *Schlumberger Limited - CEO & Director*

Thank you, Simon, and good morning, ladies and gentlemen. I hope everyone is safe and well. This morning, I'm going to comment on 3 topics: our Q1 performance, how we're managing today's increasingly difficult operating environment and how we see the outlook for the second quarter.

Before I do that, I would first like to thank the Schlumberger people around the world who are demonstrating great resilience and adaptability. I'm very proud of our team and of what they have achieved in the first quarter. Despite the complications from the COVID-19 outbreak, they delivered strong organizational performance throughout the quarter. We kept very close to our customer as the crisis developed, and we were able to maintain well site operations with only minimal disruption across a few countries. The feedback I've received from our customers has been both positive and appreciative of our operational performance. Despite the difficulty of the situation and the duress under which our people have been working, Q1 was one of the best quarter in terms of service quality and actually the best quarter ever in safety performance.

Let's start with the perspective on our first quarter results. The resilience of our performance given the COVID-19-related disruption and the early impact of the oil price collapse delivered earnings of $0.25 per share, only marginally short of our original expectation. The quarter was characterized by the usual combination of seasonal impact in the Northern Hemisphere and the sequential decline of product and software sales.

However, toward the end of the quarter, activity started to decline in several basins due to the unprecedented drop in oil price and the increasing challenge posed by COVID-19. The most severe impact was in North America land, where customers were fast to react with a sharp 17% cut in rig count.

In our business segments, Reservoir Characterization revenue closed the quarter sequentially down 20%, partly on seasonal effects, but also as a consequence of customers curtailing their discretionary and exploration spending in the latter part of the quarter. The margins declined on the absence of significant multiclient software license sales, weak exploration mix and lower contribution from discretionary software sales.

Drilling revenue declined sequentially on seasonal effects and the collapse in North America late in the quarter, but displayed resilience with margins flat sequentially on our operational execution and our focus on underperforming business units as well as continued success in our technology access strategy. Production revenue declined on lower activity in the international markets and weaker APS [Asset Performance Solutions] (added by company after the call) results. While Production margin declined 100 basis points driven by the weaker international activity, the success of our OneStim® scale-to-fit strategy in North America matched resource to market needs and optimized our operational footprint.

Cameron revenue was seasonally lower and suffered from the exposure of the short-cycle business to North America. International Cameron revenue was also lower as we halted manufacturing in Italy and Malaysia in response to local restrictions to mitigate the spread of the COVID-19 virus. Despite these negative effects, Cameron margin increased sequentially, driven largely by this quarter's favorable mix in the OneSubsea® portfolio.

Looking at North America Land in more detail. A timely acceleration of our NAL strategy protected margins from excessive sequential decline. We began the quarter having scaled our OneStim fleet to fit the market, which resulted in higher utilization and minimal frac calendar gaps. However, once oil prices began to collapse in March, customers rapidly dropped rigs and frac crews. Along with well construction and completion activity decreasing, the technology mix switched from driving performance to saving costs. We reacted rapidly by stacking frac fleets to protect our margins and had reduced capacity by more than 27% and reduced our CapEx plan by 60% by the end of the quarter.

In contrast, our international revenue closed 2% ahead year-on-year or 4% when accounting for the 2019 business divestitures. Growth was resilient in key Schlumberger markets across Russia & Central Asia, Saudi Arabia & Bahrain, Far East Asia & Australia, Northern Middle East, Latin America North, and Norway & Denmark.

Our first-quarter cash flow from operations more than doubled year-on-year to $784 million as a result of our heightened focus on collections and our resilience in key international markets.

Let me now talk about what we are doing to protect the company and how we have focused on cash, liquidity, and the strength of our balance sheet in a period of high uncertainty, as the depth and extent of the coronavirus impact on global oil demand remains unknown.

First, and after an in-depth review of the possible outcomes of the new oil order we are facing, we have made the very difficult but necessary decision to reduce our dividend by 75%. This will protect our cash and liquidity in the current environment while giving us greater flexibility going forward. We'll continue to exercise stringent capital stewardship, while retaining the ability to balance any capital return to shareholders as operational conditions evolve.

Second, we have reduced our capital investment program by more than 30% across CapEx, APS and multiclient. We're also reducing our research and engineering investment by more than 20% in the second quarter to reflect the necessary adjustment to our 2020 commercialization program.

Third, we have accelerated and increased our structural cost reduction in North America in alignment with the scale-to-fit strategy initiated during the fourth quarter [2019] (added by company after the call), adjusted for the new environment. As a result, we have unfortunately had to reduce our workforce in North America by close to 1,500 people during the first quarter. We'll continue to decisively implement structural changes during the second quarter, both in North America and internationally to align our cost base with the anticipated short-term and second-half activity outlook—with full understanding that the pace and scale of decline is still uncertain but will be more abrupt than during any recent downturn.

Finally, we have also taken exceptional temporary measures to conserve cash by implementing furloughs across many parts of our organization, both in North America and internationally, and by reducing compensation for the executive team and for the Board of Directors.

