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SLB.N - Q2 2025 Schlumberger NV Earnings Call

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OVERVIEW:

Company Summary

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PRESENTATION

Operator

Good morning. My name is Meghan, and I'll be your conference operator today and would like to welcome everyone to the second quarter SLB earnings call.

(Operator Instructions)

As a reminder, this call is being recorded.

I would now turn the call over to James R. McDonald, Senior Vice President of Investor Relations and Industry Affairs. Please go ahead.

James McDonald - *Schlumberger NV - Senior Vice President, Investor Relations & Industry Affairs*

Thank you, Meghan. Good morning, and welcome to the SLB second-quarter 2025 earnings conference call. Today's call is being hosted from Paris, following our Board meeting held earlier this week.

Joining us on the call are Olivier Le Peuch, Chief Executive Officer; and Stephane Biguet, Chief Financial Officer.

Before we begin, I would like to remind all 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. For more information, please refer to our latest 10-K filing and other SEC filings which can be found on our website. Our comments today also include non-GAAP financial measures. Additional details and reconciliations to the most directly comparable GAAP financial measures can be found in our second quarter earnings press release, which is on our website.

With that, I will turn the call over to Olivier.

Olivier Le Peuch - *Schlumberger NV - Chief Executive Officer, Director*

Thank you, James. Ladies and gentlemen, thank you for joining us on the call.

Before we begin, I would like to officially welcome the ChampionX team to SLB. Earlier this week, we shared the news that our transaction is now complete, and this is a start of an exciting new chapter for our company.

I could not be prouder to lead the company at this juncture, building on an unmatched talent pool and portfolio of technologies to serve our customer and create value for our shareholders. Now as we begin today's call, I would like to start by walking you through our second quarter performance.

Then I will share how we see the broader macro environment evolving, comment on our new chapter with ChampionX and what that means for our business in the second half of the year. After that, Stephane will provide more details on our financial performance, and then we will open the line for your questions.

Let's begin. This was a solid quarter for SLB as we delivered steady revenue and slight EBITDA margins expansion despite the considerable macro headwinds and market volatility of the past few months. These results are a clear reflection of our broad operating footprint, our technology leadership and our strong execution.

In international markets, revenue grew by 2%, benefitting from pocket of growth in the Middle East, Asia, and North Africa, fully offsetting sequential headwinds in Saudi Arabia and certain offshore markets. Specific to the Middle East & Asia, long-term fundamental for oil remain strong, and both conventional and unconventional gas are providing an additional tailwind for activity across the region.

During the quarter, we experienced strong growth in Iraq, the UAE, Kuwait, East Asia, China and Australia. Meanwhile, in North America, although revenue declined sequentially, we continue to outpace the market, led by increased sales across most of our business lines in production systems, and higher digital sales in US land.

The revenue decline stemmed mostly from the seasonal spring breakup in Canada and non-repeat of exploration data sales in US offshore. In the offshore market, certain projects have pushed to the right, most notably in Sub-Saharan Africa.

However, we continue to maintain a steady backlog in OneSubsea, and there is a significant number of offshore projects preparing for FID. Altogether, these dynamics reinforce our confidence in the long-term growth for this market.

Next, let me discuss the performance of our divisions. In the Core, Production Systems led the way again this quarter, benefitting from increased sales of artificial lift and midstream production systems. Overall, our service quality and reliability continue to differentiate our offering in this space, and we have been awarded several new projects during the quarter.

Meanwhile, in Well Construction, revenue was flattish sequentially with growth in Iraq, the UAE, North Africa and Nigeria offset by lower activity in Namibia and North America. In Reservoir Performance, revenue declined slightly due to lower evaluation and stimulation activity, partially offset by solid intervention work.

Turning to Digital & Integration, our Digital revenue remained steady with double-digit growth across the combination of our platforms, applications and digital operations, offset by lower exploration data this quarter.

We now have more than 7,800 users across the Delfi platform, representing double-digit growth year on year. This is a continued reflection of our customers' focus on unlocking, through digital, higher levels of performance and efficiency in their assets.

Finally, we continued to exhibit growth in CCS where we successfully executed several large-scale projects in the carbon market this quarter. We are now participating in the entire value chain from point of capture with SLB Capturi, to permanent storage with SLB Sequestri.

This combined offering is being successfully utilized at the Longship CCS project in Norway, and we believe this will continue to present new opportunities for our carbon solution business. All in all, this quarter was challenging with lots of moving parts, yet we produced solid results.

Considering the uncertainty and market volatility, the entire SLB team has delivered remarkably well. And having met with many customers during the quarter, I am assured of our differentiated performance and the trust that our customers continue to place in us.

Next, I will discuss what we are seeing in the macro environment and how we expect this to evolve over the second half of the year. During the first half of the year, the oil and gas industry demonstrated its strength and resilience, proving that it can operate through uncertainty without a significant drop in upstream spending, highlighting the different attributes of this cycle.

