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Schlumberger Limited's (SLB) CEO Olivier Le Peuch on Q3 2019 Results - Earnings Call Transcript

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Q3: 10-18-19 Earnings Summary

Press Release SEC *10-Q*

EPS of $0.43 beats by $0.03 | Revenue of $8.54B (0.44% Y/Y) beats by $42.99M

Earning Call Audio

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Schlumberger Limited (NYSE:SLB) Q3 2019 Results Earnings Conference Call October 18, 2019 8:30 AM ET

Company Participants

Simon Farrant - Vice President, Investor Relations

Olivier Le Peuch - Chief Executive Officer

Simon Ayat - Chief Financial Officer

Conference Call Participants

James West - Evercore ISI

Angie Sedita - Goldman Sachs

David Anderson - Barclays

Scott Gruber - Citigroup

Connor Lynagh - Morgan Stanley

Kurt Hallead - RBC

Sean Meakim - JPMorgan

Chase Mulvehill - Bank of America

Operator

Ladies and gentlemen, thank you for standing by. Welcome to the Schlumberger Earnings Conference Call. At this time, all participant lines are in a listen-only mode. Later, there will be an opportunity for your questions. Instructions will be given at that time. As a reminder, today's conference call is being recorded.

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

Simon Farrant

Good morning. Good afternoon. Good evening. And welcome to the Schlumberger Limited third quarter 2019 earnings call. Today's call is being hosted from New York City, following the Schlumberger Limited Board meeting held here this week. Joining us on the call are Olivier Le Peuch, Chief Executive Officer; and Simon Ayat, Chief Financial Officer.

Our earnings call will take a slightly different format. We have shortened our prepared remarks in order to leave more time for your questions. Olivier will start the call with his prospective on the quarter, after which Simon Ayat will give more details on the financial results. Then we will open up for your questions.

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

.ents we will be making today are forward-looking. These matters involve risks and uncertainties that could cause our results to differ materially from those projected in these statements. I, therefore, refer you to our latest 10-K filing and other SEC filings.

Our comments today may also include non-GAAP financial measures. Additional details and reconciliation to the most directly comparable GAAP financial measures can be found in our third quarter press release, which is on our website.

Now, I will turn the call over to Olivier.

Olivier Le Peuch

Thank you, Simon. Ladies and gentlemen, good morning. I would like to ask through the earnings release my comments on the quarter before covering some of the points critical to understand.

First of all, as you have seen in our release this morning, we have taken enough of the non-cash $12.7 billion charge. This charge reflects the impact of market conditions have had on the valuation of our goodwill intangibles and fixed assets. None of these changes our ability to generate strong cash flow as these quarters has once again demonstrated, leaving us flexibility to navigate a more uncertain market landscape. Simon Ayat will discuss the charge during his remarks.

I will now comment on our Q3 operational performance followed by the short-term outlook and conclude with a brief update on our strategy implementation. Our third quarter results were very positive in a mixed market environment, driven by strong international performance. The international margins improved and we delivered more than $1 billion in free cash flow.

Additionally, we recorded the best ever quarterly safety performance for the company, an outstanding achievement setting new safety performance benchmarks for our industry. All-in-all, very solid quarter aligned with our performance vision and our focus on returns. I am very pleased with the results and I am proud of the Schlumberger team that delivered this performance.

The financial results this quarter were driven by the strength of activity in the key international markets. Some activity picked in Russia, the CIS and the North Sea, the Far East and Asia regions also saw strong growth and new projects began in sub-Sahara and

North Africa. Only Latin America revenue was lower on reduced activity in Mexico and Argentina.

In North America, we experienced strong offshore sales offset by minimal growth on land. OneStim activity was modestly higher, recovering from the spring break up in Canada during Q2. Towards the end of the quarter, however, we saw lower pricing and increased gaps in the frac calendar, customer award programs were constrained by cash flow.

North America land drilling revenue was essentially flat, despite rig count reductions as our fit-for-basin technology access approach equipped -- on equipment sales and leasing as offset decline. Cameron results closed in line with expectations. This included robust operating margins, building on sequential growth in most international regions, which were offset partially by declining activity in North America at the end of the quarter.

Our international performance this quarter was very solid, with the high double-digit basis points improvement in our margin on the back of 3% sequential revenue growth. More than two-third of our product lines and GeoMarkets posted both sequential revenue growth and margin expansion. Leveraging [indiscernible], offshore and exploration activity mix, and the deployment of new technology.

At the closing of this quarter, half of our international GeoMarkets have posted year-to-date double-digit revenue growth. This improvement in international margins was achieved, despite the lingering and sustained effect of a handful of contract that are highly dilutive.

Without the effect of these underperforming business units, our growth in international margins would have been even greater. We are making progress engaging with our customers on those contracts, working collaboratively to improve terms and condition and to enlist their support to improve our operations.

As part of this plan, I have been taking personal actions during the last few weeks and anticipate visible progress during the coming months and quarters. Margin improvement and change on capital deployments are both part of our increasingly retail focused approach under the new capital stewardship element of the strategy.

