OVERVIEW:
Co. reported 4Q19 revenues of $8.2b and EPS (excluding charges and credits) of $0.39.
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 up to your questions.

As always, before we begin, I would like to remind the participants that some of the statements we'll 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 & Director

Thank you, Simon, and good morning, ladies and gentlemen. I’m going to comment on 4 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 6 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 quarter 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 2 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 resilience 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 decline in revenue, a seasonal impact marginally higher than in recent years. Also, we anticipate a low single-digit sequential declines 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 Libya. Also, Argentina activity remains muted due to the difficult investment climate.

Looking now at the macro. The recent easing of the U.S.-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.

U.S. 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 progress.
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 the 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 divestiture, 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 4 quarters with contributions from new technology adoptions, stronger offshore activity and digital transformation. Offshore activity will increasingly grow towards deepwater basins in 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 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 3 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 to 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, 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 model -- asset-light model to other business line 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 action 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 decision 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 market.

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 hand over to Simon Ayat, I would 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 adviser 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’ll 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 $0.39. This represents a decrease of $0.04 sequentially but an increase of $0.03 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 operation. 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% (sic) [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 the 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 (sic) [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 2 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 the Q&A, I’d 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.

And now back to operator.

**QUESTIONS AND ANSWERS**

Operator

And our first question comes from the line of James West with Evercore ISI.

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

Maybe first for Simon Ayat. Thanks for your many years of help, guidance, and certainly, wisdom. And you will be missed.
Simon Ayat - Schlumberger Limited - Executive VP & CFO

Thank you, James. Thank you very much.

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

So Olivier, as we think about the second half of 2020, you talked about revenue quality improving clearly with international and offshore. That’s a much better mix of business for Schlumberger for the industry and in general. Could you maybe expand a bit on that and what it could mean for both your revenue growth, but also continued margin improvement in your business?

Olivier Le Peuch - Schlumberger Limited - CEO & Director

No, thank you, James. So I think back to what I shared during my prepared remark. We foresee that the year-on-year growth internationally will be in line and slightly better than the current mid-single digits when we exclude the effect and impact of the divestiture we had. That has an impact of about 2% internationally. I also reiterate the fact that I foresee that the second half will be more robust than the first half on the back of offshore, both the offshore deepwater particularly, where we see in the projection engagement we have with our customer, significant upside in the later part of the year due to exploration as well as development. So the impact of this, we expect will result into not only 5% or better growth for the year, but also margin expansion in excess of 100 bps for the full year internationally.

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

Okay. That’s very helpful. And then, I guess, if we think about the full year, and I know you guys don’t give full year guidance, but it seems to me that we’ve got a bit of a hockey stick going into the back half. And so as we think about where the -- I guess where expectations are, both your internal expectations, our expectations, et cetera, do we think that you could -- that the second half shrink makes up for what will be a little bit of a weaker than potentially expected first quarter?

Olivier Le Peuch - Schlumberger Limited - CEO & Director

Yes, the first quarter, indeed. And you have heard my prepared remark highlighting the high single-digit sequential decline for International and Cameron, the low single-digit decline in North America. All of these will combine due to the seasonal effect, the transition from a good revenue mix in Q4 into Q1 into high decrementals into Q1. So that is our expectation.

However, I think from the -- we'll not wait the second half. I think from the second quarter, we expect the mix to improve, the execution of our NAL strategy to start to bear fruit and the international outlook to go back to normal seasonality, so the combination of which should provide the support for growth of earnings from -- sequentially from Q2 onwards.

Operator

And next, we go to Sean Meakim with JPMorgan.

Sean Christopher Meakim - JPMorgan Chase & Co, Research Division - Senior Equity Research Analyst

I’d like to maybe just continue a bit more on the framework for 2020, maybe just expand on some of those thoughts. So we’re looking for margin expansion across both North America and international. Can we unpack a little bit of what's building your confidence that we're making the turn here on margins? Given the emphasis on the back half of 2020, how much would you say is confidence in what's happening in the market from more a macro perspective versus the impact of your self-help initiatives?
Olivier Le Peuch - Schlumberger Limited - CEO & Director

I think, to give you more light on this, Sean, I think I would like to contrast North America and international. I believe the international market is poised for further growth. And I think we’ve come out on a mid-single digit, is poised for further offshore and mix, including later part the deepwater, both of which combine to present the good, favorable mix that will help us execute. So internationally, I believe that the combination of our self-help, through capital stewardship program on underperforming business units, continuation of our transformation program that has had positive impact onto the service business line incremental, and the effect of our technology adoption on those favorable offshore market as well as international digital transformation, will all combine to this 100 bps-plus expansion in international. So we have some confidence there. Obviously, all depends on the top line and activity growth, but we have confidence in this shape and into the favorable revenue mix.

