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WFT - Q3 2015 Weatherford International PLC Earnings Call

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PRESENTATION

Operator

Good morning. My name is Lori and I will be your conference operator today. At this time I would like to welcome everyone to the Weatherford International third-quarter 2015 earnings conference call. (Operator Instructions) As a reminder, ladies and gentlemen, today's call is being recorded.

Thank you. I would now like to turn the conference over to Karen David-Green, Vice President, Investor Relations and Corporate Communications. Ms. David-Green, you may begin your conference.

Karen David-Green - *Weatherford International PLC - VP IR & Corporate Communications*

Thank you, Lori, and good morning, everyone. With me on today's call from Houston we have Bernard Duroc-Danner, Chairman, President, and Chief Executive Officer, and Krishna Shivram, Executive Vice President and Chief Financial Officer.

Before we start our comments I'd like to remind our audience that some of today's comments may include forward-looking statements and non-GAAP financial measures. Please refer to our third-quarter press release for the customary caution on forward-looking statements and a reconciliation of GAAP to non-GAAP financial measures.

And now I'd like to hand over the call to Krishna.

Krishna Shivram - *Weatherford International PLC - EVP, CFO*

Thank you, Karen, and good morning, everyone. Today I'm going to focus most of my comments on the cash flow and the balance sheet, including debt and debt covenants. I will start with a brief recap of our operating performance in the third quarter.

Sequential incrementals were 2% and year-over-year decrementals were 29%, which are not only excellent but also leagues ahead of the decrementals registered in 2009. On a full nine-month basis, year-to-date decrementals were a best-in-class 28% and easily beat our larger peers, whose decrementals range between 31% and 40%. These low decrementals are a testament to the effectiveness of the cost-management efforts made by the Company this year in response to the down cycle.

Loss per share for the quarter before charges and credits was $0.05. Revenue of $2.24 billion for the quarter decreased 6% sequentially and 42% year-on-year.

Operating income margins before R&D and corporate expenses improved by 47 basis points sequentially to 5.4%. On an overall basis, sequential improvements in our North American operations and our international Land Drilling Rigs business more than offset a decline in our international performance.

Below operating margins, both our R&D and corporate costs show sequential declines, reflecting cost-reduction steps that were taken. Going forward, both R&D and corporate costs will continue to trend down from third-quarter levels.

Foreign-exchange losses consumed $0.02 of EPS, and asset write-offs in sub-Sahara Africa of $0.01 completely offset a gain of $0.03 on repurchasing long-dated bonds that were quoting well below par during the third quarter. In addition, this repurchase will reduce annual interest cost by $15 million in 2016 and beyond.

The tax benefit recorded in the third quarter reflected the tax benefit on the losses in the US primarily, which are recoverable, partly offset by tax provisions internationally, where we continue to be profitable. The weighted average tax rate for the year will be in the low to mid 30%s and will be a net tax benefit.

In summary, our continuing cost-management efforts and improved North American operating results, coupled with the relative resilience of our international margins and a boost from our rigs businesses, allowed us to improve sequential operating income on $153 million lower revenue.

Moving on to net debt and cash flow now, net debt reduced by $28 million to reach $7.19 billion at the end of the third quarter, reflecting positive free cash flow from operations of $123 million. The third quarter is normally a challenging quarter for free cash flow, as it has a higher cash interest payment to bondholders by about $100 million compared to the second quarter.

This year it has been even more challenging than other years because, in addition to the extra cash interest burden, we have $33 million of net cash consumption on the Zubair contract and $46 million of cash severance payments. Despite these headwinds, our focus on actively managing our working capital, CapEx, and our cost base has resulted in the reduction of working capital by $170 million, and CapEx dropped by $56 million from the second quarter to reach $131 million for the third quarter. This is the first time we have generated positive free cash flow in the third quarter of a year since the third quarter of 2010, in spite of much more challenging business conditions.

During the quarter, we paid $120 million as a one-time settlement of the Friedman case, which is the last class action lawsuit related to our financial restatements. In addition, we opportunistically repurchased $236 million of book value of our long-term debt, generating a one-time pretax gain of $35 million while also reducing our future annual interest cost by $15 million. This action demonstrates our confidence in generating enough free cash flow from operations consistently, allowing us to not only manage business needs but also manage maturing debt in 2016 and 2017, which we expect to repay with free cash flow.

Looking ahead to the fourth quarter, working capital will continue to generate positive free cash flow through to the end of the year. While we expect positive cash flows from the Zubair contract, based on milestone dates we are currently targeting, our capital expenditure plan for the year has now been revised down by another $100 million to $650 million, which is 55% lower than 2014 levels.

Our fourth-quarter free cash flow target is between $200 million and $300 million, which will make us free cash flow positive for the entire year for the first time since 2010. Coupled with first-quarter 2016 free cash flow, which we also expect will be positive, this will fully finance the maturing bond of $350 million in February of next year.

As of September 30, available liquidity was $1.7 billion, meaning we have a large borrowing cushion still available to us.

I would like to clarify a few matters around our covenants. Firstly, we have no financial or leverage covenants. I repeat, we have no financial or leverage covenants at all on our public bonds. There are also no credit agency rating triggers, either.

The only covenant we have is on our revolving credit facility, and this is set at a 60% debt to total cap ratio. The definition of the covenant is as follows.

In the numerator, the number used for debt includes total debt, including adjustments for derivative positions. As of September 30, this number is $7.72 billion, which is $14 million higher than our 10-Q reported balance sheet debt number.

In the denominator, we add the same total debt number to the equity number to get the total capitalization number. The equity number is defined in the covenant definition as including minority or noncontrolling interest and allows an addback for foreign currency translation adjustments on nonmonetary assets held around the world. Due to the extraordinary strength of the US dollar this year versus most global currencies, the accumulated foreign currency translation adjustment as of September 30 is $1.4 billion.

Adding this adjustment to the 10-Q reported net equity of $5.75 billion, the adjusted equity for covenant purposes is $7.16 billion, resulting in a total capitalization number of $14.88 billion. The debt-to-cap ratio thus calculated as of September 30 is $7.72 billion of debt divided by $14.88 billion of total capitalization, which is 51.9%.

This compares to 51.8% as of June 30, meaning the ratio has hardly moved in Q3. This also means there's plenty of headroom on the covenant, and we believe there is absolutely no danger of breaching it, particularly in the projected scenario of continuous free cash flow generation and paydown of debt.

I would now like to offer a view on next year's cash flow. Our ability to generate positive free cash flow next year is dependent on three key variables.