The results of these actions represent a significant step towards protecting the company cash and liquidity in the face of the significant uncertainties. I believe that our response so far has been swift and effective, as demonstrated by our margins and cash flow performance during the first quarter, while providing service to all of our customers with unique resilience and performance across all basins.

Stephane will discuss the strength of our balance sheet, our access to liquidity and our capital investment program in more detail in a few minutes.

Before that, let me give you our perspective for the second quarter.

Despite the recent agreement by the world's largest oil producers to cut production, Q2 is likely to be the most uncertain and disruptive quarter that the industry has ever seen.

We are, therefore, not in a position to provide guidance for the next quarter as we face 2 degrees of uncertainty beyond the severe impact of oil demand contraction and the level of commodity oil price. First, it is very difficult to model or predict the frequency or magnitude of the COVID-19 disruption on field operations. Second, it is too early to judge the impact of the recent OPEC+ decision on the level of international activity as well as its repercussion on storage levels globally and related risks of production shut-ins.

Let me, however, share our view on the key activity trends, starting with North America.

We anticipate both rig activity and frac completion activity to continue to decline sharply during the second quarter, to reach a sequential decline of 40% to 60%, which matches the full year budget adjustment guidance shared by most operators in North America land. This would represent the most severe decline in drilling and completion activity in a single quarter in several decades.

Internationally, we see a less severe sequential decline as some long-cycle offshore and land development markets should remain relatively resilient and will partially offset the exploration activity drop as well as the expected activity adjustments that will result from the OPEC+ decision.

Directionally, at this time, and excluding the seasonal rebound of rig activity in Russia and China, the international rig count is expected to decline by low- to mid-teens sequentially. However, this will vary greatly by basin and per customer. We have been successful during the first quarter in providing the market with resilience and performance. We anticipate building on this success, and we'll fully leverage our unique international franchise to retain optimum activity mix going forward.

As the quarter develops and we get more clarity on the timing and shape of demand recovery and better understand the OPEC+ deal's implementation and compliance, we'll be able to discuss our outlook for the second half of the year with you.

Let me conclude by reinforcing the enormity of the task ahead. It will require a level of response and depth of resilience that have yet to be fully realized. The actions we have taken so far have been focused on those things we can control in protecting our business—with a have clear priority on cash and liquidity—in an uncertain industry and global environment.

We'll continue to take the steps necessary to protect the safety and health of our people and pursue our ambition to be the performance partner of choice for our customers. The future of our industry poses difficult challenge—for people and for the environment—but continues to offer a unique opportunity. I believe that the resilience and performance of our people, our technology leadership, and our financial strength will clearly position us for success as the industry rebounds from this unprecedented downturn.

On to you, Stephane.

Stephane Biguet - *Schlumberger Limited - Executive VP & CFO*

Thank you, Olivier. Good morning, ladies and gentlemen, and thank you for participating in this conference call.

First quarter earnings per share, excluding charges and credits, was $0.25. This represents a decrease of $0.14 sequentially and $0.05 when compared to the same quarter of last year.

During the quarter, we recorded $8.5 billion of pretax charges driven by current market conditions and valuations. These charges primarily relate to goodwill, intangible assets and other long-lived assets. As such, this charge is almost entirely noncash. You can find details of its components in the FAQs at the end of our earnings press release.

These impairments were all recorded as of the end of March. Therefore, the first quarter results did not include any benefit from reduced depreciation and amortization expense as a result of these charges. However, going forward, depreciation and amortization expense will be reduced by approximately $95 million on a quarterly basis. Approximately $45 million of this will be reflected in the Production segment. The remaining $50 million will be reflected in the corporate and other line item. The quarterly after-tax impact of these reductions is approximately $0.06 in EPS terms.

I will now summarize the main drivers of our first quarter results. I will not go into much detail as Olivier already provided some key highlights, but I will spend more time updating you on our liquidity position.

Overall, our first quarter revenue of $7.5 billion decreased 9% sequentially. Pretax segment operating margins decreased 181 basis points to 10.4%. First quarter Reservoir Characterization revenue of $1.3 billion decreased 20% sequentially, while margins decreased 839 basis points to 14%. The sequential drop was a combination of seasonal effects and early signs of customers curtailing discretionary expenditures.

Drilling revenue of $2.3 billion decreased 6%, while margins were flat at 12.4%. Approximately half of that revenue decline was due to the divestiture of our fishing and remedial tools business at the end of the fourth quarter.

Production revenue of $2.7 billion decreased 6% sequentially, and margins declined 98 basis points to 7.8%. Cameron revenue of $1.3 billion decreased 10%, while margins slightly increased by 57 basis points to 9.7%.

Our effective tax rate, excluding charges and credits, was 17% in the first quarter as compared to 16% in the previous quarter. Please note that it is going to be challenging to provide guidance around our effective tax rate going forward, as discussed in further detail in the FAQ at the end of our earnings release.

Let me now turn to our liquidity. During the first quarter, we generated $784 million of cash flow from operations. As Olivier mentioned, this is more than double what we generated during the same quarter last year. We spent $407 million on CapEx and invested $163 million in Asset Performance Solutions, or APS, projects.

