COKER & PALMER
INVESTMENT SECURITIES

EQUITY RESEARCH ALERT

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OILFIELD SERVICES & GREEN ENERGY
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SCHLUMBERGER LTD.

2Q21 Earnings First Take – Positive

Quick Take: Positive. SLB reported adj. EBITDA of $1,195M, 6% above Street's $1,132M est. driven by all segments. The magnitude of beat was higher than BKR and HAL. We est. ~$1,310M EBITDA for 3Q21, 7% above Street. SLB indicated potential upside to annual 2021 financial targets. This is a surprise beat and raise. Options implied stock price movement is ~4%.

Earnings Reaction: Positive. SLB reported adj. EBITDA of $1,195M, 6% above Street's $1,132M est. All segments EBIT were ahead of Street expectations partially offset by Eliminations. FCF of $869M was above Street's $591M est. but included $477M of tax refunds.

3Q21 Potential Earnings: Positive. We est. ~$1,310M EBITDA for 3Q, 7% above Street, but we think SLB may guide relatively conservatively. We assume NAM revs +7% q/q in 3Q21 while international +5%. We assume Dig. & Int. revs +6% with 40% incrementals, Res. Perf. revs +5% with 30% incrementals, Well Const. revs +3% with 35% incrementals, and Prod. Sys. Revs +5% with 30% incrementals. SLB indicated potential upside to annual 2021 financial targets.

Stock Reaction: Positive. This is a surprise beat and raise vs. expectations. The magnitude of beat at 7% is higher too vs. HAL +2% and BKR +4%.

Positives

- Revs. of $5,634M were 2% above Street's est. of $5,509M.
- Adj. EBITDA of $1,195M, 6% above Street's $1,132M est.
- We est. ~$1,310M EBITDA for 3Q21, 7% above Street.
- NAM's q/q 11% revenue growth was above our ~5% growth expectations.
- SLB's international revenues grew 7% in 2Q vs. HAL's 4%, BKR's 5% and our 5% est.
- Beat was driven by all segments.
- Commentary" The quarter marks a leap forward in achieving our full-year financial targets with the potential for further upside given the right conditions." Recall, SLB had laid out full year financial guidance of $22.5B+ revenues and 20.8-21.3% EBITDA margins.

Negatives

- FCF of $869M was above Street's $591M est. but included $477M of tax refunds. We are not sure how Street accounted for tax refunds, if any.

Questions to Ask

- SLB had indicated last quarter that incremental EBIT margins should be higher in 2H21 as some start up costs were expected in 1H21. Does that still hold vs. strong 38% incrementals q/q in 2Q21?
- How much upside to LDD international revenues growth in 2H21 y/y?
- Were there any one time benefits or revenues pulled forward into 2Q21?

Exhibit 1: Variance vs Street and Q/Q Changes (US$M)

	Actual 2Q21	CPI 2Q21	Consensus	Actual 1Q21	Var. vs Street %	Var. vs Street $	Q/Q Chg %	Q/Q Chg $	EPS Var. $
Geog Revenues ($M)									
NAM	1,083	1,017		972		1,083	11%	111	0.62
LAM	1,057	1,097		1,038		1,057	2%	19	0.61
ECA	1,453	1,348		1,256		1,453	16%	197	0.84
MEA	2,001	1,996		1,917		2,001	4%	84	1.15
Other	40	40		40		40	0%	0	0.02
Total	**5,634**	**5,498**	**5,509**	**5,223**	**2%**	**125**	**8%**	**411**	**0.07**
Segment Revenues ($M)									
Digital & Integration	817	801	812	773	1%	5	6%	44	0.00
Reservoir Performance	1,117	1,071	1,050	1,002	6%	67	11%	115	0.04
Well Construction	2,110	2,058	2,050	1,935	3%	60	9%	175	0.03
Production Systems	1,681	1,638	1,670	1,590	1%	11	6%	91	0.01
Eliminations	(91)	(70)	(77)	(77)	18%	(14)	18%	(14)	(0.01)
Total	**5,634**	**5,497**	**5,509**	**5,223**	**2%**	**125**	**8%**	**411**	**0.07**
EBIT ($M)									
Digital & Integration	274	258	249	247	10%	25	11%	27	0.01
Reservoir Performance	156	126	122	102	28%	34	53%	54	0.02
Well Construction	272	252	248	209	10%	24	30%	63	0.01
Production Systems	171	150	154	138	11%	17	24%	33	0.01
Eliminations	(66)	(35)	(32)	(32)	106%	(34)	106%	(34)	(0.02)
Corporate Expenses	(138)	(145)	(150)	(150)	-8%	12	-8%	12	0.01
Total	**669**	**606**	**595**	**514**	**12%**	**74**	**30%**	**155**	**0.04**
EBIT Margins									
Digital & Integration	33.5%	32.2%	30.7%	32.0%		2.8%		1.6%	
Reservoir Performance	14.0%	11.8%	11.6%	10.2%		2.3%		3.8%	
Well Construction	12.9%	12.2%	12.1%	10.8%		0.8%		2.1%	
Production Systems	10.2%	9.2%	9.2%	8.7%		0.9%		1.5%	
Total	**11.9%**	**11.0%**	**10.8%**	**9.8%**					
Incremental Margins									
Digital & Integration	61%	40%	6%	40%					
Reservoir Performance	47%	35%	42%	35%					
Well Construction	36%	35%	34%	35%					
Production Systems	36%	25%	20%	25%					
Income Results									
Segment Revenues	5,725	5,567	5,582	5,300	3%	143	8%	425	0.08
Elim Revenues	(91)	(70)	(77)	(77)	18%	(14)	18%	(14)	(0.01)
Total Revenues	**5,634**	**5,497**	**5,509**	**5,223**	**2%**	**125**	**8%**	**411**	**0.07**
Corporate Expenses	(138)	(145)	(150)	(150)	-8%	12	-8%	12	0.01
Other/Elim EBIT	(66)	(35)	(32)	(35)					
EBIT	**669**	**606**	**595**	**514**	**12%**	**74**	**30%**	**155**	**0.04**
D&A	526	532	532	532	-1%	(6)	-1%	(6)	
EBITDA	**1,195**	**1,138**	**1,132**	**1,046**	6%	63	14%	149	0.04
Other	-	-	-	-	-	-	-	-	0.00
Interest Expense, net	(127)	(126)		(128)					
EBT	542	480		386					
Tax	(99)	(77)		(74)					
Tax Rate	18%	16%		19%					
Minority Interest	(12)	(10)		(13)					
Clean Net Income	**431**	**393**		**299**					
Other	-	-		0					
GAAP Net Income	**431**	**393**		**299**					
Diluted Shares	1,421	1,419		1,419					
Clean EPS	**$0.30**	**$0.28**	**$0.26**	**$0.21**	**17%**	**$0.04**	**44%**	**$0.09**	
FCF	**869**	**900**	591	**1,221**	**47%**	**278**	**-29%**	**(352)**	

