Simon Farrant  Schlumberger Limited – VP of IR

Good morning, good afternoon, and welcome to the Schlumberger Limited, Second Quarter 2019 Earnings Call. Today’s call is being hosted from Paris, France, following the Schlumberger Limited Board meeting. Joining us on the call are Paal Kibsgaard, Chairman and Chief Executive Officer; Simon Ayat, Chief Financial Officer; and Olivier Le Peuch, Chief Operating Officer. We will as usual first go through our prepared remarks, after which we will open up for questions.

For today’s agenda, Simon will first present comments on our second quarter financial performance before Olivier reviews our results by geography. Paal will close our remarks with a discussion of our technology portfolio and our updated review of the industry macro.

However, 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 10K 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 second-quarter press release, which is on our website.

Finally, after our prepared remarks, we ask that you please limit yourself to one question and one related follow-up during the Q&A period in order to allow more time for others who may be in the queue.

Now, I’ll hand the call over to Simon Ayat.

Simon Ayat  Schlumberger Limited – Executive VP & CFO

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

Second-quarter earnings per share was 35 cents. Excluding charges and credits, this represents an increase of 5 cents sequentially and a decrease of 8 cents when compared to the same quarter last year.

There were no charges or credits recorded during the quarter.

Our second-quarter revenue of $8.3 billion increased 5% sequentially, largely driven by our international operations. Pretax segment operating margins increased by 17 basis points to 11.7%.

Highlights by product group were as follows:

Second-quarter Reservoir Characterization revenue of $1.6 billion increased 7% sequentially due to activity increases beyond the normal seasonal improvements we typically experience in Q2. These increases were primarily driven by strong multiclient license sales and higher international Wireline activity.
Margins increased 81 basis points to 19.8% due to the increased contributions from higher margin Wireline activity and multiclient.

**Drilling** revenue of $2.4 billion increased 1% as a stronger activity in the international areas was partially offset by lower drilling activity in North America land.

Margins decreased 45 basis points to 12.4%.

**Production** revenue of $3.1 billion increased 6.5% sequentially primarily driven by higher international activity across all product lines.

Margins were essentially flat at 8% as the improvements in international margins from higher activity was offset by the effects of pricing pressure in North America land.

**Cameron** revenue of $1.2 billion increased 5% sequentially. Margins increased 94 basis points to 12.6%. These increases were primarily driven by OneSubsea® and Surface Systems.

The book-to-bill ratio for the Cameron long-cycle businesses was 1.2 in the second quarter. The OneSubsea backlog increased to $2.2 billion at the end of the second quarter.

Now turning to Schlumberger as a whole, the effective tax rate was 16.7% in the second quarter compared to 15.5% in the previous quarter. This increase was a result of the geographic mix of earnings.

In terms of cash flow, we generated $1.1 billion from operations leading to $459 million of free cash flow. Good performance for the second quarter despite the temporary delays in receivable collection that we experienced in certain regions.

Our net debt increased $335 million during the quarter to $14.7 billion. We ended the quarter with total cash and investments of $2.3 billion.

During the quarter, we spent $101 million to repurchase 2.5 million shares at an average price of $40.12. Other significant liquidity events during the quarter included capex of approximately $404 million and capitalized costs relating to SPM projects of $181 million. During the quarter, we also made $693 million of dividend payments.

Full-year 2019 capex, excluding SPM and multiclient investment, is still expected to be approximately $1.5 to $1.7 billion.

And now I will turn the conference call over to Olivier.

**Olivier Le Peuch** Schlumberger Limited – COO

Thank you, Simon, and good morning everyone.

Our second-quarter revenue increased 5% sequentially, driven by international activity. Our international business grew 8%, outperforming international rig-count growth of 6%, while North America revenue grew 2% sequentially.

I am pleased with the progress made and proud of our team’s performance, many of whom I met during the quarter on my visits to our global operations.

My comments today will include the Cameron business. I will start with our North America operations.

In **North America**, consolidated revenue was 2% higher sequentially, with land revenue growing marginally, while offshore grew 10%. Production revenue increased 3% due to higher cementing revenue and improved OneStim® hydraulic fracturing fleet utilization, in response to market demand. These positive factors, however, were offset by the spring breakup in Canada and lower demand for drilling services as a result of the 5% decline in US land rig count.
**North America land** remains a challenging environment. Indeed, E&P operator focus on cash flow has capped activity and continued efficiency improvements have also reduced the number of active rigs and frac fleets—so far without major impact on oil production.