We completed the sale of our interest in the Bandurria Sur Block in Argentina during the quarter. The net proceeds from this transaction, combined with the proceeds we received from the divestiture of a smaller APS project, amounted to about $300 million. Looking forward, after considering the Argentina divestiture and reductions in the rest of our project portfolio, our APS investments for the full year will not exceed $500 million.

With this, as well as the significant reduction of our operating CapEx engaged during the quarter, our total capital spend for 2020, including APS and multiclient, will now be approximately $1.8 billion. This represents close to a 35% decrease as compared to 2019.

On the balance sheet side, we took a series of steps during the first quarter to reinforce our liquidity position. First, we ended the quarter with total cash and investments of $3.3 billion. While this cash balance is higher than what we generally like to carry, this was a conscious decision, and I am very comfortable with it considering the current situation. Our net debt increased by only $171 million during the quarter, closing at $13.3 billion, which is more than $1 billion lower than the level we were at a year ago.

During the first quarter, we issued EUR 400 million of notes due in 2027 and another EUR 400 million of notes due in 2031. These notes carry a weighted average interest rate of 2% after being swapped into U.S. dollars. We also renewed during the quarter our revolving credit facilities. These committed facilities amount to a total of $6.25 billion and do not mature until between February 2023 and February 2025. We ended the quarter with $2.7 billion of commercial paper borrowings outstanding. Therefore, after considering the $3.3 billion of cash on hand, we had $6.8 billion of liquidity available to us at the end of the quarter.

In addition, we entered last week into another committed revolving credit facility for EUR 1.2 billion. This is a 1-year facility that can be extended at our option for up to another year. We can also upsize the facility through syndication. To date, we have not drawn on this facility. Finally, our short-term credit ratings, which are critical to maintain our privileged access to the commercial paper markets, were just recently reaffirmed by both Standards & Poor's and Moody's.

In light of our available liquidity and the various actions undertaken during the quarter, our debt maturity profile over the next 12 months is quite manageable. We only have $500 million of bonds coming due in the fourth quarter of this year and another $600 million coming due in the first quarter of 2021. Our preference is to refinance these obligations with new bonds, market permitting.

To close, let me come back to what is probably the most important decision of the quarter as it relates to capital allocation. In this environment, our strategic priority is obviously on conserving cash and further protecting our balance sheet. To this end, we have taken the prudent decision to reduce our quarterly dividend by 75%. The revised dividend still supports our shareholder value proposition by maintaining both a healthy yield and a reasonable payout ratio as we navigate these uncertain times. It also allows for prudent organic investment while maintaining the self-discipline required under the capital stewardship program that we have committed to. Finally, it gives us flexibility to adjust our capital return policy in the future, whether through increased dividends or stock buybacks when operating and business conditions improve.

I will now turn the conference call back to Olivier.

Olivier Le Peuch - *Schlumberger Limited - CEO & Director*

Thank you, Stephane, thank you for this clarification. So ladies and gentlemen, I think we will open the floor for Q&A at this point.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question is from James West with Evercore ISI.

James Carlyle West - *Evercore ISI Institutional Equities, Research Division - Senior MD*

So Olivier, in terms of capital allocation strategy going forward, I know we have the dividend cut today, which is clearly a prudent move in light of the current environment, although we're going to stabilize and figure out how this market unfolds here in the next quarter or so. How do you think about capital allocation through this downturn? Previously, you guys were countercyclical and getting into the SPM. You've obviously disbanded that, so I doubt that's an area of capital. But how are you thinking about the allocation of capital?

Olivier Le Peuch - *Schlumberger Limited - CEO & Director*

So James, as you know, we have, as part of the strategy, reaffirmed our capital stewardship program and that's as a strategic step. And I think under that umbrella, we did reaffirm our priority for our capital allocation. And our cash from free cash flow from operation typically will be directed towards 3 buckets: the first one to maintain and support our ongoing operation, and that's part of what we do in essential of under strict capital allocation for the CapEx; the second one being obviously to maintain the strength of our balance sheet and to address the debt level that we need to maintain the right ratio; and finally, the dividend. Any excess cash beyond that, I think, will be directed towards either business opportunity that represent an accretive return to our capital under the new program of capital stewardship or return distribution to the shareholder in the form of buyback or in the form of future increase of our dividend. That's the way we will continue to use the framework under these conditions. Stephane, do you want to add anything?

Stephane Biguet - *Schlumberger Limited - Executive VP & CFO*

You covered it. Thank you.

Operator

And our next question comes from the line of Sean Meakim with JPMorgan.

Sean Christopher Meakim - *JP Morgan Chase & Co, Research Division - Senior Equity Research Analyst*

So maybe just to follow on to that. So good to hear the updated thoughts around capital allocation. Can we then maybe just kind of dovetail into thinking about sources and uses of cash? The balance sheet has a pretty front-loaded maturity cadence over the next couple of years. So the $4 billion that you'll keep on the balance sheet from the reduction of the dividend, that certainly will help. You closed the Bandurria Sur...

Olivier Le Peuch - *Schlumberger Limited - CEO & Director*

Operator, we lost Sean.