The first is the net cash flow from the Zubair EPF contract in Iraq. Based on the milestone dates we currently forecast, which will trigger contractual payment, further augmented by potential settlements of extracontractual claims we have made on our customer for change orders, we expect 2016 to be a net cash flow positive year for this contract, with a year-over-year $200 million cash inflow versus 2015.

The second key variable is cash severance and restructuring costs. In 2015 we will end up spending about $170 million in cash severance costs by year-end. In 2016, our current view is that this would not exceed more than $20 million, meaning that year-on-year we would have an improvement of at least $150 million on this account.

The third key variable is capital expenditure. Based on the quantity of excess equipment we have in all product lines, we do not envisage any growth CapEx for 2016 even if activity levels increase.

We will incur maintenance CapEx, of course. This will be on the order of $400 million, which is $250 million lower than in 2015.

When you add the impact of these three variables together, the incremental cash flow in 2016 versus 2015 is $600 million. We are confident that variations in earnings and working capital should nullify each other.

Given a range of $150 million to $250 million of free cash flow this year, adding the $600 million on these three key variables will provide more than enough cash to repay both the February 2016 maturity of $350 million and the June 2017 debt maturity of $600 million.

We have also adopted much better controls on our external spend in terms of expenditure and CapEx purchase orders. There is sharing of equipment, inventory, and other materials right across the Company. Product lines and businesses have asset utilization goals and cash-flow-related targets, and all of these measures have helped in reducing cost, increasing discipline, and improving cash flow.

We now have a leaner and more focused organization, setting us up for strong incrementals in earnings and cash flow when activity levels increase over time. This can be achieved quite simply by constraining three variables as we grow.

Firstly, we will constrain CapEx until we mop up all the excess equipment we have and fully utilize the extensive infrastructure we have built globally over the years. We believe we can subsist on a maintenance CapEx diet for the next three years notwithstanding activity growth.

Secondly, we will constrain support costs until the support ratio gets to the 30% to 35% range. We believe this can be achieved both by reducing further our support structure as well as adding more direct headcount when activity returns.

And lastly, controlling external spending, particularly discretionary spending, is very well managed now.

In summary, we believe that we have managed the down cycle well, with best-in-class year-to-date decrementals of 28% that are better than all of our larger peers and materially lower than the 140% decrementals experienced during the last down cycle. This would not have happened in the past. Weatherford is truly a different company today.

With that, I will now turn the call over to Bernard.

Bernard Duroc-Danner - *Weatherford International PLC - Chairman, President, CEO*

Thank you, Krishna, and good morning, everyone. Our Q3 earnings per share is a loss of $0.05. Taxes reflect the fact that operating losses were in the US, which are efficiently tax-effected. We took $0.02 of foreign exchange losses and $0.03 on bond repurchases, and we took about a $0.01 write-off in SSA.

As a synthesis, operations delivered results consistent with a $0.05 loss.

It is difficult to describe a quarter in which remain unprofitable as successful, but it was. We're making operational progress.

And this isn't a random event. We see a similar sort of operational performance in Q4 and thereon.

I'll focus my comments today on three issues: the operating underpinnings of the Q3 results, forward views for Q4, and our direction.

First, operational underpinnings of Q3. North America, NAM, reported significantly stronger numbers in Q2. There were three factors behind the performance: costs, share gains, and Canada.

Cost cuts. We were early, and we went deep, and we did not pause in our efforts. We're transforming the US cost structure.

It goes beyond aggressively cutting direct costs since the decline in volume. We also addressed equally aggressively the support structure. We delayered the organization, rationalized facilities infrastructure, upgraded the talent bench both internally and throughout outside hires.

It is still a work in process; but through the year to date, a considerable change in operating economics has been achieved. The quarter's results in the midst of a miserable market is a clear demonstration of what can be achieved with relentless operating focus.

NAM is ahead of our international operations in efficiency. The international segments will catch on very quickly with NAM.

Measurable share gains in our core product lines. We had the most gain in drilling services, completion, and artificial lift. No particular basin is to be credited; depending on the product line it was widespread from California to the Marcellus, including Eagle Ford, Utica, and the Permian.

At the same time, we purposely scaled back operations and therefore share for two product lines: drilling tools, otherwise known as rentals, and pressure pumping. In both cases, there are essentially no barriers to entry, vast oversupply of equipment and increasingly punitive economics.

We won't pursue contracts that have punitive returns. We don't have to, and we won't. We'd rather let others do so.

Third factor, seasonal improvement in Canada. Canada helped, but it wasn't the factor it normally is. The seasonal recovery was somewhere between anemic and nonexistent.

What moved Q3 isn't Canada, or at least not Canada alone, by far. We're doing fundamental efficiency work in the US, addressing the structural as well as the cyclical and the talent bench. The US will be transformed operationally when we're finished. You should expect this trend to continue in Q4.

International was down sequentially, both revenues and margins. The cause and effect was different depending on the particular regions.

We experienced volume declines in Asia, SSA, and Latin America. SSA was made worse by an asset write-off. Latin America's decline occurred in Mexico, Venezuela, Brazil, and Colombia, in that order of descending magnitude.

We also had product and service delivery delays by client election in Europe and MENA, pushing revenues into Q4. Averaging Q3 and Q4 will provide a better picture where profitability will settle in those two large regions. MENA and Europe will be stronger in Q4.

And of course, we have continued strong performance in Russia and Argentina.

We are in the midst of the same operating strategies internationally as we have effected in NAM. We're one quarter behind in execution; you should expect the same results.

Q4 outlook. The overall market will be weaker in Q4 than in Q3 in both NAM and international markets. Our assessment of the near term is not that dissimilar to what has been shared by our peers.

We also agree somewhere between Q4 and Q1 will be the low for this cyclical depression. In this environment, our Q4 is likely to be as follows.

We expect NAM results to show lower revenues by low double digits; but we're planning for an operating income only marginally down versus Q3. International will be overall flat, both at the revenue and operating income line. This is in spite of the anticipated market decline. Here again, there will be regional differences.

Latin America results are likely to show lower revenues and commensurate declines in operating profit. We should manage decrementals in Latin America very efficiently; this region has done so consistently. Eastern hemisphere is also likely to show modestly higher revenues and an increase in profitability.

Adding all the pieces together -- that is, NAM and international -- Q4 is expected to show single-digit lower revenues and near-flat operating income. This is for the core.

The rigs, which are run standalone and had a respectable Q3, are likely to decline sequentially. A few of our rigs are demobilized and in transit in Q4 for a startup in late Q1.