As international activity increases, our deployment of CapEx will be further prioritized towards the business units with higher returns. This action together with increasing activity is starting to create some tightness in the market which is a catalyst for pricing improvements.

Now, I will move on to the short-term outlook for our business. Based on our Q3 year-to-date results and our outlook for Q4, we still expect full year high single-digit international revenue growth excluding [Cameron].

Sequentially, however, Q4 will include the seasonal activity decline in the Northern hemisphere and we anticipate only muted year-end sales. We are also closely monitoring the situation in the Ecuador following the recent events and are preparing for further decline in Argentina.

In addition, we expect seasonal weakness in North America as the fourth quarter develops. We are anticipating a year end slowdown in North America similar to last year due to operator budget constraints. However, this year the activity reduction has started earlier than last and we anticipate the second should decline in Q4 to be more pronounced than last year.

Moving on to the macro and medium-term view, the macro environment remains challenged with limited visibility, particularly in view of the global trade concerns that are challenging both economic growth and the rate of oil demand growth.

At the same time, the U.S. production growth rate has declined for the last eight months and it is expected to drop further in 2020 as a result of the reduced activity this year. Therefore, and that’s sort of a recession, the prospects for international activity growth remain firmly in place.

In this market context, our approach in North America land is under evaluation, for both the medium- and the long-term. We are already scaling to fit the OneStim business and we will be starting fleet as the market contracts during the fourth quarter.

At the same time, the strategic review of this market is well underway and will be completed during the fourth quarter for execution early next year. This gives me the opportunity to update you on our strategy execution.

Last month, we presented four key elements of that strategy that included leading and driving digital transformation in our industry, developing fit-for-basin solutions, capturing value from the performance impact for our customers and fostering capital stewardship. Performance is at the heart of this new strategic direction.

We are already off to an excellent start on digital. We presented our vision of the E&P industry to 800 customers and technology partners at the global SIS Forum in September. There, we demonstrated our firm commitment to an open digital environment that we believe can unlock further customer performance.

This Forum marks a new chapter for the digital future of our industry. The intellects from our customers and digital partners was far beyond our expectations and is already translated into sizable opportunities. The central JV is also an important part of our digital strategy and the announcement of its closing reinforces our leadership of, and commitments to the industry digital transformation.

We are also making progress with our new fit-for-basin strategic approach. In the release today, there are multiple examples of fit-for-basin technology, all of which drive our customer performance, such as NeoSteer at-bit steerable system and Aegis drillbit technology.

In addition, in North America, I am pleased to report early success of the technology access strategy, we have said and leasing of rotary steerable tools. This is a new channel that access to new markets where our participation was previously minimal.

Also in North America, our flagship project with Oxy in the Aventine Basin is now operating at scale. We have continuously improved operational efficiency, setting new frac goals in the Delaware. The value being created is shared through underlined commercial model and is a good example of our new strategy performance model approach.

Finally, as another base to our SPM strategy, we have big progress in our divestiture of Argentina assets as we have few offers in hand that we are altering with the anticipation to finalize with the other party during the upcoming months.

Since taking the role as CEO for Schlumberger, I have made the point of visiting many of our customers, our people and our locations. The reception by our customers bode for engagements and strategic direction has been very positive. The enthusiasm of our people has been highly motivating and their commitment is evident. The industry is acknowledging the need for higher performance in the New York.

All-in-all, I am very pleased with the initial steps of our strategic execution and we have internal and external alignments with our vision to become the performance partner of choice in our industry.

I will now pass the call over to Simon.

Simon Ayat

Thank you, Olivier. Ladies and gentlemen, thank you for participating in this conference call. Third quarter earnings per share was $0.43 excluding charges and credits. This represents an increase of $0.08 sequentially and a decrease of $0.03 when compared to the same quarter last year.

During the quarter we recorded $12.7 billion of pretax charges driven by market conditions. These charges primarily relate to goodwill, intangible assets and fixed asset impairments. As such this charge is almost entirely non-cash. Details of the component of this charge can be found in the FAQs, at the end of our earnings press release.

These impairments were calculated as of August 31, 2019. Accordingly, the third quarters' results benefited from a $27 million reduction in depreciation and amortization expense. Approximately $21 million of this $27 million monthly reduction relates to the production group. The remaining $6 million is reflected in our corporate and other line item. The after-tax impact of this one-month reduction is approximately $0.015 in terms of EPS.

Our third quarter revenue of $8.5 billion increased 3% sequentially, largely driven by our international operations. Pretax segment operating margin increased by 113 basis points to 12.8%.

Highlights by product group were as follows. Third quarter reservoir characterization revenue of $1.7 billion increased 6% sequentially. While margins increased 149 basis points to 21.8%. These increases were primarily driven by strong international wireline activity and higher WesternGeco multi-client license sales in North America.

Drilling revenue of $2.5 billion increased 2% driven by stronger drilling activity in Russia, China and Australia. However, this was partially offset by lower revenue in North America land and Saudi Arabia. Margins were flat at 12.4%.

Production revenue of $3.2 billion increased 2% sequentially, primarily driven by strong international completions activity. Margin increased 148 basis points to 9.1%, primarily driven by improved international margins from higher activity. The reduction in depreciation and amortization expense as a result of the third quarter impairment charge accounted for just under half of the margin improvement.