(technical difficulty)

Sean Christopher Meakim - *JP Morgan Chase & Co, Research Division - Senior Equity Research Analyst*

Sure. Can you hear me now?

Olivier Le Peuch - *Schlumberger Limited - CEO & Director*

Yes, we can.

Sean Christopher Meakim - *JP Morgan Chase & Co, Research Division - Senior Equity Research Analyst*

Great. Okay. Sorry about that. So the main question is about sources and uses of cash. The balance sheet maturity cadence is pretty front-loaded through 2023 and so it would be great to hear about how you think about sources and uses over the next couple of years to address that part of the balance sheet.

Stephane Biguet - *Schlumberger Limited - Executive VP & CFO*

Thanks for the question. For the upcoming maturities, at least in the next 12 months, as I said, we are pretty well spaced and the amounts are quite reasonable. So really, what we will do is -- our objective is to refinance those maturities with new bonds, or if cash permits, we will pay down some of that debt to maintain the credit rating that we are targeting. And what we are targeting is really to ensure that we keep a strong investment-grade credit in this cyclical environment. So this will really be the way we will deal with the upcoming maturities, if that answer your question.

Olivier Le Peuch - *Schlumberger Limited - CEO & Director*

We have -- Sean, we have been -- on a continuous basis, we have been using bonds to refinance the maturities that were coming. I think we did, as you heard Stephane today, we had 2 new bonds that were issued during the first quarter in Euro that was swapped back to dollar. And I think we have done that all along and as part of our program. And that this was reviewed during the Finance Committee, and there was an envelope agreed and approved by the Board going forward to refinance a large amount and go after the bond market to address those. We are confident with the current investment grade we have that we'll be successful in tapping in those market.

Operator

And our next question is from Angie Sedita with Goldman Sachs.

Angeline Marie Sedita - *Goldman Sachs Group Inc., Research Division - Senior Managing Director*

So for Olivier or Stephane, maybe you could talk a little bit further about the cost-cutting and then give us some parameters potentially around the dollar size of the cost-cutting and the degree that it is fixed versus variable, if certain segments are impacted more so than others. And beyond Q2, if we look into Q3 and Q4, thoughts around decremental margins.

Olivier Le Peuch - *Schlumberger Limited - CEO & Director*

Yes, quite a lot, Angie. So I think it -- so first, I think I'll stay quite generic in the statement I will make on purpose because I think there is a lot of uncertainty into the level of outlook activity-wise in the second half of the year. We are starting to understand where the quarter will land this quarter in North America, and we have taken actions to address and rightsize the organization. And I talked about the 40% to 60%. So you can understand that the organization will be adjusted towards that end. And I think it will affect, more or less, across all product lines. OneStim will be certainly rightsized on the high end of that framework. And we'll certainly have to execute faster the strategy of rightsizing or scale-to-fit, as we call it, and when talking about the structure costs and the fixed structure cost. That's why we will put some effort to make sure that the restructure and the fit-for-basin and the hub concentration we are putting for OneStim in the next few months will be addressed, first and foremost, in parallel with the variable cost action that we are taking. So North America is fairly clear because the activities direction and drop of activity is already well understood.

Internationally, I think it varies a lot from one geography to the next, and there is still a lot of uncertainty, partly with regards to the decision by the national companies to cut -- the extent of which they will cut or not. So we are more prudent in our approach internationally, but we are as well executing there and doing both the structure -- fixed structure and as well as variable in the coming weeks.

So to give you a number, I don't think there is a number we can quote. The number will keep evolving, but it will be likely to be in excess of $1 billion to just talk about compensation going forward on an annual basis. And this number will certainly change as we go forward. So all in all, we'll continue to follow the curve, as we call it, albeit this year it's steeper and evolving faster. And we're addressing both the fixed and the variable as we have done in previous downturns.

Operator

And our next question is from Scott Gruber with Citigroup.

Scott Andrew Gruber - *Citigroup Inc, Research Division - Director and Senior Analyst*

I want to touch on working capital. Given your end market forecast, how should we think about working capital? Is there any way to dimension the potential benefit to cash this year or a potential range of where days outstanding could land at the end of the year? And any lessons learned from the last cycle that can help the working capital this cycle?

Stephane Biguet - *Schlumberger Limited - Executive VP & CFO*

Yes, Scott, we indeed expect to see our working capital winding down over the next few quarters as activity reduces. Now the magnitude of that working capital really is dependent on several factors, of course. And probably the most significant, you're asking about lessons learned here, is the pace of cash collections we received from our customers. So immediately, as we saw the environment deteriorating, we refocused our entire organization on cash collections, and you have seen the early signs of this through our cash flow performance in Q1. So now as much as we are working to prevent it, we could see payments being delayed over the next few quarters, but we will keep a very close eye on this.

Now we may see some offsets to the positive working capital effects from restructuring cash costs as we continue to adjust our structure. But definitely, we will see -- from a normal working capital trend, we will see a release.

Operator

And next, we have a question from Bill Herbert with Simmons.