In response, we continue our returns-focused approach, deploying new technology and working closely with the major independents and IOCs that are industrializing the development of unconventional shale resources at increasing scale.

Our competitive advantage in North America land operations continues to build on our differentiation in technology and efficiency.

Surface efficiency is one area where we have made significant progress. One new technology is the MonoFlex*, our new fracturing fluid delivery system, which significantly speeds up multiwell pad rig up, and reduces nonproductive time and safety risk.

Reservoir efficiency is another key issue for our customers. We are seeing increasing take up of technologies that help customers design and deploy completions that mitigate or avoid parent-child well interference. Two such technologies are BroadBand Shield* and Fulcrum* cement.

BroadBand Shield innovative fracture control technology limits the risk of communicating with or fracturing into nearby wells. By the end of June, BroadBand Shield services had been used on nearly double the number of stage when compared to all of [2018†].

Fulcrum cement improves stimulation efficiency by helping keep fracturing fluid in the target reservoir zone by improving the cement bond. In the second quarter, Fulcrum technology deployments tripled versus the previous quarter and doubled in the first half when compared to full-year 2018.

In our other North America land businesses, Surface Systems grew 5% sequentially and 6% year-over-year. This was driven by the frac tree rental business, benefiting from MonoFlex technology and integration with OneStim. Artificial Lift was strong with sequential ESP sales growth of 5% from new technology and fit-for-purpose pump systems that outpaced low-flow service revenue.

**Offshore North America**, revenue increased 10% sequentially, primarily due to strong WesternGeco® multiclient license sales. While offshore rig count has yet to increase significantly, customer interest is high, indicating stronger activity coming in the second half of the year.

With the North America market remaining challenged in the coming months, we continue to protect our operating margins by focusing on our agile execution and operational efficiency.

In the **international markets**, we continue to witness broad-based activity growth. More than half of the international GeoMarkets posted high, single-digit revenue growth or better year-over-year. This was mainly driven by rig activity, but our performance was also enhanced by key GeoMarket activity, exceeding normal seasonal rebounds.

The improving exploration trend of last quarter also continued. Wireline offshore exploration revenue grew by a third, during the first half of the year with a sizeable increase in new technology sales. As offshore momentum builds, shallow-water rig activity grew by 14% in the first half and deepwater activity is strengthening as new projects are sanctioned.

Cameron international revenue grew significantly quarter-over-quarter, supported by leverage of the GeoMarket structure. This is the fifth consecutive quarter where the total Cameron book-to-bill ratio was greater than one.

This was also the first quarter since we acquired Cameron, where all four product lines, both long and short cycle, grew revenue sequentially.
Consolidated revenue in the **Latin America** area increased 12% sequentially from 21% revenue growth in the Mexico & Central America GeoMarket. WesternGeco multiclient seismic sales had a strong quarter as exploration investment continued to gain strength offshore.

In the Latin America North GeoMarket, revenue was driven by SPM activity in Ecuador, with the Shaya project continuing to improve from strong execution on waterflooding recovery.

**Europe/CIS/Africa** area consolidated revenue increased 11% over the previous quarter, on the back of seasonal activity recovery in the Northern Hemisphere and rig activity increase in Eastern Europe.

In the UK & Continental Europe GeoMarket revenue exceeded expectations by growing 28% sequentially, with all product lines experiencing growth. In the Russia & Central Asia GeoMarket, we experienced 12% revenue growth on seasonal recovery with the majority of product lines growing revenue high single digits or better.

Consolidated revenue in the **Middle East & Asia** area increased 5% sequentially, with Far East Asia & Australia GeoMarket leading the way with 19% sequential revenue growth, mostly driven by offshore activity.

Elsewhere in the area, the seasonal activity recovery in China was partially offset by lower activity in Malaysia and India. Iraq was lower on completion of an IDS project, and in Saudi Arabia, revenue increased on sales of intelligent completions. In the Middle East, the four Cameron product lines delivered double-digit revenue growth driven by increased activity and share gains across the portfolio.

As discussed in our last earnings call, we have initiated a systematic process to address underperforming business units and contracts in the international markets.

I am pleased to say that more than two-third of our product lines experienced sequential revenue growth in the international markets this quarter, and with each of them having expanded their margins. A few business units, however, continue to be highly dilutive to our international margins, and we are looking at their performance very closely.