Cameron revenue of $1.4 billion increased 3% sequentially primarily driven by OneSubsea margins increased 29 basis points to 12.7%. The book-to-bill ratio for the Cameron long-cycle business was 0.8 in Q3. The OneSubsea backlog increased -- decreased to $1.8 billion at the end of the third quarter. This decrease reflects a cancelled project in the North Sea.

Now turning to Schlumberger as a whole, the effective tax rate excluding charges and credits was 16% in the third quarter, as compared to 16.7% in the previous quarter. We generated $1.7 billion of cash flow from operations during the third quarter.

Our net debt improved by $347 million during the quarter to $14.4 billion. We ended the quarter with total cash and investments of $2.3 billion. We received $250 million in cash and just after the quarter as a result of the closing of the Sensia joint venture.

During the third quarter, we issued the three tranches of EUR500 million notes each. The first is due in 2024 at 0%, the second due in 2027 at 0.25% and third due in 2031 at 0.5%. These notes were subsequently swapped into U.S. dollars with the weighted average interest rate of 2.5%.

During the quarter, we also repurchased $783 million of our outstanding 3% notes due in 2020 and $321 million of our outstanding 3.625% notes due in 2022. These actions have served to improve the company's capital structure.

During the quarter, we spent $79 million to repurchase 2.2 million shares at an average price of $36.64. Other significant liquidity events during the quarter included, CapEx of $415 million and capitalized costs relating to SPM projects of $194 million. During the quarter, we also made $692 million of dividend payments. Full year 2019 CapEx, excluding SPM and market client is expected to be between $1.6 billion and $1.7 billion.

And now, I will turn the conference over to operator for Q&A.

Question-and-Answer Session

Operator

Thank you. [Operator Instructions] First we go to the line of James West with Evercore ISI. Please go ahead.

James West

Hey. Good morning, Olivier.

Olivier Le Peuch

Good morning, James.

James West

So, Olivier, as you exited the third quarter, could you describe what the market conditions were, how we should think about the fourth quarter? It sounds like sequentially down. And then also, how is 2020, in your view, starting to shape up?

Olivier Le Peuch

Yeah. No. Let me comment on this, James. So I will separate my comments between international and North America land, specifically. So first on the international side, I think, similar to what we see every year, there is a seasonal effect in the Northern Hemisphere due to the winter season that affects primarily Russia, it affects then China and the North Sea.

And we see and affect every year on the rig activity and our revenue that we collect from those regions. So this is not unusual. We don’t expect any minimal impact than we have every other year, but I think this is something to account for.

We typically on year-ends also have year-end sales of product equipment and we believe this could happen, but this will be as we have seen the last two years or three years, fairly muted annual sales as the operator will remain cautious on their budget in preparation for 2020.

On the flip side, on the North America land, as I did comment in my introduction remarks, I believe that the rate of decline will be at a risk to be higher than last year as for two reasons. The usual holiday season break in the winter, I think, is looming. But also we have seen that the [inaudible] absorption and discipline on operating within cash flow has led operator to cease operation earlier than they did last year.

We have started to give notice of operation gap from September and the rate of the decision has been accelerating. So we expect as a consequence that the rate of decline quarter-on-quarter in North America might be higher than last year sequential delcine.

Now turning to next year, I think, at some of -- a major, as I commented, a major recession or major event geopolitical or economic events. We foresee that international growth will remain in place, albeit possibly at a different lower rate possibly. But we believe that the strength of offshore activity deepwater or shallow will not cease overnight and we continue to support 2020 international growth.

When it comes to North America, it’s too early to call. I believe that the market is still lacks stability and we can only comment on the rebounds in Q1 that is usual rebounds from the holiday season that we foresee happening, the strengthening of activity from January, possibly strengthening of pricing, but this is too early to call.

James West

Okay. That’s very helpful, Olivier. Thank you. And then with respect to the charges that were taken during the quarter, understanding they only helped EPS by about $0.015 here. What drove the timing here of taking these charges especially kind of midyear, why not end of last year?

Simon Ayat

James, Simon here. I will take this.

James West

Hey, Simon.

Simon Ayat

Basically -- hi. During -- there are two events that took place in the third quarter that made us look at closely at the carrying value of our assets. One is the new strategy by Olivier, which has been publicly announced and discussed, and we continue to develop it as we go forward. The other one is the market valuation that we have seen. Although, we have touched lower points before, I will take the second reason first and then discuss the first one.

James West

Sure.

Simon Ayat

Although, we are -- we have see lower valuations before, but during the third quarter were more consistent and frankly very low point, unfortunately. That forced us to look at our goodwill and intangible carrying value.

As you are aware, most of the goodwill and intangible comes from two major acquisitions. In 2010, we did the Smith acquisition, which was almost 100% paid by stock. We issued 138 million shares at that time, and then, Cameron in 2016, where we paid almost 78% in stock. The book value of those two acquisitions were booked for Smith at $56 per share, for Cameron at $72 per share.

As such, our carrying value of the goodwill and intangible it’s inflated, given where our valuation is. And this has taken very long analysis, pretty scientific actually and we reached this number.