William Andrew Herbert - *Simmons & Company International, Research Division - MD, Head of Energy Research & Senior Research Analyst of Oil Service*

Two questions related to operating cash flow. First, I'll hit the working capital one again. Typically, in a downturn, your international customers are slow pay, if not everybody. And if you looked at 2015, it was a consumer of cash of $500 million or close to it. Will it be a source of cash or a consumer of cash?

And then secondly, your guidance with regard to depreciation, I think I heard you say down $95 million. From what, Q1 or Q4?

Stephane Biguet - *Schlumberger Limited - Executive VP & CFO*

Yes. So on the working capital, you're right, the first year of the previous downturn, we did have a consumption from the receivables. And again, we'll try to prevent this. We know the hotspots, and we keep a close eye on it, but it's -- there are some places where payments can be delayed for sure.

On the D&A, yes, I did say $95 million. It's pretax, obviously. And it's compared to the first quarter of this year, so $95 million lower D&A going forward from Q1 2020 reference.

Operator

Next, we go on to a question from Kurt Hallead with RBC.

Kurt Kevin Hallead - *RBC Capital Markets, Research Division - Co-Head of Global Energy Research & Analyst*

So I wanted to thank you for all the color so far in a difficult environment. I want to follow up on a couple of specifics. First, on Reservoir Characterization, you had pretty substantial decline in margins in the first quarter here, and wanted to get a sense as to what may have been driving that. And to whether or not that is now a new, sustained kind of margin dynamic in Reservoir Characterization.

Olivier Le Peuch - *Schlumberger Limited - CEO & Director*

So the -- Kurt, I think the reason why we had such a margin decline is due to 2 factors: The first is the fact that we had a severe top line decline of 20% sequentially. That's not unusual, but it was on the low side of what we -- on the high side what we typically see seasonally, and I think there are decrementals associated with this.

Secondly, there were a few disruptions during the quarter that added to the cost that couldn't be recovered during the quarter. And third, and maybe the most important one, I think is that the decision by the operators to start to tighten the purse in the later part of the quarter did impact what is typically making the quarter in the first quarter, which is the sales of multiclient license, license sales and also the discretionary software. So the Q1 is typically a low quarter for margin in Reservoir Characterization, seasonal effect, but this was compounded by the severity of the curtailment of spend in the latter part, in the last 6 weeks of the quarter that impacted what typically contributes positively to our Q1 quarter or any quarter, which is the end of the quarter sales for software for multiclient. So we expect this to continue, indeed. However, we expect the seasonal effect to recover somewhat, albeit the exploration budget will be lower by about 40% from last year. That's the estimate from our engagement with the customer.

Kurt Kevin Hallead - *RBC Capital Markets, Research Division - Co-Head of Global Energy Research & Analyst*

Okay. And then my follow-up question would then be on Cameron. In that context, margins there were fairly strong. I think we can all expect that orders and FIDs and everything will wind up being pushed to the right. So I guess my question would be more along the lines of the projects that are in backlog, how should we think about the margin progression in Cameron as the rest of the year evolves?

Olivier Le Peuch - *Schlumberger Limited - CEO & Director*

There was -- there are 2 factors that did influence, 1 positive and 1 negative, the quarter, and 1 of them will continue. So the negative factor that impacted the Cameron margin related to the short-cycle impact in North America declining more than we had anticipated. And this decline will continue. We are taking action to maintain or to control the decremental on that aspect. And the second factor was favorable mix in the OneSubsea long-cycle business. So the mix of this will continue going forward. We expect this to be slightly declining in the second quarter because we will see more decline in North America, as was clearly highlighted in this call. And the favorable mix of OneSubsea will not repeat in the same magnitude for the next quarter. However, we still feel that the long-term backlog we have in OneSubsea and, to some extent, in the new award we got in long-lead drilling will support sustaining the margin somehow in the long term.

Operator

And next, we go to a question from David Anderson with Barclays.

John David Anderson - *Barclays Bank PLC, Research Division - Director and Senior North America Oilfield Services & Equipment Analyst*

Two questions on the international front there. You highlighted spending being down 15% this year. It's obviously really complicated though, so many moving parts in there, and you don't have a ton of customer visibility, which I totally appreciate. But I was just wondering if you could just kind of talk about the different buckets that you're seeing out there. You've got offshore versus Middle East versus Latin America. Everything is kind of moving at different rates. Could you just kind of give us your thoughts generally on how you see all the different moving -- all the different parts moving?

And then secondarily, if you could just kind of dig in on kind of Middle East, Russia, and China. Just help us kind of collectively, how big is that part of your business? I'm not expecting you to give me a percentage number, but just kind of just give us a sense, because I would think that would be kind of the more stable part of your portfolio over the next 12 to 24 months.