By contrast, North America will depend on our execution of our NAL strategy. There is a downside risk as similar to last year. There is some uncertainty on to the market spend and on to the pricing headwinds that could affect and delay some of the benefits that we'll collect from the NAL strategy. But all in all, both for different reasons, more self-help and NAL execution strategy in North America and market conditions as well as continuation of our progress internationally will combine to shape up our margins next year.

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

Understood. That’s very helpful. Maybe just to continue on North America. A couple of clarifications and just maybe to go a little bit deeper. It sounds like you said half of your horsepower is going away. Is that being stacked with the potential to come back? Or are we scrapping that horsepower? And maybe just if we could clarify the difference there. And maybe just -- I hoping to talk about the rest of the product and service lines. Are there potential for other divestitures or other transformative type of transactions that you're considering? Maybe just hear about the rest of the portfolio in North America as well.

Olivier Le Peuch - Schlumberger Limited - CEO & Director

Yes. I think you have heard the comment we made and I made in my prepared remarks. We have decided to cut our deployed capacity by 30% when contrasted with the fourth quarter of 2019. And we will self impose this as a cap going forward. That results into about 50% of our capacity that we don't intend to deploy. And I think whether it's cold-stacked or unemployed, it will not be deployed going forward as we are repurposing our -- and restructuring our business around 3 basins or on 3 large hubs to serve the most active basins. And as such, we will not expect to increase our capacity.

Beyond this, you have heard the choice we made to exit coiled tubing onshore, to evaluate divestiture of rod lift, and to further accelerate our technology access fit-for-basin strategy to replicate the success of D&M. All of this combined will result into a top line decrease faster than the market due to the self-imposed cap on capacity and as well as the exit of some business units, but also will result into high grading our portfolio margins as well as benefiting from the success on technology access business model, asset-light model to replicate D&M and expand. And that is what we expect to see.

Operator

Next, we go to Scott Gruber.

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

Just staying on the NAL outlook for North America. You provided the market outlook and commented that there will also be an impact from scaling down and exiting some businesses. Any potential additional color that you can provide on a range of additional impact from the strategic shift on the top line in North America in 2020 relative to the market?
Globally speaking, I think we gave the guidance that North America land will see -- will see a market contraction of high single digit to low double digits. On the back of what we are executing, we believe, if everything is executed, that will be in the mid-teens to high teens -- in the mid-teens decline from the same scope in North America land, in the same scope, okay? So that’s the guidance I can share with you, okay? This extra contraction that we anticipate will be a few percentage points of further decline compared to what we see in the market.

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

Got it. And obviously, you’re exiting the more capital-intensive business lines that oftentimes tend to be more CapEx-intensive. Can you just talk about the cash dynamics in the business as you go forward in 2020? Are you near neutral on the net cash you think you’re going to be able to generate in the business in light of the restructuring, just given the cash consumption from some of these product lines? Is there a hit? And if you could just provide some color on that front as well?

Simon Ayat - Schlumberger Limited - Executive VP & CFO

Sorry, Scott, is this your question about North America or in total?

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

Yes. Well, in North America, how -- is OneStim, for instance, cash generative today such that you lose cash with the scale down? Or is it consuming cash today such that you’d actually save on cash given the scale down?

Simon Ayat - Schlumberger Limited - Executive VP & CFO

No, we -- okay, Simon here again. We are expecting to be better than neutral on OneStim. And actually, it’s not true that OneStim consumed cash. OneStim is -- we’ve been managing it to be neutral, but will be better than neutral going forward.

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

So the restructuring helps the cash profile of OneStim.

Olivier Le Peuch - Schlumberger Limited - CEO & Director

Absolutely, yes.

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

Got it. Important clarification.

Operator

Next, we go to Angie Sedita with Goldman Sachs.
Angeline Marie Sedita - Goldman Sachs Group Inc., Research Division - Senior Managing Director

Simon, I echo James’ comments, and I wish you the very best in the next chapter of your career. And Olivier, we appreciate the details very much on your call. This is great to have the granularity that you provided today, so this is very helpful. So I would add on the -- or the North America commentary, if you think through 2020, comment a little bit on international margins, thought around North America margins under the scale-to-fit strategy and how we should think about margins over the course of 2020 as you see lower revenue growth, but obviously, a margin impact. And how we can think about EBITDA in that context?