We continue to work with our customers to resolve underperforming contracts, exploring ways to eliminate waste through joint planning or execution, or improving terms and conditions to avoid unnecessary cost or excessive risk. Most customers are very receptive to this, as they see the benefit of increased operational performance and are increasingly concerned about securing supply of technology and resources for future activity uptake.

These focused efforts are already producing visible improvements in our international margins.

As international activity increases, our deployment of capex is also prioritized towards the business units with higher returns. This dynamic capital deployment is creating some tightness in the market, which is another catalyst for pricing improvements.

To conclude, we continue to see high, single-digit revenue growth internationally—excluding Cameron—consistent with previous guidance. At the close of the first half of 2019, international revenue has increased 8% year-over-year while North America land revenue has declined 12% year-over-year. These results are in line with our view of the normalization in global E&P spending.

And with that, I will turn the call over to Paal.

**Paal Kibsgaard** *Schlumberger Limited – Chairman & CEO*

Thank you Olivier and good morning everyone.

I will start by adding a few comments to complement the geographical review of the quarter provided by Olivier and highlight how the current market developments are favorably impacting the opportunity set for Schlumberger.
Let me begin with the macro environment where the market sentiments remain balanced.

On the demand side, the 2019 agency forecasts have been reduced slightly on global trade fears and the current geopolitical tensions but we do not anticipate any change to the structural demand outlook for the mid-term.

On the supply side, we continue to see US shale oil as the only near- to medium-term source of global production growth.

However, the consolidation among North American E&P companies is further strengthening the shift away from growth focus towards financial discipline, while at the same time driving increased focus on HSE, technology adaptation, more collaborative business models, and it will also potentially dampen the large variations in investment levels throughout the cycle.

These effects, combined with the recent decision by OPEC and Russia to extend production cuts through the first quarter of 2020, are likely to keep oil prices range bound around present levels.

Although the markets are well supplied from projects sanctioned and partly funded prior to 2015, this source of supply additions will start to fade in 2020, thereby further exposing the accelerating decline rates from the mature production base around the world.

In addition, while the number of new FID approvals in 2019 are likely to increase again for the fourth consecutive year, their size and number account for supply additions far below the required production replacement rates.

We therefore maintain our view that international E&P investment will grow by 7 to 8% in 2019—a figure confirmed by the increasing international rig count and the growth seen in our international business in the first half of this year.

In contrast, the cash flow focus amongst the E&P operators confirms our expectations of a 10% decline in North America land investments in 2019.

This means the welcome return of a familiar opportunity set for Schlumberger.

For the first time since 2012 and 2013, we see high, single-digit growth in the international markets, signaling the start of an overdue and much needed multiyear international growth cycle.

This growth is taking place in our backyard, where our technology performance and longstanding presence is highly valued and where our market share and profitability gives us an earnings potential up to four times that of our closest competitor.

Our leading international market position is built on our scale, footprint, and extensive technology portfolio, and further strengthened by the significant efforts we have made to evolve the company over the past five years along the following three directions:

The first is our internal transformation program that has modernized our workflows and our organizational structure by creating stronger and more professional support functions with cutting-edge planning, execution, and collaboration tools.

This has allowed us to significantly improve the utilization of our asset base and reduce our operating costs through improved planning, distribution, and maintenance.

At the same time, we have been able to deploy our people and expertise more effectively.
All of this has created structurally lower capital intensity of our traditional product lines and lower working capital throughout our technology offering.

This will together improve our ability to generate incremental margins and free cash flow as international activity continues to increase and pricing headwinds gradually become tailwinds.

The second major direction we have been pursuing is our digital strategy, which is built on the pillars of a cloud-based applications platform, an open data ecosystem, and a broad range of edge architecture solutions.

Altogether, this represents a complete platform ready to support our customers in accelerating the digital transformation of our industry.

After years of R&D investments in line with this strategy, we are now introducing several applications to the market with more to follow in the coming years:

Within **Reservoir Characterization**, we recently introduced the GAIA* platform at the EAGE conference in London. GAIA uses the power of DELFI* to enable explorationists to discover, visualize, and interact with all available data in a basin without compromising resolution or scale.

In **Drilling**, our OneDrill® platform is the first digital drilling system that is fully designed for integration and automation. It spans our drilling software applications, the automation-ready Rig of the Future, and a range of new downhole hardware that together will redefine the efficiency of land drilling operations.

And spanning **Production** and **Cameron**, our recently announced Sensia joint venture with Rockwell will, upon closure, be the first fully integrated oilfield automation provider focused on production measurement solutions, domain expertise, and automation.