Olivier Le Peuch - *Schlumberger Limited - CEO & Director*

Yes. As you correctly said, Dave, I think there is a lot of moving parts. The rig projection that we are using as a proxy for future activity, I think, keep moving to the right or keep declining, okay? And we have seen that in the recent weeks. I think we stabilize during the second quarter due to the decision that some OPEC+ members will take the outcome of their commitments will get clearer. But this being said, as we commented before, when I exclude Russia and China, which have a seasonal effect in the second quarter that is favorable, when I exclude that, the decline of rig activities is low- to mid-teens, sequential decline of rig in short term. The variability of that varies a lot. We said at the -- some of the West Africa, Europe, and to lesser extent, Gulf of Mexico, are getting more impacted than we will get in some of the land. Middle East activity or even China offshore or Australia or Qatar offshore, that will actually go up. So there's a lot of moving parts, as you said. But generally speaking, there are pockets of resilience that are either linked to long-term gas oil development offshore and onshore. And some of it could be like in Guyana. Some of it could be Qatar gas offshore. Some of it can be deepwater Australia or China offshore or could be land Russia. All this is making a pocket of resilience that we are trying to benefit from, where we either have strong or very strong market position, such as in Russia and Qatar offshore, for example, and we will exploit and leverage this during the second quarter. And some of it, where we will be trying to position our performance to get the most out of the activity. So that's a mix going forward. So pockets of up and down, and that will keep evolving. So that's the best I can share at this moment, Dave.

John David Anderson - *Barclays Bank PLC, Research Division - Director and Senior North America Oilfield Services & Equipment Analyst*

I appreciate that. And maybe just a follow-up question on your APS portfolio. The last time we went through all this, we had some issues that there's more oil price exposure than I think a lot of us realized. Can you just talk about -- I know that portfolio is a lot smaller today, but how much is tied to the oil price versus the fixed tariffs? And I know payments is kind of a question we have. And maybe you could also just comment on where Ecuador is right now and when you think operations could resume there.

Stephane Biguet - *Schlumberger Limited - Executive VP & CFO*

I'll take that question, Dave. So on the oil price exposure, it's about half of our APS revenue is on fixed tariff on service fee, while the other half has some element of indexation to oil or the gas prices. On that latter part, a good portion is already at the contractual minimum, even with the oil prices we had in the first quarter, so the lower oil prices will not make it worse. All in all, when you take all of this into account, we are not talking about a significant direct impact on our earnings at the lower oil prices of today. So it's not a significant effect.

On your second question regarding Ecuador, I don't think it's really appropriate for me to speculate on what specific customers will do from a payment standpoint. However, our total receivable balance in Ecuador was below $500 million at the end of March, and we received timely payments during the quarter. So we will be watching this very closely, but so far, the quarter was in line.

Operator

And our next question is from the line of Chase Mulvehill with Bank of America Securities.

Chase Mulvehill - *BofA Merrill Lynch, Research Division - Research Analyst*

So I just wanted to ask real quickly about COVID-19 and obviously the impacts that it's having today. But if we think longer term, how do you think that the COVID-19 will impact how you operate over the medium to longer term? I guess kind of what I'm asking here is, do you expect maybe to accelerate any remote operating or automation initiatives or maybe think about how you, your supply chain, if you try to have it less concentrated or maybe less reliant on China or anything like that. So just kind of structurally, do you see any changes over the medium to longer term as a result of what's happening through COVID-19?

Olivier Le Peuch - *Schlumberger Limited - CEO & Director*

Yes. Very good question, Chase. So let me first comment on the way. We did react and we did act and support our operation, our customers during this period. So we actually put in place for mid-January a full Crisis Management Team looking at all aspects. First and foremost, looking at the way we are protecting the health of our people and managing the support to logistics, supply chain, and manufacturing. And we did that for the last 3 months now going at full-scale across all organizations. And by doing that, we started to mitigate and understand the alternate path we have for logistics. We set up the second source and -- or better understand the risk we were having towards some supply exposure between China or elsewhere in the world. And actually, we have no disruption. The disruption we had were related to shutdown, states- or government-mandated in Malaysia or in Italy that we cannot offset. But aside from this, we were actually showing extremely good resilience on the logistics, on the movement of people as we have a lot of people that are in every country, local, and we do not depend as much as some of our peers and/or some of the operator on to flying team or international commuter in most of the country where we operate.

So we had extremely good resilience. We did not let our customers down in any rig mobilization or in any product delivery at this point. So I think our resilience from a multi-piece, tier channel we have used for the second sourcing and the resilience of diversity and hedge we have on our supply and manufacturing, I think, has been helping us.

Now going forward, you are totally right, and I think we have accelerated our remote operation and automation of some of our operations. In the month of March, we had more than 60%, 6-0, 60% of our drilling operation that have -- that were using remote operation. So we have been exploiting with success the remote operation by reducing the footprint of our people on the rig site, having very positive impact on HSE, helping and supporting them remotely with an impact on service quality and providing efficiency and cost that benefit both the operator and ourselves. So this will continue, will accelerate. We have an excellent platform internally, and we have our DELFI platform externally where our clients are starting to adopt drilling, in particular, remote operation and automation. This is accelerating as we speak.

Another example, Chase, is as we were deploying DELFI, and you may have seen that into the earnings press release for Woodside, we were getting the request to accelerate due to the COVID[-19] (added by company after the call) restriction, accelerate the deployment of the cloud-based infrastructure so that the asset team, the geoscientists of our customer could work from home and have the full access to their data and to their powerful geoscience application. We're able to deploy and accelerate and with great satisfaction and success, and this has been used as an example going forward. So yes, it will be a differentiation that we'll use going forward.