Olivier Le Peuch - Schlumberger Limited - CEO & Director

Yes. I think, Angie. So yes, to reiterate what I shared before, I think the margin progression in North America will result from 2 critical action: One is the high grading of our portfolio through either capacity restriction, exiting some underperforming business unit or basin location, as well as exiting or divesting some part of our business as well that were not accretive to our margin or to our cash flow. And secondly, combined with accelerating what we call fit-for-basin, what we call technology access. That is an asset-light model aiming at franchising some of our technology to local players, regional players, basin players, and complementing our service access, service business model with an extended market reach with technology sets. So this has proven to be effective, satisfying our customers and expanding our market last year with accretive impact onto the margins of our segments. So we will continue to accelerate this. So the combination of these 2, what we expect to see impacting margins in North America.

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

Okay. So -- and then further around North America and OneStim, do you view OneStim as core to your operations? Do you think that you need to be in OneStim longer term? And what other options for either rightsizing the business or strategic partners do you see for that business overall in North America for 2020 and beyond?

Olivier Le Peuch - Schlumberger Limited - CEO & Director

As we have said before, we believe it's critical that we fully participate into the North America market first. It's a market that is here to stay. It's a market that will, over time, come back to use and align with our reservoir technology and capability. However, we believe that we will continue to evaluate alternate ways to participate into this market. For now, we have decided that we rightsize, we scale to fit and we refocus our OneStim operation to be fit, lean, and more profitable.

But we'll continue to observe the market opportunity. As we have said, all options are on the table. And when and if an opportunity arise with the right partner and the right economics, we will take the step and look at alternate way to keep participating into the market and yet exit this.

Simon Ayat - Schlumberger Limited - Executive VP & CFO

Thank you, Angie, for your comments. Simon here.

Operator

Next we go to David Anderson with Barclays.

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

So Olivier, you talked about your strategy of an asset-light, more technology-driven businesses in North America. It seemed to fit pretty well with digital being a primary growth driver, as you talked about. You made a number of agreements around DELFI late last year. I was just wondering if
you could just talk about how you see the progression of revenue over the next several years. I guess, that will mostly be in the Reservoir Characterization business. Is it fair to assume that maybe the top line comes down a little bit initially as you move more towards the subscription-based models? And you talked about maybe this business doubling, but I'm just kind of wondering if you could just kind of give us maybe a little bit of a road map of kind of what this looks like over the next few years?

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

Thank you, Dave. I'm not sure I will give you a detailed road map today, no. But I will comment on some of the remarks. So indeed, we have stated, and I believe we are still setting and having a clear ambition to double the digital revenue in the next few years. We do not anticipate that the transition to software as a service will materially or will actually negatively impact our revenue trajectory. We have had a pause somehow in our digital in the last couple of years, revenue growth, more due to the market condition as well as the fact that our DELFI offering was not having the readiness and the breadth to expand into the marketplace.

So this has been addressed. I think the SIS Forum that did happen in September gave us the opportunity to not only commercialize 4 new DELFI products, but also create a step change and a new momentum in the industry with our open strategy. So a combination of this DELFI new product and the open strategy has carried the momentum that has attracted the engagement with customer, and we have seen one of the engagement that has materialized with Exxon for drilling digital products in North America. So you will see our digital opportunity to be communicated in the coming weeks and months, both internationally and in North America, and both in workflow or product deployment or in edge operation. So we are working hard on several fronts with several customers, and we're making progress. And I think the leadership we have established is recognized across the industry, is valued and will only accelerate going forward.

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

If you don't mind, I'd like to switch gears. If I could just kind of talk about the Middle East for a moment here. You had a very good quarter by all accounts in your commentary on the progress in the Middle East. But it kind of comes with a bit of caution on your first half, the remarks about the OPEC agreement. I was just kind of curious on 2 fronts here: Isn't much of your business natural gas-driven so -- or maybe your mix is a little bit different. But I would have thought the natural gas side would have held up. And then secondarily, if you could just comment on the status of the LSTK contracts. I know it's been a big focus of yours to try to get those fixed. If you could maybe just give us a little insight of the progress there.

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

First, to answer your question on the Middle East market and gas, the Middle East market, I think, is still very steady, and I think it's poised for further growth. However, based on the -- on some of the cap of OPEC+ requirements, on occasions, we see some of the developments that have been started to be either paused or delayed in the context of caps.