As we look to the second half of the year, the macro environment continues to be uncertain, particularly with the announcement of the new OPEC+ supply releases into a well-supplied market. For the moment, incremental barrels are being absorbed by peak summer demand, China re-stocking and the replenishment of global crude inventories that are sitting below five-year historical averages.

All in, while sustained release could exert pressure on commodity price in the near-term, the removal of the overhang of OPEC+ voluntary cuts will allow for market stabilization over time. While it is difficult to predict the outcome from the combination of further supply release, persistent geopolitical risk and lingering tariffs negotiations, it is fair to assume sustained resilience in the market outlook, absent of a dramatic shift in commodity price.

Regionally, the Middle East and Asia will continue to display the most resilience in the short term, driven by lower breakevens and the sustained focus on energy security. Meanwhile, advantaged offshore projects will lend support to a steady market across Europe, Africa and Americas.

In contrast, land activity across North America and Latin America have the greatest downside risk due to short cycle spend. Globally, we expect operators to remain focused on critical in-flight development projects, and an acceleration of efficiency gains, with a heavier focus on production and recovery, and continued investments in digital and AI.

Next, let me describe this growing market and the opportunity that we see with ChampionX. Today, customers are on a quest to unlock and optimize the full production potential of their assets while improving efficiency in the reservoir recovery phase of their operations.

This is creating a less cyclical and growing market opportunity that is more OpEx-driven and is less sensitive to short-term commodity cycles. The addition of ChampionX enhance our portfolio by providing the capabilities we need to lead this effort.

ChampionX strength in production chemicals and artificial lift enhance our portfolio in two essential and fast-growing segments that are critical to long-term asset performance. In production chemicals, ChampionX adds scale, vertical integration and a strong global manufacturing footprint to deliver solutions to address the rising demand from aging infrastructure and complex wells and our combined artificial lift portfolio has the breadth to optimize production across the full life cycle of the well.

Additionally, ChampionX brings a unique digital production technology portfolio that we will expand into new markets and new applications. Integrating these capabilities into SLB's existing portfolio will allow for greater innovation and customer value creation, as we take a further step toward delivering a fully integrated service offering anywhere in the world, from reservoir to surface facility, from completion through decommissioning.

Geographically, this acquisition also extends our broad global reach. ChampionX deep presence in North America pairs well with SLB's international leadership, enabling us to bring their technologies to new markets while also deepening our capabilities in the US.

Taken together, this is a highly complementary fit, one that strengthens our portfolio, accelerates our growth in resilient markets, and reinforces our ability to deliver value at every stage of the production lifecycle. And just as important, we're combining two organizations that share a strong culture of innovation, operational excellence, and customer focus.

Overall, this will enable us to integrate the full production landscape with the best people, the deepest domain expertise and most innovative technology solutions guided by a shared passion for innovation and a commitment to delivering for customers in every basin around the world.

I'm truly excited to welcome the ChampionX team to SLB and look forward to what we will achieve together.

Now before I hand over to Stephane, let me quickly share our guidance for the second half of the year. Starting August 2025, we will begin consolidating ChampionX into our results. Therefore, we expect second half revenue to be between \$18.2 billion and \$18.8 billion for the second half.

This second half increase will be a result of the five months contribution of ChampionX, combined with steady revenue in our legacy SLB business compared to the first half, driven by growth in production systems and digital, fully offsetting the anticipated activity decline in the US and certain deepwater markets.

Moreover, revenue will be backloaded in the fourth quarter, reflecting a full quarter of ChampionX as well as the seasonal uplift from year-end digital and product sales. We also expect second half EBITDA margins to be flat compared to the second quarter, inclusive of the ChampionX contribution and inclusive of about 20 basis points to 40 basis points of tariff impact.

I will now turn the call over to Stephane to discuss our financial results and the plan for ChampionX financial integration in more detail.

Stephane Biguet - Schlumberger NV - Chief Financial Officer, Executive Vice President

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

Second quarter earnings per share excluding charges and credits was \$0.74. This represents an increase of \$0.02 sequentially and a decrease of \$0.11 when compared to the second quarter of last year. While the net amount of charges and credits recorded during the quarter had no impact on our EPS, we did incur \$0.09 of charges relating to headcount reductions and the impairment of an equity method investment as well as \$0.02 of merger and integration charges related to the ChampionX and OneSubsea transactions.

These charges were offset by an \$0.11 gain relating to the sale of our interest in the Palliser APS project in Canada. Overall, our second quarter revenue of \$8.5 billion increased 1% sequentially, driven by 2% growth in the international markets.