Why it is in Q3? Because it is a Q3 event. We record things as they happen. We don’t -- we are not influenced by timing. Yes, normally at the end of the year you do a more thorough review. But given the changes we have seen in Q3 we did this thorough review in Q3.

The other items that you have seen, which is mainly increased asset impairment and mainly in OneStim North America, is a reflection of our actions toward this activity. As Olivier mentioned, we are looking at this activity. We have excess capacity there. And we have taken the decision that this is unfair. We don’t see it as reactivated in the near future and we took the decision to write it off.

So I covered the reasons behind it. I know I answered more than what you asked, but I wanted to make sure that everybody understands our approach and why it is a Q3. It’s not just because we had a change of mind. It is a reflection of real issues that took place in the third quarter.

James West

Got it. Thanks, gentlemen.

Simon Ayat

Sure.

Olivier Le Peuch

Thank you.

Operator

Next we go to Angie Sedita with Goldman Sachs. Please go ahead.

Angie Sedita

Good morning, Olivier.

Olivier Le Peuch

Good morning, Angie.

Angie Sedita

So I appreciate the color on the international markets and a little bit of a follow-up there on pace of growth for 2020. I know it’s early, but do you still feel comfortable with mid single-digit revenue growth in 2020 or is it still a bit early to tell for sure? And then also, I guess, I would add to that, the asset sales that occurred in 2019, the impact on both revenues and margins?

Olivier Le Peuch

Yeah. Let me take that first and then I will address the second one. So, it’s -- I think to be clear as mid single-digit rather than low or high. I think it’s too early to pull and call at this point. Not that we don’t have good visibility. But I think the customer are still in the process of setting their vision for 2020 and are serving the macroeconomic factor that you all know about and I think we have to be cautious here.

We believe that the continuum of offshore activity and the momentum that the industry has set there is not here to stop, particularly on the deepwater side. But I think some other region and some other basin would be more at risk of a decline in activity or decline in reject for next year. So it’s too early to call, but clearly, we see growth in international next year.

So when it comes to the impact of the announcement -- announced divestiture, so we have three divestitures underway. One is already closed, the Sensia. That has been closed two weeks ago. The second one relates to the divestiture of asset to the JV that we own with EDC. And the third one relates to drilling and tubular accessories tubes to shape that we are divesting.

So when you look at the impact of these three on a yearly basis, the revenue will be short 2% of global revenue. The impact when you combine the three, when the three will be completely closed and completed and the impact on the earnings will be $0.01 to $0.02 for the year. So, Simon, may want to add more, but that’s the impact on a full year basis.

Simon Ayat

I just want to explain that two of the transactions or the divestitures are basically creating JVs or one is creating the JV of Sensia, the other one enhancing the JV of EDC Drilling in the Middle East. So we are losing the revenue and the reason we are not losing as much in earnings is because we will have a higher pickup of our equity participation in the two JVs.

And the third one has a really minimal impact on the profitability. And therefore, as Olivier mentioned, it’s $0.01 to $0.02 per year impact on margin. However, the revenue is a larger impact, less than 2% of the total.

Angie Sedita

Okay. Perfect. That’s very, very helpful. I appreciate the color. And then, I guess, a little bit further on the international side, thoughts around the pace of margin growth for 2020, given your initiatives on the transformation, digital, and obviously, these asset sales as well? But -- and then these contracts that you are trying to address in the Middle East, so just talk about margins for next year on international and the pace?

Olivier Le Peuch

So I will not comment on the target -- the target’s not set. But the ambition we have is to continue to grow and expand our margin internationally and we have seen that we have the high double-digit basis point improvement during the quarter. I will continue to look and work using the strategy to execute to a part of margin expansion for the year.

So if you look at it from a very high level, there are three buckets what -- that we see. The first one relates to our ability to resolve some of the underperforming business units, the highly dilutive contracts that are lingering and impacting our results.

We have made some progress, not to the pace I would have expected necessarily on being very ambitious this year, but I think, I am confident that we have a path to improve this that will impact the results next year.

Similarly, in the first bucket I would put continuing to execute using our new modernized platform of operating system. And I think we are setting a two years rollout to complete our transformation internationally and I look forward to have also some pull-through on that operating model with efficiency of self-help, as we call it, impact on our margins.

And next bucket is, obviously, I will call it the digital and all the technology, trying to replicate some of the success we have seen in North America oversees in technology access to third-party regional players who are accessing our technology and using it in lieu of CapEx in terms of the markets.

And digital where we expect that the outcome of what we have just done last months and the momentum that we have gained in the industry will give us an increased share of the digital market and as such will be contributing to the margin.

So last would be further long-term outlook and the performance model and other horizon of growth that we will disclose later. But I believe these two buckets will clearly impact the next two years or three years, but it’s difficult to say at this moment. But our ambition is to grow the international margin next year, indeed.

Angie Sedita

Thanks. I will turn it over, guys.

Simon Ayat

Thank you.

Olivier Le Peuch

Thank you.

Operator

Next we go to David Anderson with Barclays. Please go ahead.