The Company will be free cash flow positive in Q4. In fact, Q4 should be our highest free cash flow quarter for 2015.

We'll be free cash flow positive for the full year. In prior calls we indicated an estimated $150 million to $250 million range for the year -- for the free cash flow for the full-year 2015; we will likely close the year on the upper end of that range.

Net debt will decline to under $7 billion.

Taking a more detailed regional view for the international segment, MENA will play an increasingly important role as it unfolds its turnaround. The progression will come from incremental business in the two largest Gulf markets, Abu Dhabi and Saudi Arabia, which is also broadening with contractual wins in Algeria, Oman, Qatar, and Egypt.

We're gradually recovering market share lost years ago. MENA will be progressively stronger in quarters ahead. We're quite sure of this.

Russia was severely hit by the ruble exchange rate. From an incremental business volume standpoint our Russian region will continue to do well, driven by share gains in formation evaluation and well construction. Russia is likely to show an essentially flat quarter in Q4, in spite of the onset of the winter season. Clients are moving activity in opposite directions; but the net of both is a flat activity level.

Europe/Caspian activity will be stronger at the revenue line from Q3 levels, with some improvements in profitability coming out of the UK and the Caspian. These are primarily service and product line sales originally expected in Q3.

SSA activity will continue to experience slowdown and project delays. Our operations, though, have had some countercyclical gains and expect progress in well construction and overall market penetration. As a result, we expect revenues and profitability in Q4 not to deteriorate any further on Q3.

Asia has experienced much lower activity driven by large budgetary cuts in Malaysia, Indonesia, Australia, and China -- across the board, really. We expect activity-wise it has just about bottomed out, albeit at a very low level of activity.

A combination of share gains in well construction and completion together with aggressive cost actions underway is mitigating the volume and pricing declines. Asia results should be about flat on Q3.

Latin America will manage a further decline in Mexico, Colombia, and Brazil. Share gains in well construction, completion, and rigs services and a lower cost structure will manage decrementals efficiently and keep the region's profitability at a high level.

Both Eastern hemisphere and Latin America are aggressively implementing similar cost efficiency actions as an NAM, together with a tight focus on sales and marketing of our core product lines. Combination of this and our improved operations in NAM makes for a less stark outlook for Q4 versus our larger peers.

As mentioned earlier, rigs will have lower revenues, operating income in Q4 but will pick it back up when rigs are mobilized in new contract wins in early 2016.

Comments on direction. Our direction is clear to all within Weatherford. We're changing the rules of engagement in all of our business dealings.

We focus on core, cost, and cash. We build on our operating progress to date with more efficiency, cash discipline, systematic talent upgrades, and market share focus.

We change operating economics perennially, or we try to. We delever the balance sheet through free cash flow generation quarter after quarter with no exceptions. This is our direction.

Now, we need to clarify one point. As a matter of strategic choice, we will not participate in any bidding for divested assets. We have abundant opportunities internally to generate high returns through efficiencies, high-grading talents, and harvesting considerable stock or technology and worldwide setup infrastructure.

The absence of any distractions is a tactical advantage for 2016 and 2017. We made an exception for Sperry. This was a one-off situation for our core.

The interest in Sperry was based on a high level of operating efficiencies, given the service and infrastructure intensity of the business. Sperry is a hard business to run standalone for any nonstrategic owner.

The economics were strong, but they could not overcome the cost of capital. Cost of capital matters, and we are disciplined.

This is now a closed issue. There will be no other bidding attempts on any other divested assets. As I said earlier on, we have higher-return and lower-risk opportunities internally.

This is the kind of market in which we can make fast and deep cost progress and structural changes to redirect the culture and rebuild a strong bench. Our action centers around improving three things and doing so in a perennial way: lower cost structures through cycles; capital allocation, and cash generation as a companywide discipline; leapfrog talent bench and talent development as a culture.

I'll try to provide some color on some of the accomplishments and work in progress. I will focus on this year's cost action, understanding we started and acted earlier last year.

In July, we announced the increase of the reduction-in-force exercise to 11,000 employees. In early September we increased the target to 14,000 employees, or a little over 25% of the workforce at the start of the year.

As of October 15, we have released 12,153 employees, generating annualized cost savings of $926 million. The savings have resulted in the excellent decrementals experienced to date companywide. These savings will roll over in 2016 with more impact than this year.

Our support ratio has dipped from to 41.5% from 45% at the start of the year. We continue to target a sub-40% support ratio by year-end and low to mid 30% by 2017.

We ended last year with 56,000 employees, and we ended the third quarter with a headcount of 42,800 employees. Of this, rigs represents about 5,000 employees, and our core business 37,800. We're likely to close the year with a headcount closer to 41,000 and our core at 36,000.

We'd also planned to shut down seven of our manufacturing facilities this year. Five have been closed down to date, with one planned each for the next two quarters.

Separately, we have shut down and consolidated 70 operating facilities across North America to date. We expect to close 20 more by year-end.

We're not cutting into muscle. We are adding muscle by high-grading internally. We are selectively adding new hires with specific positions to strengthen our bench.

We run the Company with eight regions and 12 product lines, inclusive of rigs. From January to date, we have changed six out of our eight Regional Vice Presidents, which four were internal high-grading and two were outside hires. We have changed seven out of our 12 product line leaders; again, a combination of three internal high-gradings and four outside hires.

This entire operating organization is going through the same strengthening process. Again, this has everything to do with efficiency and productivity.

It will pay off at a company like Weatherford. We never pushed this as far as it could go.

I just have a few comments as a synthesis. The oil industry is at this point unsustainably underfunded and underinvested. Pessimism is everywhere.

It is neither reasonable nor realistic. If current oil pricing and related oilfield activity endure, let alone deteriorate further, we do not believe the industry will be able to manage required oil supplies as early as 2017.

This means oil demand will not be met by existing oil capacity. Inventory overhang will help. That isn't a sustainable solution for long.

We're quite sure of this. We used a [qualifier] -- decline rate's our destiny -- as a summary of why this is an intractable fact. Decline rates are, in our view, the most important structural factor to consider, more so than whether demand growth in 2016 will be 1 million, 1.2 million, 1.5 million barrels per day.

The present state of industry depression has offered us great opportunities, positioning Weatherford with selected markets and clients using our product line strengths. We're using the brutal recession to fundamentally change our cost structure, quality, efficiency, and talent strength.