Our pretax segment operating margins increased 20 basis points sequentially to 18.5% as margins increased in three of our four divisions. Companywide adjusted EBITDA margin for the second quarter was 24%, representing a sequential increase of 21 basis points.

Let me now provide you with more details for each division. Second quarter Digital & Integration revenue of \$1 billion decreased 1% sequentially. Digital revenue was flat as double-digit sequential growth from the combined effects of platforms, applications and digital operations was offset by lower exploration data sales following a strong first quarter.

Lower APS revenue in Canada drove the overall 1% revenue decrease for the division. Digital & Integration margins expanded 240 basis points to 32.8%, driven by greater digital adoption and efficiency gains. We expect digital revenue growth and margin expansion to continue in the second half of the year, with a significant uptick in the fourth quarter benefiting from year-end sales.

In order to provide you with increased visibility into this business as it continues to grow, I am pleased to announce that we will start reporting the results of our digital business as a separate segment, beginning in the third quarter.

Turning to our Reservoir Performance division. Revenue of \$1.7 billion declined 1% sequentially due to a slowdown in evaluation and stimulation activity across international markets, partially offset by strong intervention activity.

Margins improved 203 basis points to 18.6% as a result of the higher intervention activity and the absence of startup costs that impacted the first quarter. Well Construction revenue of \$3 billion was essentially flat sequentially, while margins of 18.6% decreased 119 basis points primarily due to an unfavorable technology and geography mix internationally.

Finally, Production Systems revenue of \$3 billion increased 3% sequentially driven by strong sales in artificial lift, midstream production systems and valves, as well as increased data center infrastructure solutions revenue.

Margins increased 28 basis points to 16.4% primarily due to continued growth and a favorable activity mix.

Now turning to our liquidity. We generated \$1.1 billion of cash flow from operations and free cash flow of \$622 million during the quarter. This represents a \$519 million increase in free cash flow compared to last quarter, which is largely due to seasonal improvements in working capital.

Consistent with our historical trends, we expect our free cash flow in the second half of this year to be materially higher than in the first half on improved earnings, higher customer collections and lower inventories.

Capital investments, inclusive of CapEx and investments in APS projects and exploration data were \$520 million in the second quarter. For the full year, we now expect capital investments to be approximately \$2.4 billion, reflecting the impact of the ChampionX acquisition.

Regarding our M&A activity, as I mentioned earlier, we completed the sale of our Palliser asset in Canada near the end of the second quarter. As a result, we received \$316 million of net cash proceeds in the second quarter, and an additional \$22 million in the third quarter.

For reference, we generated \$215 million of revenue in the first half of the year from the Palliser asset, with EBITDA margin in the low 50s and pretax margin in the low 30s.

Let me now turn to the ChampionX acquisition and what it means for SLB's future financial performance. First, from a financial reporting perspective, we will begin consolidating ChampionX effective August 1, 2025.

This means we will consolidate two months of ChampionX results in the third quarter of 2025. The ChampionX activities will be reported under our Production Systems division, which is where SLB's legacy production chemicals and artificial lift businesses currently sits.

The only exception to this relates to ChampionX's digital activities, which will be reported under our new digital division. It is worth mentioning that we will be aligning ChampionX with SLB's definition of digital. As a result, the digital revenue that we will report coming from the ChampionX business will be lower than what was previously disclosed by ChampionX.

We will provide you with pro forma historical financial information to assist with modeling the combined businesses together with the additional granularity into our digital business in our third quarter earnings release.

As it relates to synergies, we spent the past 12 months refining our preliminary estimates and developing actionable plans. We are now even more comfortable with our initial assessment that we will be able to generate \$400 million of annual pretax synergies within the first three years after closing.

The largest portion will come from cost synergies, which represent approximately 75% of the \$400 million. Roughly half of these cost synergies will come from supply chain savings, which will be generated, not only from ChampionX operations, but also from SLB's existing cost base, including the chemical spend in our legacy businesses.

The other half of the cost synergies will come from operating costs and G&A savings. With regard to the expected annual revenue synergies of approximately \$100 million when translated into incremental pretax income, we have only included the opportunities with the highest probability of realization.

These have been identified at the country and customer level.

Let me now conclude with the direct impact of the acquisition on our financial metrics. As it relates to margins, we have demonstrated this quarter the resiliency of SLB's margins despite a challenging macro environment.

This resilience will be reinforced by the addition of ChampionX, which has delivered continuous margin expansion over the last few quarters. For that matter, when excluding the drilling technology business that was disposed of concurrently with the closing of the SLB transaction, ChampionX finished the second quarter of 2025 with revenue of approximately \$850 million and adjusted EBITDA of approximately \$190 million, delivering visible margin expansion both sequentially and year over year.

We expect both the legacy SLB businesses and ChampionX to continue delivering strong margin performance in the second half of this year. This will, however, be partially offset by the impact of tariffs. Assuming no changes to the tariffs that are currently in place, we estimate that this will cost us between 20 basis points and 40 basis points of margin in the second half.