David Anderson

Hi. Good morning, Olivier. So on your fit-for-basin strategy, obviously, you are focused on the North American business right now and after writing down assets during the quarter, you talked about more of a strategic review in the fourth quarter. We are talking about 2020 numbers, but it’s kind of hard to get there with all these changes happening in North America. I was wondering if you could just kind of lay out a little bit of kind of what you guys are looking at, like, what parts of the North America business are under the strategic review and should we expect broader retrenchments in certain parts of the U.S. land business next year?

Olivier Le Peuch

No. A very good question, David. So as we have explained during the strategy presentation back a month-and-a-half ago, we are doing a deep review of the entire business we are operating on North America land and this is not only OneStim but every part of our business there.

And the first thing we are doing is we are doing a scale-to-fit approach to the market view, meaning that we are not doing up to scale. We are doing up to scale where we believe it fits for every business in every basin.

So this is what we are in the middle of doing as we speak for OneStim in each of the basins where we operate and for each of the product lines where we are currently operating in the North America land.

So that is the scale-to-fit approach to our strategy to review the outlook, to review our market position, to review our strengths, anticipate the technology and opportunity with customers, and making a decision at that point on how to treat this portfolio and move forward with a reduced portfolio more fit to one or multiple basin as opposed to all basins or make a decision to change the business model to grow for technology access, setting up our technology as opposed to operating our technology. So that's the approach we are taking.

As we speak, we are complement this by recognizing that there are some technologies that we have developed that are highly successful and we continue to feed our technology team with what we need to differentiate in basin to create the performance impact.

We have seen some of the release of the -- and the success we have had have helped us actually maintain is not last quarter, slightly improve our margin, excluding the term of effect in North America land due to the effect of this technology success. So we will continue to bring us technology and we are looking at our portfolio of business in North America and making a decision to exit or continue and expand or move to a new business model. So to early to say, but yes, all option on the table, partly for the OneStim, as it is certainly as you know, they are dilutive business to our all business in North America.

David Anderson

Thank you. Kind of a slightly different question on North America, you highlighted some offshore strength which was a bit of a surprise and granted there's some seismic here. But you made a few comments about offshore being a support for the market next year. You actually highlighted international there. But I am just wondering if this is a harbinger of things to come for offshore in general and just trying to tie that into the lower subsea Cameron orders this quarter. How do you see that trending over the next two quarters, because it sounds like you are somewhat optimistic on offshore, but I don't want to put words into your mouth there?

Olivier Le Peuch

No. Let me comments on this. So the view I have is that the offshore market is a market that doesn't compact and expand on a monthly or on a quarterly basis. It's more steady and it is more longer -- long cycle and that's partially true for deepwater.

So we have seen growth because we slow recovery of deepwater for the last 18 months. We have seen faster recovery of the shale in the last 12 months. So we believe that some of these fundamentals will stay in place. Not necessarily long-term, it's too early to call, but to the medium-term it is the case. So I believe that the momentum that this market has is here to stay for the foreseeable six months to nine months, beyond that is too early to say.

The FID and the rate of FID for subsea have not necessarily slowed down. I think some of them have been delayed for technical reasons. But we expect some of the key FID to be approved later part of this year, early next year.

The subsea or OneSubsea, looking this quarter, I think, is a matter of scheduling of how and when this booking comes in seconds. We are still having a book-to-bill ratio year-to-date largely above 1 for OneSubsea. So as you can see that the subsea recovery is in place and we continue to unfold.

David Anderson

Okay. Thank you.

Operator

Next we go to the line of Scott Gruber with Citigroup. Please go ahead.

Scott Gruber

Yeah. Good morning.

Olivier Le Peuch

Good morning, Scott.

Scott Gruber

Can you provide some color around the outlook for improvement under the new strategy? In EBITDA dollars, in free cash dollars, since assets are being removed from the portfolio to optimize around the core, margins will obviously improve. But could you provide some color around your ability to grow cash flow and free cash flow dollars, assuming limited market assistance?

Olivier Le Peuch

I think the first and foremost ability that we have to grow cash flow is to improve margins, clearly, and that's the first foremost. The next one for cash flow is ability to improve our working capital efficiency, both of which we have demonstrated this quarter.

Long-term, obviously, it depends on the mix and where we have seen growth in margin improvement. So I still believe that fundamental international growth that we is still in place where we have a premium on margin compared to North America.

The effects and execution of our strategy, scale to fit to fix North America and to enhance our net margin in dollar, as well as in percentage were both combined to improve our margins. We believe that the asset efficiency that we have improved over the last couple of years due to our transformation, combined with modernization of our working platform to -- will continue to have positive effect on working capital efficiencies. So you combine all this, I still believe that the ability to deliver cash will only improve and the total cash conserving, absent of a recession will improve going forward. You want to add anything, Simon?

Simon Ayat

You said most of the things. The issue of the cash flow definitely it is earnings first and then the management of our capital structure and the working capital. We normally do very well in the second half, as you have seen. Third quarter was $1.1 billion and we anticipate the fourth quarter to be even better than this performance.

In terms of next year, we have a plan to continue to be very cautious in our capital deployment, and this will help the free cash flow and continue the performance on our working capital. Our working capital is normally subject of receivables inventories.