This is today a very different Company. Our operating and management capabilities are immeasurably stronger than they historically were. We have a worldwide infrastructure of service support second to none. We're confident of our technological strengths, of our product line breadth, and the market potential organic growth.

Our numbers ultimately will prove out the merits of our direction in this brutal down cycle and when the market turns. We believe this is what will deliver by far the highest shareholder returns at the lowest risk. This direction will not change.

With that, I will turn the call to the operator for Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Jim Crandell, Cowen Securities.

Jim Crandell - *Cowen Securities LLC - Analyst*

Good morning, everyone, and congratulations on the strong free cash flow and the North American performance. First question is -- it's kind of a comment, Bernard, and maybe you will answer it. I'm just going to make a comment and then a question, both about North America.

I guess my comment is the businesses that really gained share have either been through a change of ownership recently -- as in the case of [large vessel last] or companies going through a merger, in the case of Baker Hughes-Halliburton. Was curious as to your thoughts on how that may be contributing to your share gains.

Then my question on North America is if you could at least give some kind of guidance. How much of the North American losses are in frac?

Bernard Duroc-Danner - *Weatherford International PLC - Chairman, President, CEO*

Okay, all right, let me -- I think on the first question, there isn't evidence of any particular share gains on any of our larger peers. You have anecdotal evidence here and there, but I wouldn't say there is a pattern at all. Not today.

I think most of the share gains in our product lines have to do with particular technology offerings, and/or product introduction, and/or our ability to be very efficient. So it's not -- there isn't a particular story there on one player or another losing market share in any particular product line.

Not today. This is just observation.

With respect to where the losses are, I think it's fair to say that if we didn't have our pressure pumping in the United States, I think North America would be breakeven or profitable, without a doubt. I think if we also didn't have rental tools it would actually be nicely profitable. So there you have your answer.

Jim Crandell - *Cowen Securities LLC - Analyst*

Wow, okay. You gave a good rundown on the fourth quarter. If we continue in a flattish oil price environment, Bernard, how would you see the trends in quarter one and quarter two in operating results, both in North America and international?

Bernard Duroc-Danner - *Weatherford International PLC - Chairman, President, CEO*

It's complicated because you have seasonality, of course. If you adjust for seasonality, our view is really that the market low will be, as I tried to convey, between Q4 and Q1. This is activity low.

Now you've got to adjust for seasonality. For example, Russia and Asia goes down in Q1, as you know, as does part of the North Sea, whereas Canada goes up -- however, anemically -- in Q1. So you have seasonality.

But our view is that from an operating income, from an earnings perspective, I think the Company's performance will be similar to what it has been in Q3, with two adjustments to think about. One is rigs, whose numbers may go down and then back up again. That is one factor. It is not immaterial, but it's not the core either, but it is a number.

The other numbers to watch of course is if -- what happens on the foreign exchange losses and if we do or don't have gains on further bond purchases, these sorts of things. That will impact the earnings.

But I think from an operating income standpoint, although we expect operating income to be marginally lower in NAM we don't expect it to be any lower internationally in Q4. In fact, a little bit up.

In Q1 I would say that probably international will be down versus Q4 simply because of seasonality. NAM, hard to tell Q1; I don't expect anything dramatic in Q1 because in Q1 Canada will help a bit more in Q1. US a bit less, because seasonality works the other way.

Nothing dramatic out of NAM in Q4, Q1. International better in Q4. International possibly because of seasonality a bit weaker in Q1.

And from Q2 we think international actually starts to heal based on cost efficiencies and in particular gains. There are some regions that will shine. Expect MENA to shine actually in Q1 -- will be sort of the standout region, etc., because there are different factors at play there. Sorry for the long answer.

Jim Crandell - *Cowen Securities LLC - Analyst*

No, that's fine. A final question if I could for Krishna. Krishna, if there is a downgrade of your debt by the rating agencies, what would that mean for Weatherford?

Krishna Shivram - *Weatherford International PLC - EVP, CFO*

Jim, that would really have no discernible impact on Weatherford. First of all, there will be no loss of access to the debt markets in any way, because the CP market and the revolver are interchangeable, and the revolver backs up the CP in any case. So there will be no loss of access.

As I said before in our prepared comments, we have $1.7 billion of liquidity available at the end of September, and we expect that amount of liquidity to keep growing over time as we generate more free cash flow. So no loss of access.

In terms of cost, our cost of borrowing may go up slightly. Our analysis tells us that it's probably going to increase our interest cost next year by $11 million for the full year versus this year.

But then again, you'll see from our buybacks of bonds in Q3 -- and also we did the same thing in Q1; we bought back some bonds in Q1 of this year. The savings and interest that we generated out of those buybacks are in excess of $25 million, so far.

So really the overall cost impact is not going to be material. If anything there's a cost benefit because of the buybacks going forward. So really no impact there.

As far as Company business is concerned, we don't have a single instance that we know of at all where our customers demand a certain credit rating to qualify for contracts. This is not a question that's asked on any tender or any contract anywhere in the world.

So really there is no major impact of any sort that we can see if a downgrade does occur. We are talking to the rating agencies regularly, and we'll see where that goes.

Jim Crandell - *Cowen Securities LLC - Analyst*

Okay, thank you.

Operator

Ole Slorer, Morgan Stanley.

Ole Slorer - *Morgan Stanley - Analyst*

Yes, thank you again. And yes, congrats on the performance. It was nice to see.

Just staying forward a little bit, it sounds as if what you are guiding is a rebalancing of the very strong Latin American margins, down a little bit, and more of an even performance between those and Eastern hemisphere. Is that the way to read it?

Bernard Duroc-Danner - *Weatherford International PLC - Chairman, President, CEO*

I think it's a very fair, Ole. On the Eastern Hemisphere I would suggest that you average both Q3 and Q4 to get the right picture. Not that Q3 was very, very bad; but I think Q4 may be a little bit better than -- the rig business moved from one to the other. Should average them both to get a picture, but I do think what you said is correct.

Ole Slorer - *Morgan Stanley - Analyst*

When it comes to the reduction in CapEx next year, just to get some more clarity, was that because of a reduction in investments in rentals and pressure pumping, predominantly? What are the biggest deltas in terms of taking it down that much?

Bernard Duroc-Danner - *Weatherford International PLC - Chairman, President, CEO*

No, it isn't. We're not spending any money on pressure pumping and the bare minimum in drilling tools. So that's not so much that will likely continue.

No. I think Krishna will comment on it. I will just say that we have taken stock methodically of the abundance of tools and equipment we have companywide worldwide. We also improved dramatically visibility, because you can't move and use things unless they are very visible, measurable, and therefore movable.