Altogether, this will result in our companywide adjusted EBITDA margin in the second half of the year being essentially flat when compared to the second quarter of the year. Said another way, our adjusted EBITDA margins, including the contribution of ChampionX, would have expanded by about 20 basis points to 40 basis points in the second half if not for the impact of the tariffs.

Looking forward, our margins will be further enhanced by the \$400 million in synergies that I previously discussed. With the detailed plans our integration team have developed, we believe that we will be able to realize at least half of the synergies within the first 18 months of the transaction.

As a result, we expect the transaction will be accretive to both margins and earnings per share on a full-year basis in 2026. This reflects certain assumptions regarding the purchase accounting, which will be finalized in the coming months.

Based on these assumptions, we have estimated the incremental annual recurring pretax intangible asset amortization expense to be approximately \$80 million over and above ChampionX historical annual intangible asset amortization expense of approximately \$50 million.

This incremental amortization expense equates to approximately \$0.04 of EPS on an after-tax basis. The calculation also reflects the fact that we issued 141 million shares of SLB stock in connection with this transaction.

It is worth mentioning that, since the announcement of the ChampionX transaction in April 2024, we have been accelerating the repurchasing of our shares. To that end, since the announcement, we have reduced our total shares outstanding by 78 million.

This represents 55% of the shares we just issued in this transaction. Finally, I wanted to briefly come back to the second half guidance that Olivier shared earlier where we expect second half revenue to be between \$18.2 billion to \$18.8 billion.

If we are to compare this H2 outlook to H1, by including ChampionX and excluding Palliser in H1, and considering ChampionX on a full six month basis in H2, this would result in second half revenue growth from flat to low single digit when compared to the first half, driven by both our legacy portfolio and ChampionX.

I will now turn the call back to Olivier.

Olivier Le Peuch - Schlumberger NV - Chief Executive Officer, Director

Thank you, Stephane.

I believe we are ready for your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

David Anderson, Barclays.

David Anderson - *Barclays - Analyst*

Thank you for the detail, Stephane. I was rapidly doing the math here. Thanks for taking care of that.

So kind of essentially, two half is -- second half is flat with first half. I was just wondering, Olivier, if you could provide a little bit more detail kind of behind this. You had mentioned customers selectively adjusting activity.

I was curious if this is primarily just related to the shorter cycle programs in the US land and Saudi slowing down, but more broadly, I'm curious if you've seen a noticeable change in customer behavior since OPEC started bringing barrels back.

It feels like we're in a bit of a wait and see mode with respect to oil pricing and customer spending. Just hoping you could provide some insight into how you see this energy macro developing over the next few quarters.

Olivier Le Peuch - *Schlumberger NV - Chief Executive Officer, Director*

So first, to be coming back to the guidance, I think the guidance reflect, from the low to the high end guidance, flat to LSD and with potential to go even beyond this. So we have definitely growth. We project growth in the second half compared to the first half when accounting for the moving parts in and out of our portfolio clearly, okay?

And driven -- as we said, driven by the Production Systems ChampionX combination getting an uplift in the second half of the year, partially in the fourth quarter, and also by digital year end sales. This combination more than offsetting if you like, some of the headwinds that are in selective market still affecting the drilling activity and to a lesser extent, the Reservoir Performance portfolio.

So all of this, coming back to your question about selective customer adjustment, I believe that the major adjustments in international markets are largely beyond this and people have been prepared and adjusting their spending rates and their activity outlook to account for uncertainty and somehow the declining commodity price that they have seen here in H1.

However, as we have seen more recently, the short cycle markets have been more reactive to the persistent slightly lower commodity price than anticipated. Yet all in, we are seeing this as a resilient market going forward, assuming that the price will stay range bound to what we have seen between 60 and 65 or 60 and high 60s, and I think we believe that there are a few things at play that could change this.

But most of the cuts and most of the adjustment in selective market and selective country have been done with the exception, as I said, of the low cycle -- of the short cycle, partly in North America and in some markets internationally that are short cycle.

So hence we are -- that's the reason why we guided the way we guided the second half.

David Anderson - *Barclays - Analyst*

And then in your release and also in your commentary, you noted a few things going on in deepwater. You called out Namibia for some slowing. But I was just wondering just broadly speaking, in deepwater, are you concerned about just kind of near term activity just slowing here?

Is Namibia sort of a one off, or are you worried that you're starting to see some of these projects pushing to the right because if you look at kind of rigs and rig schedules, subsea deliveries, pipe orders, it looks like deepwater is sort of poised for a pretty good uptake and kind of by mid '26?

I'm just wondering if that's -- if you agree with that or things are sort of sliding to the right a little bit.

