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WFT - Q4 2018 Weatherford International PLC Earnings Call

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PRESENTATION

Operator

Good morning. My name is Carol, and I will be your conference operator today. At this time, I would like to welcome everyone to the Weatherford International Fourth Quarter 2018 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, Senior Vice President, Stakeholder Engagement and Chief Marketing Officer. Ma'am, you may begin your conference.

Karen David-Green - *Weatherford International plc - Senior VP of Stakeholder Engagement & CMO*

Thank you, Carol. Good morning, and welcome to the Weatherford International Fourth Quarter Conference Call. With me on today's call, we have Mark McCollum, President and Chief Executive Officer; and Christoph Bausch, Executive Vice President and Chief Financial Officer. Today's call is being recorded, and a replay will be available on Weatherford's website for 10 days.

Before we begin with our prepared statements, I'd like to remind our audience that some of today's comments may include forward-looking statements. These matters may involve risks and uncertainties that could cause our actual results to differ materially from our forward-looking statements.

Please refer to our latest Form 10-K, 8-Ks and other SEC filings for risk factors and cautions regarding forward-looking statements. A reconciliation of GAAP to non-GAAP financial measures is included in our fourth quarter press release and accompanying presentation, which can be found on our website.

Christoph will now provide an overview of our fourth quarter results, followed by Mark's comments on our strategy and the progress of our transformation. Following these prepared statements, we welcome your questions.

And now, I'd like to turn the call over to Christoph.

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Christoph Bausch - *Weatherford International plc - Executive VP & CFO*

Thank you, Karen. Revenue in the fourth quarter of 2018 was $1.4 billion, essentially flat compared to the third quarter of 2018 and modestly lower than the $1.5 billion of revenue reported for the fourth quarter of 2017.

Sequentially, activity increased on integrated services projects in Latin America, higher Drilling and Evaluation revenue in the United States and Continental Europe and larger production product sales, offset by decreased revenues as a result of the divestiture of our land drilling rigs in the Middle East and lower activity levels in Canada resulting from widening crude oil differentials.

Excluding the impacts resulting from the sale of our land drilling rigs in Kuwait and Saudi Arabia, overall revenues increased about 1% compared to the third quarter of 2018. On a year-over-year basis, higher revenues associated with integrated service projects in Latin America were offset by reductions resulting from the sale of drilling rigs in the Middle East and pressure pumping assets in the United States, lower activity levels in Canada and reduced year-end product sales in the Eastern Hemisphere.

U.S. GAAP operating loss for the fourth quarter of 2018 was $2 billion, driven almost entirely by a write-off of a significant portion of our goodwill. Segment operating income in the fourth quarter of 2018 was $102 million, down $14 million or 12% sequentially and up $185 million year-over-year. The sequential improvements were driven by reduced costs and improved efficiencies as a result of our transformation efforts and product sales in Latin America and Continental Europe.

These improvements were more than offset by a provision for a litigation settlement in the United States, lower contributions associated with the divested international land drilling rigs, lower activity levels in Canada, increased amortization related to digital solutions and cloud-based infrastructure and foreign exchange impacts in Latin America.

Year-over-year, operating income improvements were driven by improved efficiencies and reduced expenses as a result of our transformation. Negative impacts from exceptional operating items in both hemispheres and low-margin year-end product sales realized in 2017 did not repeat in 2018. 2017 results were also negatively impacted by the change in accounting for revenue in Venezuela to a cash basis in the fourth quarter of 2017.

Non-GAAP net loss for the fourth quarter of 2018, excluding unusual charges and credits, was $140 million or $0.14 diluted loss per share. This compares to a $103 million non-GAAP net loss in the third quarter of 2018 or $0.10 diluted loss per share and a $329 million non-GAAP net loss for the fourth quarter of the prior year with $0.33 diluted loss per share.

In the quarter, we recorded pretax charges of $2 billion. The vast majority of the charge relates to a goodwill write-off of $1.9 billion. The steep decline in oil prices and expectations for lower E&P capital spending resulted in a sharp reduction in share prices in the oilfield services sector, including Weatherford share price, which triggered the goodwill impairment in line with U.S. GAAP accounting principles.

As a result of these factors and our standard year-end analysis, we determined an impairment of our goodwill at this point in time was required. This impairment lowers our goodwill balance by about 2/3 from prior levels. This is a noncash accounting charge and has no impact on our current liquidity or any debt covenants.