And we also changed the culture, from a culture of holding on to equipment, hoping for a better day, versus efficient allocation of resources. So equipment and tools move.

All that got done. We now have a pretty good picture of what we have and what we can use and for how long. And I think decisions on CapEx come from that particular analysis. Krishna may want to comment also.

Krishna Shivram - *Weatherford International PLC - EVP, CFO*

Yes. Secondly, I would say that we had quite an overhang of CapEx orders coming from 2014 into 2015. If you look at our CapEx in the first half of 2015, they really represented orders that were issued out of Weatherford at a time when the prognosis was much more rosy of the business.

If you look at the orders that are outstanding today, CapEx orders, and you just carry that forward into next year, it's quite easy to see that we can reduce the CapEx to $400 million. In fact, that run rate is being achieved in Q4 this year already pretty much.

Secondly, yes, exactly as Bernard said, we have enough CapEx to manage at least a 25% to 30% growth in physical activity from where we are now with no problems whatsoever, without adding to any growth CapEx as a Company. We just need maintenance CapEx.

So this is what I meant by saying we can subsist on a maintenance CapEx diet for quite a long time going into the future. It represents overspending of several years in the past.

Ole Slorer - *Morgan Stanley - Analyst*

Just to understand the nature of the maintenance CapEx, how much of that is tied to let's say lost-in-hole drilling equipment or other sort of businesses that are being reimbursed by your customers, versus things you need to do on your own?

Krishna Shivram - *Weatherford International PLC - EVP, CFO*

Well, I mean, we were including the lost-in-hole. Now I can't give you a number how much of the $400 million we're guiding to next year is lost-in-hole at this point. But this year's CapEx includes normal replacement, and next year's CapEx will do the same.

Bernard Duroc-Danner - *Weatherford International PLC - Chairman, President, CEO*

An easier answer maybe, Ole, simply is that $400 million is net of lost-in-hole, which are basically refunded by the client. Easier to understand.

Ole Slorer - *Morgan Stanley - Analyst*

Okay, okay. Then finally on the Middle East improvement, how much of that is because of lossmaking contracts that are coming to an end? And how much of it is because -- (multiple speakers)?

Bernard Duroc-Danner - *Weatherford International PLC - Chairman, President, CEO*

That's a good question. They're on two separate tracks. When we finished cleaning up all the administrative problems we have had, the next step was taking stock of the fact the Company was very inefficient because of distractions and also had entered a number of bad contracts, also because of distraction.

Now, what we see on the bad contracts, I think with Zubair, which -- no offense to the people working on Zubair so hard to finish it -- was a terrible contract. That is the last contract of any period, I won't even qualify it, in the Middle East. Right? And that contract is coming to an end operationally. Okay?

The progress you're seeing is essentially the slow but methodical quarter-by-quarter climb from reentering markets, reintroducing product lines, using our infrastructure to remain intact throughout our decline in the various markets of the Middle East. It's not only Saudi Arabia and Abu Dhabi, it's all the other countries I mentioned, in Kuwait, Oman, Qatar, Egypt. Algeria, which we almost exited not that long ago, is rebuilding step-by-step. That's really the factor that's driving it.

With the end of Zubair, there are no other bad contracts from these terrible years, 2012 and 2013 -- 2011, 2012, and 2013 -- for us to digest. Finished.

Ole Slorer - *Morgan Stanley - Analyst*

Okay. Well, thanks for clarifying. And I never thought I'd congratulate you on a lossmaking quarter, but anyway, congrats and I'll hand it back.

Bernard Duroc-Danner - *Weatherford International PLC - Chairman, President, CEO*

I sort of feel the same way.

Operator

Jim Wicklund, Credit Suisse.

Jim Wicklund - *Credit Suisse - Analyst*

Good morning, guys. I agree with Ole. Congratulations. It's -- any improvements are nice improvements.

Bernard, last year you won this big contract in Brazil, and Brazil has been just a basket case for business and investors. You've got well construction and managed pressure drilling down there. Rumors are that Petrobras is going to cut another 10 rigs; who knows?

Can you talk about that? That's been one of your good markets. Can you talk about the risk you see in Brazil over the next year or two and the impact to Weatherford?

Bernard Duroc-Danner - *Weatherford International PLC - Chairman, President, CEO*

Oh, it's not risk; it's a reality. It's a reality, Jim.

I'll make it simple for you. We're supposed to quadruple our presence in -- I'll just focus on MPD, and the rest is very similar. Let's just call it going from three strings to 12 strings. We'll go from three strings to six strings, end of story. That's it.

And this is happening this year. In other words, the growth is not there.

So as you can imagine there was some measure of gearing up of infrastructure and everything else, which -- classic problem for oilfield service companies. We had to manage down.

Now mind you, going from three to six is better than going from three to zero; I'm very clear. But moving from three to six, and three to 12 are two entirely different things.

The rigs were canceled. It's as simple as that.

Jim Wicklund - *Credit Suisse - Analyst*

Okay. And if rigs get canceled, do we go from six to three to zero?

Bernard Duroc-Danner - *Weatherford International PLC - Chairman, President, CEO*

No, I think it's actually sustainable. No, no; that is sustainable, Jim. I'm giving you the end result. It's bad enough.

Jim Wicklund - *Credit Suisse - Analyst*

Okay. My follow-up if I could: Q1, Q4, somewhere in there will be the fundamental bottom. But you're still cutting people and the decision was made in September to cut another 3,000 people. That would make me wonder what the trajectory is of the recovery following the bottom in Q1.

Bernard Duroc-Danner - *Weatherford International PLC - Chairman, President, CEO*

Yes, good question again.

Jim Wicklund - *Credit Suisse - Analyst*

Can you talk about it for both Weatherford and the industry?

Bernard Duroc-Danner - *Weatherford International PLC - Chairman, President, CEO*

Look, the 14,000 actually as we speak today, although we've acted only on a little bit over 12,000, already the balance has been names. So we actually already identified and we'll probably end up a little bit higher than 14,000 by year-end.

I do think that the reduction-in-employment exercise is coming to an end. I think what you'll see forward are surgical actions in particular locations, particular product lines.

You see us also focusing a lot on the supply chain, both from a procurement standpoint, where there is a lot that we are doing that we never did, at least not as well; and also on the manufacturing side, on the rationalizing the manufacturing side. That will be less, I think, spectacular in terms of numbers that we announce. But much -- very powerful and very surgical.