Olivier Le Peuch - *Schlumberger NV - Chief Executive Officer, Director*

Yeah. First to comment on what we have seen for the last 12 months to 18 months, we have seen a white space developing, and indeed, the least critical projects to shift to the right, but we still have seen the rich pipeline of advantaged projects that are key for the portfolio of international operators, partly the IOCs to be going forward with anticipated FID, and you see it in Suriname that the Namibia effect is an effect of a long period of appraisal exploration success that is now going into a deep I would say learning and decision for the way forward.

So I will not try to overreact on to the Namibia temporary effect, but I'm more excited about what I see in Americas at large for oil assets on some of the Africa assets that are going in Phase 3 or that are reaching FID.

Obviously, in Central America, the Suriname assets, the Brazil very sustained activity and Vienna exciting activity as well Gulf of Mexico combined. I think it is a market that has only upside going forward and by contrast, in the eastern hemisphere driven by gas markets from Indonesia big discovery to Mozambique, soon to be relaunched and still is made as a very prolific and exciting basin.

I think I see the conditions that are set for indeed a rebound directionally in the years to come, and certainly, I think the hypothesis of 2026, I think is a valid hypothesis that I think we'll have to look forward to see unfolding.

Operator

Scott Gruber, Citigroup.

Scott Gruber - *Citi - Analyst*

I'm curious about how you view the growth outlook for your now larger production business. How would you dimension both the underlying growth for the production market and then how you can enhance that growth with revenue synergies, especially as you apply your digital applications?

When you put those two factors together, what's a medium term reasonable growth outlook for the production business?

Olivier Le Peuch - *Schlumberger NV - Chief Executive Officer, Director*

I think I will not try to comment on it because the definition of a production market is something that I think we'll have to come back and give you a little bit more detail on our combined portfolio, but I will say that three elements that will drive synergy, that will drive this market to grow in our minds.

First and foremost, I think that the customers -- our customers have told us, our customers and operators are focused on trying to extract more value from production and recovery phase of the assets. To contrast with early end completion of development phase of the asset.

They're trying to get the most of the existing aging assets to make sure that they extend the plateau. They improve the performance, and they improve the recovery to extract more from the existing assets. So the unique combination that we have access to with the addition of the ChampionX give us an unmatched portfolio, and I think I'm not talking about only Production Systems, artificial lift or production chemicals.

I'm talking about intervention. I'm talking about surface equipment. I'm talking about the ability we have to integrate, innovate, and add digital. So what will drive growth in this is the ability to partner with our customers to provide integrated offering beyond the specifics of this artificial lift, production chemistry and add digital capability to it and offer end to end a solution that includes well services, well intervention and includes equipment at the surface that can help enhance the production capability.

So we see this as a market that will have more resilience, less cyclicity because it's inclusive of OpEx expense, and the long term resilience and long term growth that will certainly outpace the global CapEx market for the decades to come.

That's what we see and we see this as a white space, as an innovation space, and as a space where customer are very pleased to see and the feedback we have got the engagement we had. They look forward to see what we can put together by innovation, by integration, and with digital in this market.

So we are quite excited.

Scott Gruber - *Citi - Analyst*

And then your portfolio changes, they're pushing the company to become less capital intensive, more free cash generative. How do you think about kind of where you can take CapEx to sales, free cash conversion in '26 and beyond, such as you realize the synergies?

For instance, can you push that free cash conversion rate toward something like a 60% level on a sustained basis? How do we think about those capital intensity and free cash metrics over time now?

Stephane Biguet - *Schlumberger NV - Chief Financial Officer, Executive Vice President*

So Scott, first, maybe on 2025 as a reference, we kind of anticipated the soft activity and brought down the total capital investment 10% lower compared to last year. So we are basically at maintenance CapEx level this year and at the very low end of our 5% to 7% CapEx as a percentage of the revenue range.

So going forward, if we see growth, we will certainly add growth CapEx to that. We have that agility and ChampionX clearly brings down that percentage a bit more, but we are already very low. We may or may not change the range, but the ChampionX is clearly helping with the low capital intensity.

Regarding EBITDA to free cash flow conversion, we don't really track it that way. We prefer looking at free cash flow margin. You know that we are looking on a full cycle basis to be above 10% of revenue in terms of free cash flow margin, and we are exceeding this now as we speak and intend to do the same going into the following years, partially because of the positive contribution from ChampionX.

Operator

Arun Jayaram, JPMorgan.

Arun Jayaram - *JPMorgan - Analyst*

First question is global upstream spending is on track to decline in 2025 versus 2024. I was wondering if you could share with us your views on how you see this playing out for SLB across different regions internationally.

I wonder if you can comment on Mexico and Saudi and North America, and perhaps the timing of a potential inflection point in spending trends.