Now the gas is indeed very active. Gas development project are very active, particularly offshore in the Middle East, and this is not slowing down. This is actually accelerating, and we fully participate into this.

Coming into the LSTK. Indeed, the LSTK has been under scrutiny, be it in Middle East or across the world. And I'm happy to report that we have made a steady progress to stabilize and improve the operational performance and also to address on occasion, specifically with some customers, be it Middle East or elsewhere, the specific contractual terms and liability that we believe were not appropriate for -- when contrasted with risk or the engagement we had. So we have made progress on those. I'm pleased to report that every time I go to Saudi, in particular, I'm getting increasingly positive feedback from the customer. And I'm pleased with the steady progress with my team.

**Operator**

And next, we go to the line of Kurt Hallead with RBC.
Kurt Kevin Hallead - RBC Capital Markets, Research Division - Co-Head of Global Energy Research & Analyst

I echo everyone's comments on Simon. And Simon, I look forward to frequenting your restaurants.

Simon Ayat - Schlumberger Limited - Executive VP & CFO

Thank you very much, Kurt.

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

Olivier, thank you so much for all the great color this morning with respect to the outlook on the macro and the specifics. And I think the one area that I was looking for a little bit more color on myself related to the margin dynamics in North America and the magnitude of the potential margin improvement on a year-on-year basis. And I kind of ask this in the context of, as you know, you don’t report margins on a geographic basis. You report them on a segment basis. So really just trying to get some sense on how to think about the North American margin improvement on a year-on-year basis.

Olivier Le Peuch - Schlumberger Limited - CEO & Director

Yes, I think I can reiterate some of the comment I made. I think the level of margin improvement will be 2 level. I’m not talking about pricing. That is a headwind that I think we have estimated to be 2% or 3%, particularly focused on the pressure pumping, excluding negative expansion there. We believe that the 2 levels will be the high grading of our portfolio to capacity cap and/or to exit and the change of business model to technology access. So the impact of those 2 set of actions will, we believe, shall accelerate and expand our margin by more than 100 bps in North America on the way to our double-digit returns that we have set in our strategy, the pace of which, I think, could be accelerated if the market conditions are favorable. Could be a little bit seeing headwinds if the pricing get too deteriorated. But we are confident that we will have triple-digit basis points improvement in North America at large.

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

That’s really helpful. And then just to follow up on the on the SPM monetizations. Can you give us some color on how things might be progressing? And how you might see the opportunity to monetize some of those assets in 2020?

Olivier Le Peuch - Schlumberger Limited - CEO & Director

Yes. As we mentioned in the last earnings call, I think the process of asset divestiture for the Bandurria Sur in Argentina actually is progressing very well. So we are in the advanced stage of the divestiture there and with closing anticipated during the first quarter of 2020, after all standard closing conditions are met. That’s the situation and the progress we have.

Operator

Next, we go to Byron Pope with Tudor, Pickering, Holt.


Just have one question on capital allocation. Now that you’re evaluating all of your investments through a return on capital versus growth lens, I would -- and thinking about the 2020 guidance as CapEx is flattish year-over-year, I would think that North America would be down directionally.
So it sort of implies that you’ve got some attractive opportunities to allocate capital internationally and offshore in 2020. So I was not asking for specific color, but just wondering if you could maybe give a little bit more of a sense for the investment opportunities that you guys have, both internationally, onshore as well as globally offshore in 2020.

Olivier Le Peuch - Schlumberger Limited - CEO & Director

Yes, indeed, I think we’ll comment on that. Why don’t you comment on this, Stephane?

Stephane Biguet - Schlumberger Limited - VP of Finance

Sure, sure. So as you said, our 2020 CapEx, when you exclude multiclient and our APS investment will be more or less in line with what we spent in ’19. So it’s $1.7 billion. What will be different, however, is how we will allocate this across our different businesses as we apply our new capital stewardship process. So to illustrate this, the CapEx that will go to our international businesses will increase in 2020 to 85% of the total spend. As a reference, this percentage was just above 55% 2 years ago, so it’s a significant switch. And also, we will redirect a large portion of that international CapEx to business units that are accretive to our overall margins, and we’ll have a specific focus on new technology that generate premium pricing.

Operator

Next we go to Marc Bianchi with Cowen.

Marc Gregory Bianchi - Cowen and Company, LLC, Research Division - MD

Following up on the CapEx question and as it relates to APS, what should we be anticipating for CapEx in 2020 for APS? And could you talk about how that would be with or without the Argentina divestiture?