Chase Mulvehill - *BofA Merrill Lynch, Research Division - Research Analyst*

All right. Appreciate the color. One quick follow-up. Obviously, globally, we're starting to see some producing wells being shut in. And obviously, that's probably going to accelerate over the next couple of month or 2. But as we think about these wells that are shut in and as they come back online, could you talk to the impact, the service activity impact or the revenue that could impact your business as these wells are having to be brought back online maybe the back half of this year, kind of early in the next year?

Olivier Le Peuch - *Schlumberger Limited - CEO & Director*

It's difficult to say, Chase. I think, first, I think it's difficult to judge the magnitude of the number of shut-ins. It will depend how fast and how much there will be an excess of supply going into topping the storage tanks. So I think it depends on reservoir. It depends on the location. But generally speaking, yes, I think every well that is shut in, when it's put back, needs to get a bit of well management, scaling, and stimulation activity. So that will favor the service activity at large whenever it comes back on the campaign of reservicing those wells and providing intervention and stimulation to make them back flowing at their maximum capacity. So that will indeed be a positive, if I may, effect as we exit this very difficult period and we start to recover the full capacity of the oil-producing fields.

Operator

And our next question is from the line of George O'Leary with Tudor, Pickering, Holt.

George Michael O'Leary - *Tudor, Pickering, Holt & Co. Securities, Inc., Research Division - MD of Oil Service Research*

Just want to start off on the offshore side. From an offshore perspective, shallow and deepwater rig count activity begins this downturn kind of at lower levels or well off prior cycle peak. So wondered if you could provide any color on how we should think about Schlumberger's offshore exposure entering this downturn versus prior cycles, whether as a percentage of revenue. Just some kind of ballpark way to think about offshore exposure for you all.

Olivier Le Peuch - *Schlumberger Limited - CEO & Director*

As you said, I think the -- we have not recovered, far from it, the level of activity we have deepwater before the previous downturn. The deepwater, particularly in the floating -- floater market has been recovering maybe 10% to 20% from the trough. That's about it for the last 3 years. There has been more rebounds, albeit not fully recovered on the shallow water market. So obviously, this is a big part of our international portfolio, as this is key to the industry.

How do I see it forward? I think -- I believe that the deepwater will decline as much as the shallow, albeit I think it will not decline to the same magnitude that it had in the last downturn. There is not so much to give. And there are quite a few large projects that are active today that will continue to operate. So I see both shallow and deepwater declining in months to come. And I think the indication and the number I shared before, double-digit to mid-teens decline, sequentially apply to both, actually. And I think we'll manage it, but I don't think that it will be the same magnitude, far from it, particularly for the deepwater.

George Michael O'Leary - *Tudor, Pickering, Holt & Co. Securities, Inc., Research Division - MD of Oil Service Research*

Okay. That's very helpful color. And then secondarily, just aside from now having Cameron in the fold and you guys sold the marine seismic vessels businesses, there's been a lot of changes, and you guys have been doing kind of yeoman's work to structurally change the business and become more fixed cost, CapEx-light. What notable way should we think about the Schlumberger portfolio being different, i.e., more resilient entering this downturn versus prior down cycles?

Olivier Le Peuch - *Schlumberger Limited - CEO & Director*

I think a major part of it will come from our exposure in North America, where we have made a decision to accelerate a new strategy, scale-to-fit and also asset-light technology access. That's a major element of resilience in this downturn that will impact positively our way forward.

And second, I would say, is our digital strategy that I think we have invested into the last downturn to give us a benefit. And certainly, that will be leveraged with what has happened with remote operations, automation and combination of executing our asset-light, particularly in North America and any, I would say, high-volume basins and some of it will be in overseas and Middle East or in China or elsewhere, where we will accelerate our technology access and supply strategy, and digital will complement this. So I believe that, going forward, we will gain better resilience from our exposure and support from digital and asset-light to technology access.

Operator

And next we have a question from Chris Voie with Wells Fargo.

Christopher F. Voie - *Wells Fargo Securities, LLC, Research Division - Associate Analyst*

I wanted to ask about the international margin side. So if you look back to the last downturn, 2014 plus, margins, it looks like held in quite well in the first year after the decline in activity. But then there was a pretty meaningful decline in 2016 as that year reflected more the new work that was awarded at lower prices and also cost absorption. Going into this one, if we assume a similar setup where most of the work that still happens in 2020 has been already awarded, but in 2021 it would be new work, I think it's a little bit different in that there's less pricing to give but potentially less cost available to cut as well. Could you maybe walk through how the margin profile going forward might compare this time around compared to last time?

Olivier Le Peuch - *Schlumberger Limited - CEO & Director*

Yes. It's difficult to comment until we, as I said earlier, we get better clarity on the second half of the exact mix of international adjustments as well as we get more clarity on when the COVID-19 crisis is getting an exit, a steady exit, so that it will give us better indication on 2021 outlook.