In addition to the goodwill charge, we recognize $79 million in other noncash impairments and asset write-downs, the majority of which related to land drilling rigs adjusting for the divestiture group following several changes during the quarter. An additional $36 million were charges related to restructuring and transformation, and $4 million related to currency devaluation charges in Angola. These were partially offset by a $3 million credit related to the fair value adjustment of the outstanding warrant.

Moving on to our results by hemisphere. In the Western Hemisphere, fourth quarter revenues of $776 million were up 2%, both sequentially and on a year-over-year basis. Compared to the third quarter of 2018, revenues increased as a result of higher integrated services activity in Latin America, offset by lower sales in Canada as rig counts declined as a result of elevated crude oil differentials.

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Year-over-year revenue increased with higher integrated services in Latin America and increased managed pressure drilling activity in the United States, offset by decreased overall activity levels in Canada and the absence of revenues from our U.S. pressure pumping and pump-down services business we sold at the end of 2017.

Fourth quarter Western Hemisphere segment operating income of $56 million was down $22 million sequentially but up $91 million on a year-over-year basis. The sequential decrease was primarily driven by a $25 million provision for a litigation settlement in the United States. Decrementals associated with lower activity levels in Canada and negative foreign exchange and inflation effects in parts of Latin America were offset by higher activity levels in Latin America and positive contributions from our transformation initiatives across the hemisphere.

The year-over-year improvements were driven by incremental integrated services projects in Latin America and positive impacts from the cost savings and efficiency gains resulting from our transformation efforts. In addition, a number of exceptional operating items, including the change in revenue accounting to a cash basis in Venezuela that negatively impacted fourth quarter results in 2017 did not repeat in the fourth quarter of 2018.

In the Eastern Hemisphere, fourth quarter revenues of $653 million were down $29 million sequentially and decreased by $78 million or about 11% on a year-over-year basis. Compared to the third quarter of 2018, revenues declined as a result of the sale of a portion of our drilling rigs in the Middle East, more than offsetting improved results from higher drilling services activity in Europe and improved production results in the Middle East. Absent the impact of the land rigs divestiture, revenues increased by approximately 1% sequentially.

On a year-over-year basis, revenues were negatively impacted by lower contributions from the divested land drilling rigs and the reduction in production product sales in the Middle East as large sales in the fourth quarter of 2017 did not repeat in 2018.

Fourth quarter Eastern Hemisphere segment operating income of $46 million was up $8 million sequentially and up $94 million year-over-year. The sequential improvements primarily resulted from positive impacts of lower costs and increased operating efficiencies, driven by our transformation efforts.

Year-end product sales in Europe and Asia benefited from an improved revenue mix compared to last year when low-margin products negatively impacted our results. Our transformation initiative delivered sequential recurring improvements that were in line with the guidance provided in the previous conference call.

In the fourth quarter 2018, recurring benefits associated with the transformation were approximately $25 million, which, combined with the amounts realized during the first 3 quarters of the year, put us at an annualized EBITDA run rate of $400 million or 40% of our overall goal.

Net cash provided by operating activities was $105 million for the fourth quarter of 2018, driven by a decrease in working capital and a decrease in cash payments for debt interest, offset by $34 million for cash severance, restructuring and transformation costs.

Customer receivables decreased by about $25 million, and overall DSO declined by 1 day compared to the previous quarter to 72 days. Inventory decreased by $72 million as a result of our initiatives to better manage our process around inventory levels. As a result, DSI decreased by 4 days sequentially to 65 days.

Overall, changes in working capital were a source of cash during the quarter, contributing $84 million to operating cash flow.

Fourth quarter capital expenditures totaled $76 million. The largest investments during the quarter were now our Drilling and Evaluation segments, highlighted by outlays for new directional drilling and wireline tools. Net debt decreased by $243 million during the fourth quarter of 2018. Free cash flow in the quarter was positive $65 million after capital expenditures of $76 million.

During the fourth quarter, we made positive progress on our noncore asset divestiture programs. We received the cash proceeds associated with the first 2 tranches of our international land rig sale that was announced at the beginning of the third quarter. We have received cash proceeds of

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$123 million for the Kuwait rigs and another $93 million for the rigs in Saudi Arabia. These funds are reflected in our cash balances as of December 31, 2018.