Also you should see us in terms of employment expanding our talent bench in certain product lines and, on the contrary, going the opposite direction in other product lines, understanding we don't see growth at all for the sake of growth. What we really want -- what you ought to focus on quarter after quarter -- is not -- well, you'll do what you want. Not so much revenue growth although you may get that, too; you should focus on what we're trying to get done at the operating income level, at the debt reduction level, and at the cash flow level.

So it's profitability, cash flow that we're interested in now, next year, and for the foreseeable future. It isn't necessarily the top line. Or put another way, we want to grow aggressively certain product lines; we may not care that much about whether it translates in overall growth for the Company. We may pull back from some but push much harder on others.

Jim Wicklund - *Credit Suisse - Analyst*

Rational. Thank you very much.

Krishna Shivram - *Weatherford International PLC - EVP, CFO*

As well, Jim, I just want to add something. We're aggressively working on rationalizing our support structure. The remaining headcount reductions are going to be focused on support.

We spoke a lot about our support ratio. We want to bring it to the mid-30%s, right? We're still at 41.5%.

But that does not affect our ability to ramp up when activity picks up. It affects how we support that activity, how we can stretch the resources to support a higher level of activity and become more efficient.

Jim Wicklund - *Credit Suisse - Analyst*

I know that's been an effort.

Krishna Shivram - *Weatherford International PLC - EVP, CFO*

What I'm saying is, it's not a comment -- the extra headcount reduction is not a comment on that activity is going to plummet or anything like that. It is more rationalization of our internal (multiple speakers)

Bernard Duroc-Danner - *Weatherford International PLC - Chairman, President, CEO*

And Jim, focus on one last number. We are at 41.5% support ratio, and we're trying to get to 35%. Bear in mind, 18 months ago we were at 60%; that's why.

And bear in mind also --

Jim Wicklund - *Credit Suisse - Analyst*

You're definitely making improvements. That's been a focus, I know.

Bernard Duroc-Danner - *Weatherford International PLC - Chairman, President, CEO*

Yes, yes. Bear in mind it's very, very hard to improve your support ratio when direct are coming down so sharply. Much easier to improve your support ratio when direct are expanding with volume.

So doing it in a depression is extraordinarily hard. It's also easier from a -- well, pain is easier for everybody to take on in a depression; but it's actually mathematically much harder to get done for obvious reasons.

Jim Wicklund - *Credit Suisse - Analyst*

Thank you, gentlemen. Appreciate it.

Operator

James West, Evercore ISI.

James West - *Evercore ISI - Analyst*

Hey, good morning, gentlemen. Let me -- I'd also like to echo Jim and Ole's comments about a well-executed quarter. It's clear that the things you guys are doing internally are really starting to pay off.

My first question was really on MENA. You talked about a lot of contract wins, Bernard, in MENA and reentering some markets or reintroducing some product lines. Are you having to give up significant pricing to get back in?

Or is this more of a -- hey, we're going from three to two and we want you back? Or, hey, Weatherford, thank you for coming back? I mean, what's driving the market share gains there?

Bernard Duroc-Danner - *Weatherford International PLC - Chairman, President, CEO*

What's driving it I think is the latter point. Which is we have a very large infrastructure that has been underutilized; the client knows this. We have quite large market shares in a number of product lines; the client remembers this also.

It's not so much that we're the new kid on the block. We actually are a player who has now come back and could reassume the position it once held for many, many years.

So in terms of client understanding who we are and what we're trying to do, it's easier than if it was a new entry. That's number one.

Two, pricing. Yes, of course, pricing in general in MENA has dropped -- not remotely as much as everywhere else. Of course not.

But we -- I wouldn't -- none of the contracts -- and understand, James, none of the contracts are major contracts. You just have a lot of them, and there's progress everywhere, and they are stepping stones.

To my knowledge, none of the ones that we had incrementally in all those markets have been at a variance to where pricing is right now in the marketplace. But of course we had to meet pricing. I don't think at a variance to it.

This was not actually either pressed upon us or a particularly difficult issue to overcome. Understand also, because we have an infrastructure in place and everything else, for us the incremental operating economics are very quickly good because you don't have to set up shop.

One of the things Weatherford has -- and I think you know this -- it has a vast infrastructure internationally, which is part of the reason why we spent so much CapEx in years past. There are other reasons, too, which I think we discussed earlier on.

But this infrastructure can be put to good use. What it requires, particularly internationally, is volume; and we're getting some volume now in MENA; and therefore the economics will improve simply because of economies of scale.

James West - *Evercore ISI - Analyst*

Okay, okay. That makes perfect sense.

Then, Bernard, you're talking about the North Sea and the Caspian being up in the fourth quarter, which typically I would think about as a seasonally weak quarter for those areas of the world given the weather issues you face. Is there risk to that call? Or are these mainly product sales type actions that are going to happen regardless of adverse weather conditions?

Bernard Duroc-Danner - *Weatherford International PLC - Chairman, President, CEO*

Look, if weather is terrible it's not only in the North Sea, it's also in the Caspian, specifically Azerbaijan. So if weather is terrible in both places, more terrible than they normally should be, of course things will always be delayed. That's absolutely true.

I don't think the whole quarter is based on this business moving from Q3 to Q4. It's just that it incrementally improves Q4 and incrementally weakens Q3.

That's all. That's a margin.

In the case of the North Sea, you're talking about a series of service business, actually, going from one string to five strings. This is one. It's in well construction and involves a number of services inclusive of managed pressure drilling.

From one to five, they are supposed to be in Q3 and they're in Q4, and it's happening as we speak. Right?

In the case of Azerbaijan it's very much the same thing. Client adjourned a number of drilling and I think remediation assignments from Q3 to Q4.

I don't think oil had anything to do with it; it's just client decision. That is also happening as a matter of course.

So I don't think the whole Eastern Hemisphere will rise or fall based on the movement of these contracts. I do think that it is happening as we speak, notwithstanding weather could disrupt operations. And I think it's just notable because it will make Q4 the way Q3 should've been and maybe vice versa. Okay?

James West - *Evercore ISI - Analyst*

Okay, got it. If I could slip one last one in for Krishna, the $400 million in maintenance CapEx: is that inclusive of Land Rigs? And if you have the number for Land Rigs, could you share that with us?

Krishna Shivram - *Weatherford International PLC - EVP, CFO*

Yes, it does include Land Rigs. And from a rig business perspective, what -- our mandate to the business guys is to run the business profitably through the year and to be cash positive right through the year. And that we've achieved this year; it will continue into next year as well.