But this being said, and you point it out yourself, I think there is much less pricing concession and -- to concede in this cycle, so that we will get a little bit of a different profile of margin compression going forward. I believe that we will be able to fare better in this cycle, true cycle, our margin compression that we have had in the previous one due: to a lesser exposure to price decline, for one; two, better efficiency, including some element of digital in our ability to operate and flex our operating capacity with the activity. And I will say also possibly better resilience in some of the market that we mentioned before, where we have a stronger position.

Christopher F. Voie - *Wells Fargo Securities, LLC, Research Division - Associate Analyst*

Okay. That's helpful. And if I could get in a quick follow-up. In the release, you commented on how many fleets have been reduced in North America through the end of March. I'm wondering if you can give any color on how much further you might have cut at this point. And there's a lot of speculation that fleet count in North America might go extremely low. Just curious if you can give any color on what you're seeing just at the leading edge there.

Olivier Le Peuch - *Schlumberger Limited - CEO & Director*

Yes. We are seeing that the frac fleet going low, very low, but I think our trough, we anticipate will still be above 100 fleet, we believe, going forward. Now we will not recover from that going forward. We see some models arguing that the fleet count will go as low as 50 or 60 for the full market.

We don't believe this will be the case, at least to what we see and the indication we have. And we are aiming to maintain 10 to 15 or 10 to 12 fleet as a minimum operating in that environment and to have them active and deploying them through our fit strategy to the basin we favor and to the customer we believe are recognizing the performance we bring.

Operator

And ladies and gentlemen, we have time for one final question from Connor Lynagh with Morgan Stanley.

Connor Joseph Lynagh - *Morgan Stanley, Research Division - Equity Analyst*

I'm wondering if you could help me reconcile, it seems like based on your sequential activity commentary and your full year commentary that you expect the vast majority of the activity reductions to occur in the second quarter. Is that correct? And is that correct in both North America and international markets?

Olivier Le Peuch - *Schlumberger Limited - CEO & Director*

Yes. I think at the current assumption, with the visibility we have, I think there is a sharp decline. As I said, this quarter is the worst in terms of decline rate that the industry, I think, possibly will have ever seen in North America, clearly, and internationally, possibly. There will be further adjustments in the second half of the year in some markets, international market as well as maybe final rounding in North America. But I believe that the most decline is happening this quarter and will stabilize over the summer. So yes, I think the indication we gave, I think, are certainly helping us to be with lesser decline and more stable environment from the exit rate of Q2 into the second half at this point.

Connor Joseph Lynagh - *Morgan Stanley, Research Division - Equity Analyst*

Okay. That's fair. And in that context, it certainly seems like you guys have been proactive on cost management thus far. But relative to historical decrementals, should we think about second quarter being a bit higher relative to usual, just given all that's going on, and just maybe mitigating from there? Or how would you think about the path?

Olivier Le Peuch - *Schlumberger Limited - CEO & Director*

I think commenting on the -- as I said earlier, giving you guidance on the second quarter from the top line first is difficult because the international market has a level of disruption, 3% to 5% possible on the rig disruption due to restriction for the COVID-19, combined with some decision on the -- of change of tack with some national company that will have to adapt the new OPEC+ voluntary cut, it is making the top line very difficult to predict in the second quarter.

And when it comes to the bottom line, I think the abruptness of the adjustment can be and will be coped with, to some extent, in North America. But the lag into the ability to reduce the cost internationally, it's not the same due to many factors. Hence, the decremental in the next quarter will certainly be -- not be as good as we have historically done in a downturn.

Now through the cycle, through the cycle, I think our ambition is to fare better for the reason I mentioned before. But in the second quarter, I think it will be a messy quarter. At large from our activity prediction and our ability to adjust our cost structure or to react and to leverage the opportunity, we have also to uplift and get the most when there is an opportunity to upside. And there will be upside.

Thank you. So I believe with this, I think we need to close. So let me conclude by reiterating some key takeaway from this call.

Firstly, I believe that the company performed well during the first quarter despite a very challenging environment with excellent resilience and performance across operations, particularly in international market, and a very respectable financial result, particularly in the cash flow from operation. I feel very proud of the Schlumberger team, who have delivered these under such stressful conditions.

Secondly, as we were presented with growing uncertainty on global economic outlook and a fast deteriorating commodity price, we acted swiftly, reducing our capital spend program significantly, accelerating our scale-to-fit strategy approach in North America and taking exceptional measure to protect our cash and liquidity for the second quarter and beyond. Thirdly, and after in-depth review of forward-looking scenarios, we decided to adjust the dividend to a new level as a prudent capital management decision, providing us with the liquidity and financial flexibility we need considering the significant uncertainty in the quarter to come.

Finally, as we navigate this unprecedented industry downturn, we continue to prioritize key elements of our strategy, namely: the capital stewardship initiative to protect the company's financial strength; the fit-for-basin strategy to increase the performance impact in key basins for our customers and create sustainable differentiation; and finally, the acceleration of the industry digital transformation to support higher efficiency gains in operation for our customers and for our own success. May everyone stay safe and healthy. Thank you for your attention.

Operator

Ladies and gentlemen, that does conclude your conference for today. Thank you for your participation. You may now disconnect.