We continue to work to complete the final portions of the land rig sale, namely closing the deal for the rigs operating in Algeria and 2 idle rigs in Iraq.

In October, we announced the sale of our laboratory business to CSL for total proceeds of $205 million in cash. And in December, we announced the sale of our surface data logging business to Excellence Logging for $50 million in cash. Both of these transactions are in line with our stated strategy to focus on our core product and service lines going forward through transactions that will help to delever our balance sheet.

We expect to receive the proceeds from the labs sale in the first quarter of 2019 and from the surface data logging transaction over the course of the first half of 2019.

The combination of the positive free cash flow generated during the quarter and the closing of the first 2 tranches of our land rigs divestiture, we have meaningfully improved our liquidity and net position compared to last quarter.

Our net debt to trailing 12-month adjusted EBITDA ratio dropped below 10x as of the end of 2018, whereas this metric stood at 17x at the end of 2017. We expect the combination of sale proceeds, free cash flow and EBITDA generated to further reduce our net debt to trailing 12-month EBITDA ratio by 1/3 by the end of 2019.

Moving on to our outlook. In the first quarter of 2019, we expect total revenues to be down mid-single digits compared to the fourth quarter due to typical seasonality and the impact of the divestiture of our international land drilling rigs. Subdued oil prices are likely to dampen E&P spending in the U.S. to start the year, but we should see some benefits in the Western Hemisphere from deliveries of products delayed from the fourth quarter and some positive seasonal impacts in Canada.

We expect Eastern Hemisphere to experience seasonal weakness in Russia and the North Sea as well as lower revenue as a result of the divestiture of our international land rigs in the Middle East. That said, we are forecasting adjusted EBITDA to be relatively flat sequentially, positively impacted by the continued uplift created by our transformation efforts.

We expect the incremental recurring EBITDA benefits from our transformation efforts to be about $30 million during the first quarter. The resulting run rate is expected to reach 50% of our overall targets by the end of the first quarter 2019.

To date, we have completed action plans to specific initiatives totaling $800 million. This will provide us the opportunity to realize another $400 million of recurring transformation benefits in addition to the $400 million recurring benefits already realized.

The first quarter is typically a seasonal low point for collections, usually resulting in a built-in net working capital balances. Working capital management remains a priority of our transformation efforts, but we expect the traditional seasonal patterns to hold.

Cash interest expense is anticipated to rise by about $10 million to $15 million, and cash taxes are expected to increase by about $20 million to $25 million sequentially. Capital expenditures are forecasted to be between $50 million to $70 million during the first quarter. Cash costs for severance, restructuring and transformation are expected to be about $10 million to $15 million lower than the previous quarter.

In addition, we expect to make a payment related to a litigation settlement of $25 million in the United States and over $20 million related to a take-or-pay contract from 2013. These factors suggest negative free cash flow for the first quarter of 2019, but the expected sale proceeds from our previously announced divestitures should more than overcome the seasonal weakness in operating cash flows, resulting in overall positive cash flow for the quarter.

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For the full year, transformation initiatives will continue to drive improvement in our adjusted EBITDA during 2019. We are currently forecasting capital expenditures to be between $200 million and $250 million during 2019, with a focus on new technology deliveries driven by customer demand.

As discussed on the prior conference call, we expect to generate positive free cash flow during 2019. As a result of the sharp decline in oil prices combined with our high leverage ratio, we experienced a significant reduction in our share price as well as our publicly traded debt.

Despite our available liquidity of over $900 million at the end of the year and the continued progress we have made on our transformation, we recognize that our upcoming maturities, particularly in 2021, have created concern in the market. We will explore solutions to address these concerns as part of our annual discussions with our key lending relationships over the coming months.

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

Mark A. McCollum - *Weatherford International plc - President & CEO*

Thanks, Christoph. Our positive operating results in the fourth quarter are directly related to the progress we've made on our transformation plan. They're a testament to the hard work of all the people throughout our organization who have embraced the necessary change, rolled up their sleeves and achieved these milestones despite the challenges the market has thrown at us.

I've said repeatedly since the beginning of the transformation that we have a detailed plan for completing specific individual initiatives to create a clear path that drives incremental EBITDA improvements. We've executed on that plan, and the results to-date speak for themselves.