We know where we stand. We always have our pockets of collections here and there and we intend to soften them. And we feel comfortable between our generation of cash from operations and the -- some of the divestitures that are coming will be more than sufficient to meet all our commitments, including the dividend.

One more thing to add about next year, you don't see lower SPM investments because of what we already announced that we are going to divest and we are going to -- it doesn't require as much as we have done in the current year.

Scott Gruber

Got it. And at this point are you comfortable with the mentioning of the drop in SPM CapEx?

Olivier Le Peuch

I am sorry?

Scott Gruber

Are you willing to mention where SPM CapEx is going next year?

Olivier Le Peuch

Well, SPM CapEx this year is around 750. And we anticipate that this will be much lower next year. I mean, when -- I don't know exactly where, we have not finalized all the plans, but start of 500, 400, probably.

Scott Gruber

Got it. And then one additional question, one tweak to the strategy seems to be a willingness to selectively sell or lease technologies in various markets to third parties, which will then provide the service of wellsite deployment. Can you provide some color on this tweak to the strategy and what is the breadth of this strategy by-product line? Which geographies are you looking at deploying the new strategy? And importantly, how do you get comfortable around not creating additional competition in these various markets?

Olivier Le Peuch

Yeah. Scott, this strategy, we call technology access subset of fit-for-basin, where we believe that in target basins, particularly the hybrid basin, the capital intensity that is required to fulfill and prosper in the basin and the high competitiveness by local players is out there in both condition that is capping our market access.

So we have realized and we have tested this in North America and we are accelerating the opportunity to lease or sell selective technology that we believe can help us access markets that we were not accessing before.

So these are two consequences. Our first is new business model that is attributive to our goals and our returns. And, secondly, is to lower our capital intensity, as we typically sell these assets. So we don't require CapEx to expand in this marketplace.

So where do we do this? Typically, where there is a set of local competitors, for one, which is highly located in North America, where if you were to take the drilling space, there more than 50 local competitors are competing in drilling services. We expect this to be the case in Middle East where there are regional players and other parts of the world where there hybrid basin.

But when it comes to product line, the drilling is one, obviously, this is where we started. But we will not stop there. We are doing it for some of our perforating equipment in Wireline and continue to expand and we are currently accessing a part of the strategy for every product line. The portfolio that we are waiting to sell was specifically designed to sell and or lease to third-party.

This tool capacity we have as well helps because we provide detailed services and retooling of this equipment, so to assure that the performance of this technology is up on par with the capability of this technology.

So am I comfortable? Yes. When we put the right term and condition with those third-party company to operate in a different scope with the different set of customer. We are clear and we are becoming increasingly comfortable, as well as they are, as they are successful in deploying our technology and we are successful in supporting them and then expanding our market access.

Scott Gruber

Got it. Appreciate the color. Thank you.

Olivier Le Peuch

Thank you. Welcome. Thank you.

Operator

Next we go to Connor Lynagh with Morgan Stanley. Please go ahead.

Connor Lynagh

Thank you. Good morning

Olivier Le Peuch

Good morning.

Connor Lynagh

I wanted to stick with the CapEx team here. In the core oil services business, how would you think about how much you can take out in 2020 spending, obviously with production group activity coming down, I would think there would be a decent amount of sustaining CapEx reduction there, but any thoughts around that.

Olivier Le Peuch

I think it’s too early to be specific and got it down to the production group at this stage. We are pretty advanced on that. We execute the strategy in North America where there are similar volumes of production group operating there and this is too early as some of the activity level is not set yet for North America and popular.

Globally speaking, as announced that we shared before has been 5% to 7% we believe. We believe with the mix of the product line that we have, the recent divestiture of some asset, heavy product line, combined with what we anticipated in North America. I would say almost independently of the strategic execution, we mean that we will stay within the guidance.

Connor Lynagh

Okay. That's helpful. Thank you. I guess a broader question here, you have continue to highlight your digital strategy. I think many investors have a hard time thinking through the addressable market or how big a business this could be for you? How do you think about what the opportunity set is in a multiyear view for that business?

Olivier Le Peuch

Actually, it's a very big market. I think, you said, long-term for the oil and gas industry is one of the biggest market that will grow over the next five years to 10 years. I believe if I had to judge by the response from oil customers, the desire they have work with us first and the alignment from oil partners industry, a leader in the diesel technology or cost of industry, which are all aligning to our business. So the price is big.

Now the challenge is to monetize. So as we said, there are three factor and three direction there. One is the -- one is -- what revenue in the Sensia has established a leadership into digital workflows, and we believe they will only expand the adoption of DELFI by other customer today is only about a growth and this expansion remain accelerating the rate of growth of a side as a segment in our portfolio and it comes at margin that are credit to our business everywhere. So I believe this will only continue and accelerate.

WesternGeco is the data digital -- data digital branch of our -- first line of our business and I think we are termed and transformed with success, WesternGeco from an asset heavy into an asset light product line last year and we have technologies with an aggressive detailed strategy where we have established data platform GAIA that we have released, that will become the industry reference by exchanging and monetizing data as you have seen with the announcement of IHS Markit joining us on this platform.