Olivier Le Peuch - *Schlumberger NV - Chief Executive Officer, Director*

Quite a lot packed into the question here.

The first, indeed, I think the -- it is clear now that the market is in -- the total market is in slight decline in 2025 compared to '24. We see both more in North America than we see it internationally. There is more resilience in the Middle East and Asia market due to the broad commitment to all capacity expansion, the development of unconventional and conventional gas across the region and the focus on energy security in Asia.

So that provides a bit of a buffer and I think that's very visible. As we have commented before internationally, the other international market, I think, is impacted by two aspects this year, the white space in deepwater market. The Mexico, that has been reducing significant drilling activity based on restructuring and reaching a new bottom in terms of activity and some of the, I would say short cycle activity in the rest of part in Latin America.

North America, I think there is no secret that the short cycle has been declining in the last couple of months, more deeply than everyone will anticipate. So it will represent certainly the highest, I would say drag on to the total CapEx for the year.

Now before we talk about inflection, I would like to talk about resilience. Now that this adjustment has been done in the first half, I believe, as we have demonstrated into our second half outlook when collecting for the in and out, we are anticipating growth and this is because we believe that there is resilience on some part of the international market.

There is still an appetite for executing the most advantaged project albeit some unconventional development or some large gas or oil development that are under play. And we believe that our market position that we have, which is hedged across different business lines, across different geography, give us the resilience that I think you see in our numbers in the second half.

So I think now, inflection, if we look at are trying to look ahead and directionally. I think looking beyond 2025, we believe that continue to see the attribute of a cycle rebound, okay, that will be driven by several -- by first, the phenomenon of energy market and we have some information that I could use of the critical of oil and gas supply.

So specifically, if I like to look directionally ahead and beyond 2025, we're anticipating that the combination of the liquid market rebalancing, the continued investment in oil capacity expansion in the Middle East, the accelerating global gas supply, both, conventional, unconventional internationally or in North America and the robust pipeline that I commented before in the offshore deepwater project and finally, the increase of production recovery focused for the customer when combined with digital and the AI trend will lend support to grow investment going forward.

We are -- we see that this is directionally shaping up. I will not comment on exact timing, but I think I will first remind everybody that there is resilience in this market despite this market uncertainty, and the future is still rich with a lot of projects internationally, rich with gas driving activity in many parts of the world, and rich with long term deepwater projects that will add really intensity going forward.

Arun Jayaram - JPMorgan - Analyst

And my follow up question, appreciate the comments around your expectations around the second half outlook plus some of the outlook comments on ChampionX. But Olivier and Stephane, could you help us maybe break down your expectations for how you see things playing out in 3Q versus 4Q?

Olivier Le Peuch - Schlumberger NV - Chief Executive Officer, Director

We could. I think let us give you a little bit more colors onto this guide that we could give and share in Q3 versus Q4. So first, at very high level, we have gathered that the second half will be back end loaded. And now more specifically to the third quarter, we expect first -- this third quarter will be impacted first by the addition of two months of ChampionX. That's a positive addition.

By a negative addition of the full quarter absence of Palliser following its divestiture. By also the impact negative, I would say, of activity decline in the US and certain offshore market and finally, and more recently by an incident that we have had on Ecuador pipeline disruption.

This would translate all in into a slightly higher revenue sequentially from Q2 to Q3.

Now trying to contrast this with Q4, with respect to the fourth quarter, we see revenue to be higher by high single digits versus the first quarter has an uptick, reflecting first, a full quarter of ChampionX and secondly, the seasonal uplift will see from year end digital and products set.

I hope I gave you a little bit more color on the top line and the Q3 and uptick in Q4 that will help circle back the relative revenue in Q3 and Q4.

Stephane Biguet - Schlumberger NV - Chief Financial Officer, Executive Vice President

Yeah. Let me just add, Olivier -- okay. Yeah, I just wanted to add, what Olivier described that Q3 and Q4 directional split is what leads us to say that when you exclude the Palliser operations from H1, reinstate ChampionX in H1 and add ChampionX for six months in the second half, this is where you see growth and there's a range there.

This is the range of flat to low single digit between H1 and H2 when you compare like for like. I hope -- it's a lot of moving pieces, but I hope it's clear.

Operator

Neil Mehta, Goldman Sachs.

Neil Mehta - Goldman Sachs - Analyst

Olivier, Stephane, a couple of questions. First on ChampionX, appreciate all the comments around synergies, but maybe you can unpack if you spend more time on ChampionX assets as part of this integration process and talking to customers about the application of some of their products.

Any incremental thoughts, particularly on leveraging the platform -- leveraging the products into your international platform?