I've also said that this process would not be easy. It's not a box-checking exercise or a one-time fix. We're fundamentally changing our culture, establishing a solid foundation based on our core values and creating a company that can thrive through all the cycles in the oil patch.

We don't always have a lot of influence over certain variables that directly impact our business and stock price, such as oil prices or investors' appetites for risk. We refer to these factors internally as gravity issues, and we do our best to avoid getting sidetracked by them, instead focusing on the things that we can control.

We can improve our operating efficiency, whether by decreasing cost or reducing nonproductive time. We could continue to collaborate with our customers to find solutions to meet their needs and create value. These process improvements are a focus of our transformation plan, and the progress we've made so far is evident.

We have made great strides, but we also recognize that we have a very long way to go. As Christoph said, we're mindful of our current debt levels and maturities and the pressing need to generate cash flow on a sustainable basis. We're working diligently on everything we can to ensure the long-term health of our company. I applaud all of our employees who've taken on this challenge under difficult circumstances and delivered impressive results. It goes to show we can accomplish -- what we can accomplish when we work together as One Weatherford. Thank you.

Through the year, we made steady progress towards our transformation targets. You'll recall our transformation goal is to reach a $1 billion incremental EBITDA run rate by the end of 2019. We recognized 40% of this target by the end of 2018. The most significant progress during the fourth quarter came from the procurement, manufacturing and logistics and distribution workstreams.

Each realized more recurring transformation EBITDA uplift in the fourth quarter of 2018 than they had for the first 3 quarters of the year combined. We more than doubled progress toward the final target this quarter compared to where each stood on a year-to-date basis at the end of September.

As of today, we have completed the necessary work for nearly $800 million in recurring EBITDA improvements. This number represents an increase of approximately $200 million since the last conference call. Our transformation plan remains generally on target against our internal work timeline, and we continue to believe that we can deliver on our $1 billion commitment by the end of 2019.

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The transformation was designed to create value and increase our EBITDA in a range bound $50 to $60 per barrel WTI market environment. We weren't planning for a lot of help from the market, but at the same time, we didn't and still don't anticipate a market collapse. While volatile commodity prices have created some uncertainty around customer spending levels headed into 2019, our diversification across product lines and geographies provides some mitigation against specific subsector dislocations.

Expectations for activity levels in the United States have seen the biggest shifts since this time last quarter. Consensus views are centering on the E&P spending being flat to down in 2019 versus 2018 with the most negative impacts in terms of activity level and pricing declines related to the pressure pumping market and its associated subsectors. As you all know, we are relatively insulated from these subsectors after exiting the pressure pumping market at the end of 2017.

Later-cycle, less rig count-dependent services, such as artificial lift, look to start the year on better footing. We expect relatively strong demand for our artificial-lift services in 2019. Declining production on older shale wells will drive higher demand for our rod-lift units, including our Rotaflex long-stroke systems, which work better than legacy rod-lift systems for wells with high flow rates.

We're continuing to add digitization to the oil patch with our ForeSite production optimization platforms, which harness asset-wide data to maximize production. In addition, our recently announced alliance with Valiant rounds out our lift portfolio to include ESP offerings.

2019 will benefit from a full year contribution from our Magnus rotary steerable system. This push-the-bit directional drilling technology has been well-received around the world, working on both land and offshore wells. A significant portion of our CapEx budget is allocated to new Magnus tools to meet our customers' demand.

Our International outlook is essentially unchanged from the views we've stated on the prior conference call. We anticipate an overall positive trend in international activity levels and pricing, and now it seems our peers have come into agreement with us on this point. We continue to believe international markets will grow at a high single-digit rate in 2019, and we see an overall favorable supply and demand backdrop for the global oil and gas markets. We've already benefited from some increased offshore activity and are seeing some signs of green shoots.

International markets will benefit in 2019 from the new technologies we have launched and introduced to the market, including the Magnus RSS, Vero automated tubular running system and the RFID-enabled TR1P single-trip completions system. When taken together, the current indicators suggest modest overall market growth in 2019. When combined with our transformation initiatives and the continued commercialization of new technologies, we believe, in this environment, our core businesses will continue to grow.

Our transformation will continue to be the main driver of year-over-year EBITDA improvement in 2019. We've made significant progress toward our ultimate goals, but we're also exercising the discipline to complete our internal initiatives no matter what the market brings.