Source: Bloomberg; Company reports; CPI est.

Appendix A – Required Disclosures

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The rating assigned to each security covered in this report is based on the CPI Research Analyst's 12-month view on the security. Research Analysts may sometimes express in research reports shorter-term views on these securities that may impact the price of the equity security in a manner directly counter to the Research Analyst's 12-month view.

Appendix A – Required Disclosures Contd.

These shorter term views are based upon catalysts or events that may have a shorter-term impact on the market price of the equity securities discussed in research reports, including but not limited to the inherent volatility of the marketplace. Any such shorter-term views expressed in research report are distinct from and do not affect the Research Analyst's 12-month view and are clearly noted as such.

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Sector Outperform (SO)

The stock is expected to outperform the average 12-month total return of the analyst's coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.

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The stock is expected to perform approximately in-line with the average 12-month total return of the analyst's coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.

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Coker & Palmer Institutional Ratings Distribution

Category	Count	Percent
Sector Outperform	4	29%
Sector Perform	4	29%
Sector Underperform	6	43%
Total	14	100%

Price Target Methodology:

Coker Palmer Institutional (CPI) price targets are essentially based on DCF methodology.

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Oilfield Services (OFS) business is inherently risky. OFS investors should be fully aware of these risks, which include, but are not limited to, volatile natural gas, NGL's and crude oil prices, demand for and competition for a company's product and/or service, asset quality, customer risks, changes in operating costs, company capital structures, operating and working capital needs and ability to raise both debt and equity capital to fund operations. We value OFS equities on many different metrics, including but not limited to, our subjective view as to the quality of management, discounted cash flows, net asset values, enterprise value to EBITDA or cash flow multiples, price to earnings or cash flow multiples, reinvestment risk and full cycle economics. These factors are uncertain and our outlook is subject to change, sometimes quite quickly. Any changes in the above factors can impede achievement of our valuation assessments.

Appendix A – Required Disclosures Contd.

Green Energy businesses are inherently risky. The industry is still at a nascent stage and long-term viability is still not established. Investors should be fully aware of these risks, which include, but are not limited to, viability of new products and markets targeted, volatile commodity prices, demand for and competition for a company's product and/or service, asset quality, customer risks, changes in operating costs, company capital structures, operating and working capital needs and ability to raise both debt and equity capital to fund operations. We value Green Energy equities on many different metrics, including but not limited to, our subjective view as to the quality of management, discounted cash flows, net asset values, enterprise value to EBITDA or cash flow multiples, price to earnings or cash flow multiples, reinvestment risk and full cycle economics. These factors are uncertain and our outlook is subject to change, sometimes quite quickly. Any changes in the above factors can impede achievement of our valuation assessments.

The Exploration and Production (E&P) business in inherently risky. Investors in E&P equities should be fully aware of these risks, which include, but are not limited to, volatile natural gas, NGL's and crude oil prices, regional pricing differences, field and company asset quality, reserve depletion factors, drilling risks, operating costs, company capital structures, operating and working capital needs and ability to raise both debt and equity capital to fund operations. . E&P Valuation Methods used to determine the Price Target: We value E&P companies on many different metrics, including, but not limited to, our estimate of net asset value (NAV), enterprise value to EBITDA or cash flow multiples, price/earnings or cash flow multiples, discounted cash flow analysis and breakup/acquisition values. All our estimates and valuations are highly and inherently uncertain. They are based on, but not limited to, our outlook for the commodity price, our subjective view as to the quality of management, net asset value, quality of the proven and unproven reserves and resources, ability to develop and produce these reserves/resources, financial strength, cash flow, access to capital, and full cycle economics of investments. These factors are uncertain and our outlook is subject to change, sometimes quite quickly. Any changes in the above factors can impede achievement of our valuation assessments.

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