Olivier Le Peuch - Schlumberger NV - Chief Executive Officer, Director

No, absolutely. I think we are very blessed to have two very highly complementary portfolios both technically and geographically. And I think the strength of ChampionX in the US, the ability to innovate locally with their customers, I think it's something that we want to expand, apply to some of the other business we are running into North America to also have better impact, more focused impact, and more fit technology to our customer base in the US and hence benefits as a level of side synergy, if you like, from our reporting model and engagement model for customers in North America.

But secondly and critically, I think using the broad portfolio both of artificial lift and obviously of chemical production of -- and the ability to innovate of ChampionX into the international market where we have established a go to market access and established customer relationships.

So yes, we will expect this first from a complimentary portfolio and from a market access. But secondly, as I mentioned before, I think the customer feedback we got beyond access to certain technologies that exist today, they believe that by combining our domain subsurface, recovery capability including Reservoir Performance intervention, our digital and our integration to actually go the belief that I think we can help them unlock the value of some assets internationally, and they are very much interested to see what is next in our value proposition beyond just an expansion of our product portfolio into international markets.

So integration, digital, domain, subsurface integration, I think will be what will drive the synergy going forward beyond the geographical expansion, as I mentioned.

Neil Mehta - *Goldman Sachs - Analyst*

We appreciate the color around margins being relatively flattish in the back half. Can you provide any segment level perspective on the margins? Where do you see things trending better, where do you see things trending softer just so we can get a little more granularity for the model?

Stephane Biguet - *Schlumberger NV - Chief Financial Officer, Executive Vice President*

So in the second half, you will -- directionally, you will clearly see Digital and Integration, but you will see, it's actually digital. In the second half, the margins will continue to increase. That's really on the back of the year end sales, including exploration data sales.

Production Systems, we are quite happy with the margin journey so far. So we will probably at least maintain that level. With ChampionX, the Production Systems, EBITDA margins will actually increase. ChampionX will be accretive to Production Systems.

And the other two core divisions, Reservoir Performance and Well Construction, we are expecting to be relatively flat with the second quarter, in line with the overall guidance for the company.

Operator

Roger Read, Wells Fargo.

Roger Read - *Wells Fargo Securities, LLC - Analyst*

Thanks, again for the help on all the outlook.

I guess two questions I'd like to come out. In terms of the pace of synergies with ChampionX, you've had a lot more time obviously from when the deal was announced to closing here. What might look different or more accelerated on synergies and what might look better in terms of the integration process as we look at what you may do with the top line of this business over the next say 18 months?

Stephane Biguet - *Schlumberger NV - Chief Financial Officer, Executive Vice President*

So as we discussed on the prepared remarks, first, the majority of synergies is cost, right, and the bulk is both supply chain saving. So this is -- compared to our initial estimates, it has -- they are more or less in terms of overall envelope the same as what we had initially and the pace can be a bit faster actually because now we have done the homework.

It is literally by product code and supplier and geography, so we can execute those supply chain synergies faster. So this is why initially, if you recall, it's one of the reasons why we had said at the time that the transaction will be accretive in the second year following the transaction, and now we think within the first 18 months, so on a full year basis for 2026, the transaction will be accretive, and this requires about half of the total \$400 million synergies to be achieved in 2026, which we think is realistic based on our plans.

On the integration itself, I'll leave it to Olivier.

Olivier Le Peuch - *Schlumberger NV - Chief Executive Officer, Director*

No. Integration, I think the team has worked hard for the last 12 months to do integration planning. I think we are very pleased to launch it yesterday live with all the ChampionX employees, and I think the reception is very strong.

I think we have a very strong workbook and playbook for integration that will touch all aspects of orientation process and onboarding but obviously much more importantly, I think the way we face together the customers and trying to create this revenue synergy, this white space with the combined portfolio.

So there is really an effort that has been made to prepare this from day one, and I think we will be in the next few weeks and months rolling out this integration playbook and be in a position to start to capture revenue synergy clearly very soon and add to the established cost synergy that will be executed from -- immediately.

So I would say very pleased with progress, very pleased with the reception of the ChampionX team, and also very pleased, extremely pleased the feedback that we're receiving when engaging with customers that want to preserve the ChampionX strengths, but at the same time, I'm excited to see the innovation, to see the expansion.

As I said, the integration and digital capability that we can add and subsurface domain that could unlock some more value both in North America and internationally. So good progress, strong team, fully aligned and quite an exciting start.

Roger Read - Wells Fargo Securities, LLC - Analyst

Follow up question is Mexico's been a big topic over the last several quarters. The most recent comments from the President of Mexico, she indicated they would like to grow gas supply out to 2030. Doesn't look like what they've been doing recently would lead to that.

So any insights in terms of what you're seeing out of the political leadership of Mexico, Pemex itself, and then what's been obviously the issue in terms of getting accounts receivable and all that in?

Olivier Le Peuch - Schlumberger NV - Chief Executive Officer, Director

No. I would not want to comment on behalf of the decision that the government in Pemex will view. I think they need to go through the motion of restructuring and/or addressing the critical issue that they are facing and finding a bottom and then rebounding.