As noted before, the transformation is more than about cost-cutting. We're establishing new processes and systems to support a more efficient, sustainable organization. We've maintained a focus on our customer relationships and our pricing and commercial terms. At the same time, we've launched new technologies and enhanced others to provide our clients with the solutions they need. As we head into the new year, a number of success stories across multiple product lines demonstrate a clear line of sight to continued operational and financial improvement.

During the fourth quarter, our Magnus push-the-bit RSS pushed the performance envelope in locations around the world. In Mexico, we successfully deployed the RSS for the first time in an offshore location. On 2 runs in separate wells, the RSS drilled the planned directional profiles ahead of schedule.

In the Permian Basin, the RSS continued drilling long horizontal laterals for our customers in single runs. The most recent run, at 2 miles, was the longest drilled to-date.

In the U.S. Mid-Continent region, the Magnus 950 RSS completed its first commercial job for a major operator in a 12.25-inch section.

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We also launched the RSS in the Middle East, where it kicked off from vertical before penetrating several challenging anhydrite layers drilling a curve section in a single run well ahead of schedule. We've deployed tools to multiple countries across the Middle East, and we anticipate significant drilling activity during the first quarter of 2019.

Our launch of Vero automated connection integrity, which adds artificial intelligence to the tubular running space, has been very well received. To-date, we use Vero technologies on 20 runs and made up more than 6,000 connections.

On a recent job in the Middle East during the fourth quarter, we installed 2 completions using Vero. In both installations, the Vero solution demonstrated its value by reducing personnel on the rig floor by 33%, while improving tubular running speeds per hour as much as 10% and streamlining equipment requirements to reduce rig-up and rig-down time by 50%.

Furthermore, the operation used tubulars from a prior well installation, and Vero detected and prevented 7 damaged connections, that have previously passed several rounds of inspections, from being made up and run into the well. This detection removed the risk of future catastrophic well leaks.

This past year, our production segment focused on high-flow solutions to further our capabilities as the only company to provide complete solutions for every form of lift. One of these is the Weatherford Horizontal Pumping System, powered by Valiant. The HPS is essentially an ESP on the surface that adds uptime and efficiency to fluid transfer operations. The HPS commercialization has equal importance and revenue potential to the ESP solution.

During the fourth quarter, an operator in Iraq awarded us an HPS project, which is helping to position our company as the solution provider of choice for high-flow production systems.

Our Rotaflex long-stroke pumping unit adds another technology to our high-flow portfolio. An operator in Argentina is considering the unit for an unconventional application in Vaca Muerta. After a competitor's conventional pumping unit failed to perform to expectations, the operator turned to Weatherford. Now we're installing our unit as a part of an analysis on artificial-lift technologies in unconventional wells there in Argentina, which could open up a whole new geographic market for us.

We've also -- we're also excited for the future impact of our ForeSite production optimization software platform. This platform allows customers to create enterprise-wide production solutions. As a matter of fact, a large international oil company has made the decision to deploy ForeSite as its global production optimization platform.

In recent months, we released our ForeSite and CygNet software platforms on the Google Cloud to reduce cost and infrastructure requirements. Additionally, the ForeSite platform has undergone a major enhancement that expands predictive failure analytics to ESPs. By predicting an ESP failure before it happens, our customers can reduce failure frequency, reducing total downtime and minimizing lost production.

Additionally, our ForeSite platform adds complete optimization capabilities for the world's 50,000 plunger-lifted wells. Rather than using a trial-and-error method to adjust operating pressures in plunger-lifted wells, the ForeSite platform enables real-time optimization and surveillance, along with intelligent alerts, well modeling and plunger-cycle design.

In the completions market, we've introduced our TR1P system, which enables installing upper and lower completions offshore in just 1 trip. This 100% intervention-free, RFID-activated technology makes installation relatively easy without control lines, washpipe, wireline, coil tubing or a workover reading.

During the fourth quarter, off the West Coast of Africa, we deployed the system for the first time. This system saved the operator 3 days of rig time compared to adjacent identical wells completed in this field. Given the daily spread rate for the latest generation of drillships and semisubmersible rigs, this savings equates to millions of dollars per well.