Stephane Biguet - Schlumberger Limited - VP of Finance

So I think I’ll take that question as well. Stephane here. But just before we discuss 2020, I just want to quickly take us back to ’19. Our total investment for APS was $780 million, and this was already down $200 million compared to 2018. We said in the past that we’ll be managing our APS portfolio on a cash flow positive basis, and cash flow is really the focus. We modulate the level of investment accordingly. And I can confirm that with this $780 million CapEx in ’19, we did generate quite a bit of positive free cash flow, clearly, even a bit above our initial expectations.

So now when you get into 2020, we have finalized our plans for each of our APS projects, and I can say that the free cash flow from APS will increase beyond 2019 significantly, actually. So the corresponding level of investment will clearly be lower than in ’19, particularly on the back of the Argentina divestiture. But we will maintain the level of investment that’s necessary to generate that positive cash flow.

Simon Ayat - Schlumberger Limited - Executive VP & CFO

I want to add a little bit more on the cash. I know the question is around the APS investments, but I wanted to highlight the strengths that we have seen in ’19, that it will continue in 2020 on cash generation. As I said in my prepared remark, the total free cash flow reached $2.7 billion. And when you look at our commitment on the return of capital, be it dividend or the buyback that will continue, it’s more or less met by our generation of free cash flow.

In addition to this, when you look at the investment -- the divestment that we made, the proceeds that came from the 2 transaction, we were able to reduce the debt, and we ended up with $13.1 billion. So going forward, this will continue to be a focus. And I took over to mention this fact...
because there was a lot of questions in the past on our meeting the dividend cash flow requirement. And as you see in ‘19, we were able to mitigate the situation and to get to a point where we are within just tens of millions of dollars.


Right. My follow-up is unrelated, on lift. Olivier, you mentioned potentially some changes with the rod lift strategy in North America. I'm curious if you could talk a little bit more about the outlook there. Is it something that's just specific to the rod lift business and the capital intensity? Or are you seeing some sort of a structural shift in demand?

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

No, I think this is very specific to the capital-intensive of the rod lift-specific business, where we believe our strength as an organization, our technology focus as an organization is not necessarily best aligned with the support of this business. And we believe that there are partners that could and will certainly, with a focused approach, being better placed to execute this rod lift business in North America. So that's very similar to what we considered in the past for Drilling Tools, where we reached a decision to divest. Here, we are evaluating that decision.

**Operator**

Next we go to Bill Herbert with Simmons.

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

Simon, can you talk about your free cash flow margin? Do we attain the double-digit margin in 2020?

And then secondly, can you also comment on expected working capital performance for the first half of this year? Last year, that was a challenge. You consume a lot of cash in Q1 and then Q2 as well. I'm just curious as to what your expectations are for working capital in the first half of this year.

**Simon Ayat** - Schlumberger Limited - Executive VP & CFO

Sure, Bill. I'm going to cover a bit about '19 and give you an indication going forward. But Stephane will also free to comment on 2020 onward.

As far as our profile is concerned, and you know this, the first half of the year, we consume a bit of liquidity in the working capital. First quarter normally, there is a consumption because of compensation-related payments on year-end bonuses that comes during the first quarter. And as you saw in ‘19, during the second half, we improved this working capital, and we produced the free cash flow required.

2020 will be similar profile. In the first quarter, we're going to consume cash in the working capital. But as we have declared, we are improving our free cash flow generation. And the -- our expectation in 2020 will be 2019 or even better. So this is where we are. The road towards the double digit is well defined. And I think implementation of the strategy will get us over there.

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

Okay. And then -- and with regard to the actual free cash flow margin expectation for 2020, it doesn't sound like you're going to hit double digits for the year, but you think that the margin will be improved. Because I think you were already at 8% for 2019, if the math is right?
Simon Ayat - Schlumberger Limited - Executive VP & CFO

Your math is correct. I mean, the double digit is an objective. And probably in 2020, we will not be reaching there.

Operator

Next, we go to the line of Connor Lynagh with Morgan Stanley.

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

I wanted to ask about Cameron and OneSubsea, in particular. Obviously, some very good orders in the quarter here, but there was a comment around some of the project margins coming in a little lower. Is that an onetime dynamic in the fourth quarter? Is that sort of symptomatic of what margins look like on a go-forward basis? Just wondering if you could address that.