We believe we're there. We're just waiting now to see what are the next steps that could help unlock the value of obviously the assets in Mexico and the dynamic of Pemex to rebound from this. We stand ready. We have been in the country for decades and we are ready to respond a bit on the gas development or other development.

We are not only working for Pemex in Mexico, we are working with independents, local independent, that have been very active. And we have a very exciting project for Woodside, deepwater, Mexico starting early next year that we are all prepared for both subsea and well construction that I think we're excited about.

That is adding dimension to the Mexico rebound. So difficult to predict what is next. We continue to work very closely with partnership with Pemex and trying to get some more intelligence from the government, but I don't want to be commenting more than this, and again, we remain focused on doing the best and adapting to the market activity there.

Operator

Josh Silverstein, UBS.

Josh Silverstein - *UBS Equities - Analyst*

I appreciate you stripping out the business, the digital business as a standalone unit to highlight the value here. You had previously talked about top line standalone digital growth kind of in the mid to high teens this year. I want to see if you're still on track for that level and then if you could provide any details around the growth contributions from Delfi cloud and the AI platforms within that outlook.

Olivier Le Peuch - *Schlumberger NV - Chief Executive Officer, Director*

Yeah. We don't split typically. I think we have been commenting just this quarter that I think the combination of cloud legacy application that is desktop and digital operation is growing at double digits. We have a significant uptick in the second half of the year.

We said mid to high teens in the past. I think we are continuing to ambition to be as committed to grow and certainly to outpace significantly. That's what matters is to outpace significantly the rest of the market and be in meetings or by contracts with the much lower and declining CapEx.

So decoupled activity, decoupled investment profile is what we are accessing and yeah, I think it's a long -- as I said, it's a long digital transformation. It's a long journey we have started with the industry and I think our leadership, be it in cloud, be it in digital operation, be it in legacy desktop or in exploration data, as a combination, we continue to do everything to make sure that it's highly differentiated in terms of growth rate compared to the -- and we expect this to be the case for the foreseeable future.

And as you have seen, the market -- the margin has improved. We expect the margin to further improve in the second half, the back end of the year. That's in the fourth quarter, and becoming accretive and remaining accretive highly in terms of margins and continuing to be accretive in terms of supply and growth.

So I think we commented on the some users characteristics that are linked to the cloud adoption. We have seen this quarter to just give you a data point. 40 million CPU hours being consumed, 50% more than Q2 last year.

At the same time, we have seen also almost 1,000 of wells being, drilled using DrillPlan, one of our planning cloud application that we use and with our customers. So I think we continue to see momentum. And we are confident that I think it will be for sure much higher growth than the rest and one of the highest growth business line we have in SLB and you will from Q3 get more detail and we will disclose this transparently so that the value that we can extract from this will be recognized by investors.

Josh Silverstein - *UBS Equities - Analyst*

And maybe just to follow up and I know there's more details to come on the third quarter, but are there any additional types of disclosures you might be able to provide here on these kind of key AI and fast driven products towards companies that are more specifically focused on this as well?

Olivier Le Peuch - *Schlumberger NV - Chief Executive Officer, Director*

Well, obviously, we have, as you know, decided to establish a new platform called Lumi for data and AI adoption across our customers and I think we are very pleased with the early impact this had. A lot of TOV as we call it. A lot of early tests and adoption across really all the segment of our customer base attracted by the ability to connect and to integrate data and to have a toolbox of AI capability that we offer from our partners.

So that AI workflows can be enabled through our platform by customers and letting the customer play with their data and using our toolbox to then do use GenAI or to use AI capability on top. That's what is exciting. That's what customers are coming to our platform for, and that's what the early success of Lumi is giving us.

So yes, I think continued momentum there, and this is only the early, early steps of that adoption.

Operator

I will now turn the call over to SLB for closing remarks.

Olivier Le Peuch - *Schlumberger NV - Chief Executive Officer, Director*

Thank you, Meghan.

Ladies and gentlemen, as we conclude today's call, I would like to leave you with the following takeaways. First, SLB's diverse portfolio and broad operating footprint enable us to overcome regional headwinds and evolving macro dynamics to deliver solid results as we demonstrated in this quarter.

Second, we're increasing our exposure to the growing production recovery market with the addition of ChampionX. Our combined portfolio, technology capability and digital leadership will position SLB to unlock value for our customers while delivering best in class workflow integration across production chemicals and artificial lift.

And finally, global oil and gas markets have this proven resilient, and we are optimistic about the opportunities ahead and our ability to deliver steady growth in the second half of the year.

With this, I conclude today's call.

Thank you, all for joining.

Operator

This concludes today's conference call. You may now disconnect.

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