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We've also signed a number of contracts for integrated services in the fourth quarter. Our transformation efforts have helped facilitate cross-selling and lessons learned across our various product lines. The successful results have opened up new opportunities in other geographic regions.

In Colombia, a major operator awarded us a 4-year $100 million contract for integrated drilling and completions activities. The contract entails services for managed pressure drilling, well construction and other related services.

In the Eastern Hemisphere, ADNOC Offshore awarded us a $50 million contract to provide rental tools, pressure control equipment and intervention services. Weatherford was selected for the contract in line with ADNOC's In-Country Value strategy and our commitment to engaging with and supporting the local private sector.

In addition, an operator in the United Kingdom awarded us 3-year contracts in 2 exploration wells and 48 abandonments. The contracts involve managed pressure drilling, tubular running, drilling and rental tools, liner hangers and fishing services.

Besides signing this integrated service contracts last quarter, we have begun execution on others. In Argentina, for example, we began work on a contract that we first mentioned in the second quarter of 2018. If you recall, this 5-year $300 million contract with a major operator includes fracturing, coiled tubing, wireline, completions and testing services.

In an integrated project in Mexico, Weatherford carried out our first unconventional fracturing treatment. Our services not only provided flawless execution, but also enabled the customer to exceed production expectations, reinforcing the quality of the prospect.

These integrated service contracts are an increasingly important part of our operations, and we expect to see more meaningful growth in the coming years. The recent contract wins are a validation of the value we create for our customers and the improvements we've made on internal collaboration. They also illustrate our discipline regarding what work we will perform and under what commercial terms.

Our technologies, our contracts and our operations from each quarter to the next have an obvious impact on our year-end results. Now that we've just about reached the halfway point of our transformation plan, I'd like to highlight the progress we have made towards our ultimate transformation goals during 2018.

We increased operating income by approximately $580 million and grew adjusted EBITDA by over $330 million or 80% on a year-over-year basis, well outpacing the market. We achieved 100% of our 2018 transformation target. As intended, we realized annualized recurring transformation benefits of $400 million, which represents approximately 40% of our total transformation goal.

We exceeded our established targets for service quality, with a 22% reduction in nonproductive time on a year-over-year basis. This is our fourth straight year to improve this metric and all the more impressive considering the fluctuations we've experienced in the market during this time. We remain committed to operating with the highest levels of safety, technology and service quality that our customers have come to expect from us.

We commercialized several new distinctive technologies this year that have made -- been well-received by our customers and will support growth in the years ahead. We enhanced our liquidity by closing 2 tranches of the previously announced land drilling rigs divestitures for gross proceeds of $216 million. In addition, we announced agreements to sell our laboratory services business and our surface data logging business. We also continue to market additional noncore assets.

Above all, we're building the foundation for a strong culture, defining the company mission and values, conducting culture-shaping workshops and establishing networks fostering collaboration to unite us toward our common goal. Again, a heartfelt thank you to all of our employees and business partners involved in driving this progress forward. There have been many long days and nights to get us this far, and I truly appreciate your unyielding commitment and dedication in making this happen.

In conclusion, 2018 demonstrated all that we can and we did accomplish. We made significant financial progress, launched distinctive technologies, secured new contracts and reshaped our culture. And specifically, during the fourth quarter, we delivered outstanding results in spite of difficult circumstances. I witnessed firsthand rigorous discipline and a sense of urgency as well as an incredible spirit and fortitude.

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As we forge ahead, I expect to see that one Weatherford spirit carry our transformation plan forward. The spirit, coupled with process discipline, active engagement, individual accountability and a sense of urgency, will continue our transformational journey back to sustainable profitability and toward long-term growth. Thank you.

With that, I'll turn the call back over to the operator. Carol?

QUESTIONS AND ANSWERS

Editor

(Operator Instructions) Our first question comes from Kurt Hallead of RBC. Kurt?

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

So you guys provided some -- you guys answered a lot of questions that investors were having as we were going into year-end and heading out in 2019. And I guess, Mark, if I may, you and I have some conversations toward the latter part of last year. And with the stock trading where it is, right, the elephant in the room and the question of the day is more like along the lines of given the dynamics at play, what, in your mind, would have to occur for there to be some serious consideration around the lines of a capital restructuring or voluntary sort of bankruptcy? That seems to be the question I'm getting most often from investors. So maybe you could provide your perspective on that.