And finally, we will continue to deploy digital at the edge in operation. The sense that -- of this ambition for the production space and you have seen that we are expanding deal production into the ring, you will see that will continue to make announcement in that space this operation.

And Ora, the Wireline, latest generation of fleet sampling characterization is becoming full digital and is success and expansion will become a key factor of this success. So this multi-dimension is large and its long-term and we are leading in this space.

Connor Lynagh

Thank you very much.

Operator

Next we go to Kurt Hallead with RBC. Please go ahead.

Kurt Hallead

Good morning.

Olivier Le Peuch

Good morning. Good morning, Kurt.

Kurt Hallead

Thank you. Thank you for all the great color here this morning. I -- follow-up question I had kind of does sales back to the strategy presentation from a month and a half ago. And in that presentation, you -- Olivier you clearly stated, the intention to increase international North American margins by at least 500 basis points. And to my curiosity that in the context of that 500 basis point improvement how much of that can be attributed to the improvement in the current contractual dynamics vis-à-vis the execution of the strategy you outlined, specifically the digital, the fit-for-basin and the performance models, if you could provide some additional color on how you see that kind of mapping through that be great?

Olivier Le Peuch

No. Kurt, I think, as I did comment to Angie before, I see that the expansion of the performance EPS would gone for two or three buckets. And one of them is short-term and is the one addressing is more personal and contractual, is the one addressing underperforming business unit and is our ability to operate at the benchmark being performance and that’s the performance transformation we are doing internally that’s the self help if you want.

So that is the target of our -- all of our team and the focus is very high on this and our personal overview on each of these every quarter. For the next, you mentioned, the next bucket, and I think the one that will certainly have the most impact the next three years to five years will be the mix of digital, fit-for-basin and technology assets internationally.

We have technology assets in Middle East, we will have digital everywhere and we will have some fit-for-basin from Russia to Latin America from China to Mexico. So that's what we expect to and I am confident that as we deploy this over the next few years. These three fit-for-basin, performance model and digital will contribute on this.

Kurt Hallead

Right. I appreciate that. And then a follow-up I had was on the, you gave some broad general guidance in terms of business direction. So I am just kind of curious, when you look at the lower depreciation, it was about a $0.015 impact for the core for the quarter that I guess was only one month. So if you annualize you should get a positive $0.18 per share benefit from lower depreciation. I don't know it seems to me like the headwinds on the market potentially offset that benefit as you head out into 2020. Do you have any kind of initial perspectives on that? Do you think, my assumption is kind of my gut instinct is correct on that?

Olivier Le Peuch

So, first, I think your maths are correct. I think the annualizing this $0.015 will generate more or less the $0.18 net impact in same scope. Now would it be offsetting to the decline. I think it's early too early to say.

I think again we are looking at the outlook. As I commented before the outlook in international remain likely positive on both. The outlook on that is too early to call at this point that we reached the bottom in that and we expecting to expect 2020 platform, 2019 or with the regional outlook on in 2020 too early to say. So I will remain cautious about calling this at this point, but I think your assumption quite strong for the impact in this.

Kurt Hallead

Okay. Great. And then one -- maybe one last one, I noticed in the press release you mentioned that there was a project cancellation in subsea, was that a project that came through earlier in the year or was it kind of a dynamic?

Olivier Le Peuch

No.

Kurt Hallead

Yeah.

Olivier Le Peuch

No. Actually no. It's an order booking that was awarded to OneSubsea sometime ago and more than one year or two years ago. That was put on the back burner from future FID and this asset said was actually subsequently sold from one operator to the next and the next and the next operator, other than the gain on -- decided to cancel and rethink its option for the FID and as such we have to remove the booking from the backlog. That's as simple as that.

Kurt Hallead

Okay. That's great. Thank you so much for that. Appreciate it.

Operator

Next, we go to Sean Meakim with JPMorgan. Please go ahead.

Sean Meakim

Thanks. Good morning.

Olivier Le Peuch

Good morning, Sean.

Sean Meakim

So Olivier to follow up on SPM, it's been a challenging few months in terms of the macro and Argentina and Ecuador, based on your comments of lower CapEx spend next year, does that suggest you are still confident and affecting the asset sale in Argentina in the near-term? And then also just you wrote some smaller SPM assets, can you maybe elaborate on their impact in terms of CapEx and just -- are we still confident that cash flow for SPM as a whole is exiting 2019 positively, now we have some impact on production in Ecuador?

Olivier Le Peuch

Yeah. So let me comment one by one. So first, the process of the asset divestiture in -- for Bandurria Sur in Argentina is progressing. We have completed the first phase, where we received actually offer and we have offers few others in hand that we are looking as we speak. So we still do anticipate and we work every step to get signing and closing in the following months. So, yes, we account for this as an impact for 2020.

We are not making a decision at this point to divest any other assets. The Ecuador, the Torxen will be the main asset that remained on the SPM portfolio. The other asset that we are working with to -- in the interim are much smaller, we are initiated a few years back are not meaningful in terms of the impact on CapEx nor in term of production revenue for SPM.