Now obviously the rig utilization rate is more challenged today than it was a year ago. So it's quite easy to manage the maintenance CapEx going forward and be cash positive for the year.

Bernard Duroc-Danner - *Weatherford International PLC - Chairman, President, CEO*

If I may add something there, we don't take contracts, particularly when it involves moving rigs, unless the contract has years. So we won't take it in the [focus] of time, goes in a market in which we have a concentration of rigs already, and has mobilization or compensation which is enough that we have no cash out-of-pocket to finance.

So we're rather stringent about it, which also explains why rigs are not a consumer of cash. It's purposeful.

Krishna Shivram - *Weatherford International PLC - EVP, CFO*

Sorry, James, I'm not going to give you a number on the call, but it's going to be cash positive for the year, the business. That's the mandate then. They will stay in that range.

James West - *Evercore ISI - Analyst*

Okay. Do you still have, I guess -- sorry, I want to slip one more in here. Is there still the potential to IPO that business over the next, I don't know, call it year or so, when the market comes back? Are you still thinking that way about the Land Rig business?

Bernard Duroc-Danner - *Weatherford International PLC - Chairman, President, CEO*

James, we are. I think obviously the market has to be there. I'm talking about the oil and therefore land/shore markets; otherwise, we're wasting our time.

Remember we set up rigs in a separate entity. They have their own audit going back three years from our auditors, KPMG. They have their own information system segregated; their own accounting system, segregated; their own management all the way up to a leader. So it is -- and have their own balance sheet, if you will, if you want to peel it out. It's ready.

Now the fact that it's ready is of course good. When will it be actually acted upon? It's really not us. It's purely activity, oil, etc.

So the answer is yes, absolutely. Whether it's in a year or two years, I don't know. But it is ready, yes.

James West - *Evercore ISI - Analyst*

Okay, got it. Thanks, guys.

Operator

Angie Sedita, UBS.

Angie Sedita - *UBS - Analyst*

Thanks, good morning, guys. I certainly echo the sentiments of others and it doesn't need to be said again. But on the cash flow, when you talk about Zubair could you talk a little bit more granular about where you stand in the project? Thoughts on timing in 2016, and what's left on the performance targets which you've completed so far, and what remains.

Then also on your cash flow target for 2016, does that include any recovery from the extra claims and the change orders?

Krishna Shivram - *Weatherford International PLC - EVP, CFO*

Right. Angie, first of all, Zubair is just a term for six basically trains that we have delivered to the customer, and each of the six trains is identical. Out of the six trains, we finished mechanical completion for five of the six trains and handed it over to the customer; and the sixth's mechanical completion is estimated before the end of the year.

On the next two deadlines, milestones, which is ready for completion, RFC and then PAC, which is the final deadline, for the first five trains we expect RFC to be completed, again, before the end of the year for the first five trains, with PAC early January of 2016. There's very little work to be done between RFC and PAC; it's just running the facility for 30 days, effectively.

And for the last site, the sixth site, we expect RFC and PAC in Q1. There are milestone payments associated with achieving these milestones, and these factor into the detailed cash flow projections that I spoke about earlier in my prepared comments.

Now, we have been conservative and assumed some sort of settlement with our customer on the claims that we've had, which are in arbitration today. We are discussing with them actively on an out-of-court, if you will, settlement.

We don't know what that number is going to be. It's still being negotiated back and forth.

But there will be a positive injection into cash flow. I've been conservative to say that year-over-year, from 2015 to 2016, Zubair will be $200 million differential cash flow positive in 2016. That's a conservative number. I'm very comfortable with it based on the milestone dates and the likely outcome of the settlement discussions.

Angie Sedita - *UBS - Analyst*

Okay, okay; that's really very, very helpful. Then separately or going directionally elsewhere, on the US and pricing, can you talk about -- obviously pressure pumping is ugly on the pricing side. But as far as pricing in your other segments in Q3 -- your product lines, artificial lift, completion -- what are you seeing there? Can you talk about your other product lines across the spectrum?

Bernard Duroc-Danner - *Weatherford International PLC - Chairman, President, CEO*

I think the short answer, Angie, is that although you've had instances going both ways, for the most part -- excluding pressure pumping and rentals -- I think the pricing has essentially flattened, bottomed, across the board. There are a few trends here and there; but on balance, that's correct.

If you want something on the positive side, there is evidence in artificial lift. On the one hand we ourselves, coming to the end of our selling inventories which were from a cost perspective at a higher cost structure than we are able to manufacture today. So that is one issue which is positive for us, meaning that everything being equal you end up having higher margins on the same sale.

We expect that to start occurring in Q1. Not in Q4, but in Q1.

At the same time, there's evidence of client destocking. In other words, they finish their destocking programs on artificial lift, meaning they've used up the equipment by and large. There are exceptions, Angie, but by and large they've used up the equipment, pumps and pumping units and all manners of tools that are involved in the artificial lift process.

There is evidence that on average our clients have finished their destocking. So put all that together, which is from a cost perspective you have improvements just a naturally from our side, simply from having liquidated by year-end the higher-cost inventory which we're forcing on the market out of discipline, and at the same time clients having to buy more because their own inventory has been liquidated -- I would say actually that is already occurring right now. So I would say certainly by year-end, possibly already by Q4.

So you have that sort of factor, which is significant for us. But overall, pricing -- with the exception of pressure pumping and perhaps rental tools, but pressure pumping even more so -- I think the rest of pricing at least that we can observe in North America is sitting on the low. It is not weakening further, at least from our observation.

Angie Sedita - *UBS - Analyst*

Perfect; thanks. I'll turn it over.

Operator

Sean Meakim, JPMorgan.

Sean Meakim - *JPMorgan - Analyst*

Hey, good morning. Just in a similar vein, we talk a lot about the smaller competitors in pressure pumping and their cash flow stress; and if we look at some of those other product lines you were just going through -- like lifts, rentals, things like that -- are you seeing smaller folks exit the market? Is the competitive landscape shifting at all as we go through the downturn?

Bernard Duroc-Danner - *Weatherford International PLC - Chairman, President, CEO*

It's really -- I think it's a legitimate -- all questions are legitimate, but it's a particularly legitimate question for rentals and pressure pumping. So yes, we see small players that are either going out of business or have come down to such a low of utilization it's just about the same thing.

Do not hold much hope, though, because the barriers to entry in both those product lines is so low. We do not subscribe to the notion that equipment that is stacked does not come back. Don't agree with that at all.