Mark A. McCollum - *Weatherford International plc - President & CEO*

I'm going to be real honest, right? I mean, obviously, we recognize that we've got these maturities that are out there. Obviously, the 2021 tower is the question that we get most. For us, you have to realize that, that seems like a significantly long time away. The honest answer that I have to give you, Kurt, is that I don't waste a lot of time thinking or planning how to fail. Our energy as a team here is 100% focused on working to succeed. The path forward for us, the path that we can control, the actions that we can take is continuing to execute the transformation plan and do that quarter in and quarter out and continue to improve the profitability, which ultimately will drive the cash flow of this organization and improve our credit metrics as well as continue to improve our ability to execute in the field service quality and getting these new technologies out, which are addressing needs that our customers are coming forward to us and saying, "We need Weatherford to be there to fulfill." And so what we're trying to do right now is stay laser-focused on transformation, execution, both operationally as well as all of these various initiatives that are driving these pretty significant increases in profitability. I mean, if you look at what we've accomplished, it's really dramatic. But we've got an equally steep hill to climb in 2019, and that's where our energy is. And as we go forward in the coming months, we have maturities this year. We'll have to talk to our key lending relationships about our revolver. And in the context of those conversations, we will begin to look at solutions that will address those maturities.

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

Great. Mark, I appreciate you addressing that and your candor in your answers. So now from an operational standpoint as we move forward, right, coming out of the third quarter conference call, I do believe you made, as you were talking about generating positive free cash flow in '19 and reiterating that again today, I guess, it would still be safe to assume that in order to get there from an overall standpoint, you'd have to generate something in excess of $1 billion in EBITDA in '19. So could you help us kind of calibrate or recalibrate that dynamic?

Christoph Bausch - *Weatherford International plc - Executive VP & CFO*

Yes. Kurt, it's Christoph here. I think most importantly for us is that we will generate positive cash flow in 2019 whose various components getting there results in transformation results, improving the EBITDA further, as I pointed out. We also focus on our working capital, and we have leverage

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around our investments, which we can dial up or down as the market evolves. But I think our commitment and without really betting or promising an EBITDA target is that we will generate positive free cash flow in 2019.

Operator

Our next question comes from James Wicklund from Crédit Suisse.

James Knowlton Wicklund - *Crédit Suisse AG, Research Division - MD*

Kurt, thank you for asking the first question, which is the primary question all of us had. So thank you, and again, Mark, that was -- the candor and the answer means that now we just talk about operational stuff.

Mark A. McCollum - *Weatherford International plc - President & CEO*

That's good. I like that.

James Knowlton Wicklund - *Crédit Suisse AG, Research Division - MD*

I think the market was a little bit surprised -- investors, at least, were a little surprised by the level of technology that you talked about. That's not usually the first thing people think of sometimes with Weatherford. And then there's the integrated service contracts. Now we have been hearing harsh stories for the past couple of quarters of lump-sum turnkey projects that were highly competitively bid and, basically, wormed on these things. What is the difference between your integrated service contracts and these lump-sum contracts we keep hearing about? Are you going to generate a margin on these things?

Mark A. McCollum - *Weatherford International plc - President & CEO*

On the contracts that we have -- we've won and entered into, we're confident that we're going to generate good margins on those projects. The ones particularly in Mexico have been highly successful thus far. The honest answer is I don't think that from an overall strategy, we're talking about the same kinds of things. I think the difference really speaks to 2 things. One, for us, as a Weatherford entity, we had to work really hard on improving our ability to collaborate across our product lines. That's been part of the culture shaping and the transformational work, so that we get really good at executing these contracts. I mean, in order to do them well, your customers are relying on you to not only bring your best technologies forward, but your best service execution there as well, which means managing the white space out and improving their overall results. And so we've worked on that and have improved that significantly, and that's helping us there. The other side, it is also being disciplined enough to not chase the market when it decides in their -- and so in some of these other cases, you've seen some situations -- I'm just being honest, where I think somebody has bought market share. And they've secured in the price to win a contract, but in doing so, get the top line with the hope that they're going to -- through upsells to the customer. They're going to at least sort of bring something else that the customer wasn't initially buying in order to improve their profitability. I think that's a dangerous game. It doesn't build customer relationships. And I think it also, I think, obviously, tease things up for lower returns and lower margins. The other side as well, I mean, obviously, I've always been, even in my prior position, disciplined around taking bets on geology, right, our ideals on executing services and doing that well. And so some of the contracts that we're doing are really around that execution. We're not taking geologic risk. We're not taking production risk on that at this point in time because I think that in doing so requires you to have higher pricing that offset the risk entailed with that. That's a part of that game, and quite frankly, I don't know that I see that discipline in the market at this time.