So, in term of cash flow, yes, our commitment is to operate within cash flow and the cash flow will be positive and improving next year compared to this year considering the divestiture we are making. And we are committed to continue to keep it is, so we will be lower CapEx and increased cash flow from the SPM contribution.

Sean Meakim

Thank you for that. That's very helpful. And then, just given the growing importance of digital in your go-forward strategy are you able to quantify the baseline of digital contribution today. I know some parts would be difficult to quantify, but in reference point of the common investor question. And with respect to the margin impact, is it mostly accretion from software, just higher margin product or their internal OpEx benefit you can get as well.

Olivier Le Peuch

No. Sean, I think, we look at it from a digital as a business that has two characteristics. First, it is something that is transformative for the industry and is something that is having high price for all operator. So we need to be in this business and we believe the rate of growth of digital is here to stay on the accelerator. So it will be part of that and that's really the one -- the most important factor.

The other characteristic is that when we operated well and we have the right IP and operating model there, we have been able to be generating margin that are highly accretive, which has been the case for the last 10 years to 15 years with the size.

So it will continue to increase, its contribution going forward, but I cannot come out at this point, until we see the 2020 plan and we see that the outcome of all leads and opportunity that we have reached during the last months following the SI score.

Sean Meakim

Okay. Fair enough. Thank you.

Operator

And ladies and gentlemen, our final question will come from Chase Mulvehill with Bank of America. Please go ahead.

Chase Mulvehill

Hey. Thanks for squeezing me in. I guess the first one, I will start on 4Q. I am just trying to think about the outlook for fourth quarter. I guess 3Q you have $0.43 if we kind of gross it up for the $0.03 of the lower D&A for the full quarter. That's a $0.46 number and it sounded like North America will be significantly down in the fourth quarter, and I wasn't sure about international if it will be up or not from your commentary. But can you maybe help us kind of bridge the gap from that $0.46 number and how much EPS could potentially be down?

Olivier Le Peuch

I would comment on the activity, I will not give quantitative guidance on the EPS at this point and I will repeat what I shared during my introduction remarks. The -- what we see on international is sequentially, we see an anticipated activity decline in rigs and activity can large will be down due to seasonal effect, winter season in Northern Hemisphere that is here to stay up once every year.

The magnitude of it will depend in Russia, particularly in the North Sea, Russia and China to this extent have this effect. We don't anticipate to see a tangible, if any year end sales that could offset this partially or fully and we have some exposure as mentioned as counted before in Argentina. That could also further decline due to the investment climate that has moved there.

And finally, you heard about the Ecuador. Ecuador civil unrest that happened week and a half ago, which have some consequence on our operation for about a week, a bit less than a week, where we restored production at this stage. But -- so this is a combination of impact that we foresee for international. That means not activity increase for sure.

Now, in the North America, I think, it's more difficult to exactly point -- pin point where the market will end up internal activity, but the rate of decline on the permits, the rate of decline on the risk that has accelerated from July to September. The rate of decision in the last few days and weeks on the pulling pipe commitment for the following three months has accelerated. And as such, we anticipate that the year-on-year the sequential decline from Q3 to Q4 in North America will be greater than it was last year.

Chase Mulvehill

Okay. All right. Understood. Got all that. And then just coming back to Sean's question on the digital side, it sounds like that you have got a lot of revenue opportunity on the digital side as we kind of move forward over the medium to longer term. Could you talk about which businesses, you see the most opportunity to leverage digital and then ultimately how meaningful of a revenue opportunity do you think this could be for Schlumberger?

Olivier Le Peuch

The one first and foremost the business line that will benefit is the SIS and then WesternGeco, which are already fully invested into the digital workflow and digital data marketplace. So that will continue to expand, relative growth I think needs to be to be seen, but the momentum is there and the early success -- early indications are quite encouraging.

The next one, I would say, is Drilling. We happen to have a platform including the -- in the future and some software including the Hilox [ph] and drill plan that we announced commercial during this assessment. That when combined give the opportunity to create a digital automation at the scale of a week, full operation, but the scale of self process in drilling rig and this can be productized and applied to platform offshore to platform and the rig in hand. And we are working with operator as we see speak to accelerate this productization and to make it a meaningful impact of the drilling.

And finally, production will be building on the success we are willing to create with JV -- Sensia JV and working very closely with Rockwell Automation. I will be speaking to the Automation Fair in a month in Chicago and meeting their Board to make sure that we are fully aligned to build the support to this Sensia JV.

Chase Mulvehill

Got it. Understood. All right. I will turn it back over. Thanks.

Olivier Le Peuch

Thank you very much. So before we conclude the call today, I would like to reiterate three key points. First, our Q3 performance was very solid. We expect international margins, while mitigating the North America land activity headwind. We delivered strong free cash flow and recall safety performance.

Second, the new company vision is gaining industry wide acceptance and the initial progress on the strategic execution is very encouraging.

Third, we have adopted capital strategy as an operational mindset to deliver increase the terms, to investment discipline, optimization of working capital and overall margin expansion.

Ladies and gentlemen, thank you very much for your participation today. Lya, you may now conclude the call.

Operator

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