The third of our focus areas in recent years has been to reduce the capital intensity of our business after we invested actively to build out the company in the early part of this extended downturn.

Our efforts to reduce capital intensity began with our decision to exit the marine seismic business in late 2017 after our advanced geophysical measurement technology failed to deliver the needed financial returns over a number of business cycles and with no improvements in sight.

Another recent example is the divestiture of our land drilling rig business in Kuwait, Oman, Iraq, and Pakistan to the Arabian Drilling Company, a minority joint venture we have had with our Saudi Arabian partner TAQA for more than 50 years.

Through this transaction, we will eliminate the need for capital investments into this rig fleet, while maintaining access to the rigs for our integrated drilling operations in the Middle East.

We will also follow a similar capital structure but with other partners for the deployment of the Rig of the Future where we now have introduced the first rigs into US land.

We have also announced our plans to exit the businesses related to Fishing & Remedial services, DRILCO, and Thomas Tools that came with the Smith acquisition in 2010, as these business lines are capital intensive, generate a lower return on capital, and are not core to our drilling operations.
Beyond our recently announced transactions, which will produce approximately $1 billion of gross proceeds in 2019, we have also stated our intentions to monetize partly or fully our two SPM projects in Argentina and Canada to demonstrate our ability to generate value from the assets we take under management.

And while we have decided not to undertake new SPM projects that involves any period of negative cash flow, we still see a significant opportunity to deploy the technical and commercial expertise we have developed within SPM through less capital-intensive contractual models.

On this basis, we have signed an MOU to work on a large integrated project in the OML 11 block offshore Nigeria, where we will act as the technical and project execution partner, with funding provided by a third party.

This SPM-lite project, which involves no Schlumberger capital investment, is our preferred SPM business model going forward.

We have also recently entered into a similar SPM-lite project to manage the Awali Field in Bahrain.

In addition to the divestitures and the new SPM-lite model, we have also structurally lowered the capital intensity of our core business over the past five years, where we today run our operations with a capex requirement of around 5% of revenue compared to historic levels of 10–15%.

In addition to the major directions I have just described, our day-to-day execution focus continues to be on further improving the quality of service we provide to our customers, optimizing the deployment of our resources as we start to see shortages in several basins, and to address our underperforming contracts and business units around the world.

Altogether, this should enable us to restore profitability to our target levels and also to drive incremental margins and free cashflow going forward.

Let me conclude my remarks with a few comments as we transition to a new Chairman and new CEO of Schlumberger.

Earlier today, we announced the appointment of Mark Papa as our new Chairman and Olivier Le Peuch as our new CEO.

I have spent the past decade as COO, CEO, and more recently as Chairman of Schlumberger, and while it has not necessarily been the friendliest of decades in terms of the business environment, it has been a fantastic journey and a great honor to be trusted with the responsibility to lead this amazing company, which is made up of the best people in our industry.

One of the most important duties of a sitting Chairman and CEO is to ensure an orderly succession process to the next leader, which in my mind involves several key responsibilities.

The first of these is to pick the right time to step down.

After a decade at the top of the company, with the deepest and most challenging downturn in our history behind us, and with the international upturn starting to take shape, I therefore asked our Board to start the succession process exactly 12 months ago.

The second responsibility is to fully support the Board as they run the search and selection process for the leadership succession.
In this respect, I have provided input to the board on a broad range of topics, including candidate assessments.

The third is to support and guide the incoming CEO, as he or she gradually takes over as the new leader of the company, and it has been a pleasure managing side-by-side with Olivier over the past six months.

And the last responsibility is, in my mind, to walk off the stage as soon as the successor is ready to take over.

This provides the needed freedom and space for the new CEO to drive the changes he or she sees fit, which is the overarching goal of any change in leadership.

This is why I recommended to the Board that I do not stay on as Chairman.

I will still be attached to the company for a period, ready to be an advisor to Mark and Olivier as required but beyond that I will step completely into the background.

In closing, I would like to thank the entire investment community for the enjoyable and constructive working relationship we have had over the past decade.

I would also like to thank my management team—you are all amazing—and also the Board of Directors, our entire organization, our customers, and our partners for their support.

I will in many ways miss being a part of all of this, but it is now time to move on to the next chapter.

Thank you, we will now open up for questions.

*Mark of Schlumberger or Schlumberger companies.
†On the conference call, the speaker unintentionally stated 2019. The intent was for the statement to refer to 2018.