Olivier Le Peuch - Schlumberger Limited - CEO & Director

Let me comment on this. So I think we have -- the OneSubsea, indeed, I think, has been very successful in the fourth quarter to raise their booking with success, particularly on the back of this Ormen Lange large integrated project for subsea -- subsea processing. And I think they are still the leader there and will keep this leadership going forward. So I'm very, very confident and very happy and very pleased with the performance on OneSubsea.

Now looking at the margin of Cameron, I think, this is due to 2 factors: Indeed, the long-cycle margin have been for a while—and I think we have been very clear on this—under margin compression. The backlog that both OneSubsea and Drilling, to a lesser extent, have booked in the last couple of years have been at reduced margin due to the market condition and pricing condition that have deteriorated. This has been offset partially or fully in the last 2 years by short-cycle business that did benefit from the growth in NAL until last year and did offset and kept the margin very healthy.

Now the combination of low North America activity, pricing headwinds for the long -- the short cycle, combined with this backlog, have created a condition of the margin we are seeing. This is not here to stay. It will take a couple of quarters to recover, but I do expect the margin of Cameron over time and certainly, in 2020 to recover and to grow compared to '19 and go back to '18.

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

That makes sense. Just in terms of the North America realignment, is there a significant impact we should think about on cost savings or scaling down in Cameron? Or is that largely related to traditional oilfield services?

Olivier Le Peuch - Schlumberger Limited - CEO & Director

It’s largely related to traditional oilfield services. I think as I commented before, the Cameron performance have been strong until recent time. I think last quarter was a bit of a challenge due to the severe trough. Now for some of our short cycle, we will still continue to adjust and make sure that we are structured to be aligned with the market condition, both pricing and with the size of the market. And we will continue to expand our Cameron franchise internationally as we have been successful. So I would expect that the short-cycle will be adjusted structurally to reflect the market condition. And we will divert and increase our focus on international as we have done in the last couple of years.
Operator
And our last question will come from the line of Chase Mulvehill with Bank of America Merrill Lynch.

Chase Mulvehill - BofA Merrill Lynch, Research Division - Research Analyst
Hello?

Olivier Le Peuch - Schlumberger Limited - CEO & Director
Yes, we can hear you.

Chase Mulvehill - BofA Merrill Lynch, Research Division - Research Analyst
Sorry. So I want to come back to the pressure pumping and the amount of capacity that you've actually reduced. So if I do the math correctly, it sounds like that you stacked about 600,000 horsepower in 2019 and maybe you entered the year 2019 with about 700,000 horsepower cold stacked, if I've done my math right. So how should we think about how much of that could come back and the cost that it would take to bring that capacity back into the market?

Olivier Le Peuch - Schlumberger Limited - CEO & Director
Chase, our intention here is not to cold stack or warm stack and bring back. Our intention here is to rightsize the capacity, which we did; restructure the organization, which we are doing; and refocus on where we believe we have the best alignment with our customers, we have the best leverage for technology, reservoir technology, or surface efficiency technology differentiation, and we can bring the most benefit to our customers and to the market. We have done this, and we don't intend to bring back capacity going forward.

Chase Mulvehill - BofA Merrill Lynch, Research Division - Research Analyst
Okay. All right. That makes sense. That clears some things up. I'll be getting a lot of questions about that.

Coming over to the international side. You guys are focused on margins. It seems like a lot of your peers are focused on margin improvement on the international side. So maybe could you talk about pricing on international. Given that everybody's focused on margins, are you seeing more discipline on pricing? Are you able to push pricing, in particular, in the Middle East at this point yet?

Olivier Le Peuch - Schlumberger Limited - CEO & Director
Similar to comment we made last quarter, I think there is still a dynamic where on large integrated contracts and high-volume contracts, we still see, be it in Middle East or elsewhere internationally, we still see negative pricing pressure or downward pricing pressure. Where by contrast, in more remote location and more specific exploration offshore or difficult project execution, we see and we have seen and we have had the opportunity to negotiate better price. And we see better also discipline from -- in the market on both -- on all the service providers. So I will say the market is still contrasted with large integrated contracts and discrete offshore exploration or remote location, and we believe this trend will continue in 2020.

So I believe that considering the time, I think we'll have to conclude this call. So ladies and gentlemen, I would like to highlight my key message to conclude this call.
First, the solid results of the fourth quarter and full year have highlighted the significant progress we have made in our international franchise and the early steps we took in execution of our North America land strategy. The momentum across our organization and the feedback from our customers continue to be very positive and support well our ambition 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 American 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. I look forward to seeing many of you in the coming weeks. Thank you.

Operator

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