True equipment that is stacked, whether it's rental equipment or pressure pumping, which is even a bigger problem, will require some refurbishment. Refurbishment is a fraction of the replacement cost.

One of the problems of those two businesses -- and clearly were the ones we're deemphasizing, because again we're not interested particularly in size; we're interested in profitability and cash contribution, now and later. One of the bigger problems with those product lines is the barrier to entry is so low.

Now you can excel at it from an efficiency standpoint. There are some technologies that are helpful. But by and large, it's got very low barriers to entry, and that's not going to change.

So I don't see -- although there are smaller players that are being pushed out and so forth, they will be coming back. I don't doubt that, or under different ownership.

This does not apply to artificial lift. Artificial lift is not at all the case. That's entirely different.

Sean Meakim - *JPMorgan - Analyst*

That was very helpful. Then just on international, where do you think we are in terms of the cycle for pricing pressure? How should we think about how it could look this downturn relative to the prior one?

Bernard Duroc-Danner - *Weatherford International PLC - Chairman, President, CEO*

Let's be careful that international, first of all, is a lot of different regions. The other thing I would say is segregate also what markets in terms of the types of environment you're drilling in. I mean, deepwater is going to be different from offshore; it's going to be different from land.

The land got hit early and got hit bad. I think land in general -- with maybe exceptions in Latin America from a pricing standpoint -- is essentially done.

I think the pain that's coming internationally will be primarily in deepwater. The deepwater economics, I'm told by a number of clients in simplistic terms, doesn't work below $70 Brent.

Now it's totally simplistic, eh? Obviously, if it doesn't -- it just doesn't work.

So that all expect exploration and deepwater to be hit bad and therefore pricing clearly will deteriorate there for whomever is playing in those markets. And all of us are, to varying degrees.

Now, land, I don't -- other than Latin America -- in simplistic terms, I think you're done on pricing, by and large. There may be some pockets of weaknesses still in Latin America; I don't believe that many.

And I don't have -- and, obviously, offshore as in shelf and so forth, not that different I think from land also. It's really deepwater and exploration, I think, where I think the bulk of both volume declines -- unless oil corrects quickly -- volume declines and oil, therefore pricing associated with whatever's left in terms of business, will be the harshest to go through now.

And I don't make what I'm about to say into a badge of honor, but this isn't markets -- exploration we don't play, and the deepwater we do play but it's not our strongest at all. Never was. As you know, we are land people and to a degree shelf people.

Sean Meakim - *JPMorgan - Analyst*

That's very helpful detail. Thank you.

Operator

Kurt Hallead, RBC Capital Markets.

Kurt Hallead - *RBC Capital Markets - Analyst*

Great. Thank you. Good morning. You guys went through a lot of good stuff in detail here. I was just wondering on the free cash flow dynamic, if you can parse out a bit more on working capital and maybe refresh some of the targets you might have for receivables and inventory, etc.

Krishna Shivram - *Weatherford International PLC - EVP, CFO*

Well, every quarter this year we have generated positive cash flow from working capital, and it will not change in Q4. Q4 is usually a pretty decent quarter for customer collections, Kurt. So DSO we expect will certainly reduce from Q3 to Q4, as it did during Q3 as well, with the focus we're putting on it.

Inventory continues to go down with the focus we're putting on it. I think Bernard talked about artificial lift destocking on our side. That has been a real focus for us, as are the other product lines, completions included. So, inventory should reduce nicely, in fact, over the next two or three quarters I would say continuously until we hit some activity inflection at some point in 2016.

Those are the two big movements in working capital. I think there is no reason for us to believe that we cannot continue to generate working capital now.

If the activity and revenue level flattens then, yes, at some point the working capital will start to flatten as well. But then earnings will increase dramatically with incrementals that will help us quite a lot, given the factors I mentioned earlier. So they will balance off against each other.

Kurt Hallead - *RBC Capital Markets - Analyst*

Okay; that's great. Appreciate that explanation. Then the comments you made about maintenance CapEx and levels of maintenance CapEx needed and the duration of which you can operate effectively, is that the game plan for 2016, to operate at maintenance CapEx? Or is that just a reference point in a very extreme situation?

Krishna Shivram - *Weatherford International PLC - EVP, CFO*

No, it's a game plan. And it's not only the game plan for 2016, it's also the game plan at the current moment looking at 2017.

It's just based on how much excess equipment we have around the world across all product lines. So you would have to see an incredible activity increase to mop that up quicker than 2017.

So it is not a reference point; it is the game plan. And it's very achievable, Kurt.

Kurt Hallead - *RBC Capital Markets - Analyst*

Okay. Then one last thing then as it relates to the comment you made about the debt and the covenants and everything else. I just wanted to make sure I understood the point you were trying to make.

In your minds, based on your financial position and the conversations you may be having with some of the creditors, you're of the viewpoint that your rating for your debt should remain unchanged. Is that how I should understand your comments?

Krishna Shivram - *Weatherford International PLC - EVP, CFO*

I think the rating agencies will take a view on the sector as a whole. If they take a draconian view of the sector, I think every company in the sector will be re-rated.

We are just investment grade today, so I would not hold my breath and say we're going to retain that for the longest time. If they change the ratings on all the companies within the sector, certainly we will be affected by it.

But the impact of that will not be material at all on Weatherford, as I explained earlier. So it doesn't really -- it doesn't affect us dramatically.

Kurt Hallead - *RBC Capital Markets - Analyst*

Okay. That's fantastic. Thanks so much.

Krishna Shivram - *Weatherford International PLC - EVP, CFO*

On covenants -- in terms of covenants, by the way, I went through the entire calculation in quite a lot of detail, Kurt, because if you just take a facile calculation from our 10-Q balance sheet you could reach very quickly very wrong conclusions. I just wanted to make sure people understood that the covenant is a defined -- it's a definition; it's a negotiated term in our contract.

And that's what I was trying to explain, something that is not obvious from our 10-Q filings.

Kurt Hallead - *RBC Capital Markets - Analyst*

Got it. Thank you so much.

Krishna Shivram - *Weatherford International PLC - EVP, CFO*

And, by the way, the covenant is only on the revolver. It is not on any of our public debt, which is the bulk of the debt anyway.

Kurt Hallead - *RBC Capital Markets - Analyst*

Okay, got it. Thank you.

Karen David-Green - *Weatherford International PLC - VP IR & Corporate Communications*

Great. Well, thank you all very much for joining us today. We'll conclude the call at this time. Lori, if you could provide replay information?

Operator

Ladies and gentlemen, this concludes today's conference call. You may now disconnect.