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James Knowlton Wicklund - *Crédit Suisse AG, Research Division - MD*

Okay, that's helpful. And I'm going to drill down a little bit, if I could. The -- I completely just lost -- how -- Weatherford has typically been a manufacturing company. And it was somewhat siloed in part by the acquisitions it has made, but siloed. And this integrated service provider contracts involve a whole lot of different -- what used to be silos in Weatherford. Can you talk a little bit about how you've restructured the internal communications and operations of the company to accomplish that? Baker Hughes tried to make the transition a decade ago from product silos to service, and it was exceptionally difficult. How are you making that work?

Mark A. McCollum - *Weatherford International plc - President & CEO*

So a couple of different ways. One of the things we did organizationally at the end of 2017 is change the way that the Weatherford matrix is operated. Before, the product lines sort of had a bright line all the way to the coal phase in terms of customer execution in whatever market that they were operating in. And they all operated somewhat independent from each other, from everything from technology to capital allocation and customer interface. I mean, I have customers come and say, "We love Weatherford, but we see dozens and dozens of people because every product line is calling on us independent from each other." So we restructured the business to put the primary customer relationship and the execution of the business in the hands of our geozone leadership in the hemispheres. And in doing so, the product line then sort of tucked up under them to serve them, right? The product lines are in charge of strategy, capital allocation, manufacturing, new technologies, but the customer relationship is owned by the geozones. We also made similar changes to our sales force and now having a stronger and deeper account management structure that's supported by technical sales that -- from each of the product lines that support them, still working all the relationships. But yet, when you have an account manager who's being more strategic with their customers and listening to what they need and where they're going gives us the opportunity to craft a solution that's multi-product line, that helps them to do that. But that's all on an organization chart, right? Behind the scenes there, part of the work that we've been doing as an organization, it sounds squishy, right, but doing a lot of culture, team building work across product lines and...

James Knowlton Wicklund - *Crédit Suisse AG, Research Division - MD*

Yes, you've had to change your culture.

Mark A. McCollum - *Weatherford International plc - President & CEO*

Yes, exactly. Where these guys all know each other. They're developing relationships, and they're spending time together when they're working, and we're sharing and collaborating in a different way. And part of that is just -- I mean, just my hats off to my leadership team who have been working hard to try to create and foster that collaborative environment at the top. That just starts permeating. And we still -- I mean, when you look at our sales results, I mean, honestly, we're still -- '19, we're going to be refocusing on trying to grow sales and do a better job than we did. We were okay, but we could have done better on an overall basis. But -- and I think it's just as we go through this transformation, you're just going to see more and more fruit borne out of this culture-shaping process.

Operator

Our next question comes from Sean Meakim from JPMorgan.

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

So I was just hoping I can get maybe your latest thinking on the revolver. I assume that's the top priority right now in terms of managing liquidity in the balance sheet. Just, is it fair to say the base case is to get that worked out at some point in the next few months? And then the focus will turn towards chipping away at the 2020 and 2021?

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Christoph Bausch - *Weatherford International plc - Executive VP & CFO*

Yes. Sean, this is Christoph. As I mentioned in my prepared remarks that, that's exactly what we are doing. We are looking -- as part of our annual process, we are discussing with our key lending relationships renewal of the revolver. And we are looking also at other pieces of upcoming maturities. So -- well, stay tuned. We'll let you know as we proceed and on where we land.

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

Okay, fair enough. And thinking about the 1/3 reduction that you're talking about in terms of year-end '19, how much of the EBITDA -- how much of that would you characterize as EBITDA growth versus liability management? I'm just thinking about how those pieces work together.

Christoph Bausch - *Weatherford International plc - Executive VP & CFO*

They both work together. So it's the pieces of EBITDA improvements. And I think a little bit of the pieces we gave you, I think you can model it out. And we have our divestitures that we talked about before. We are continuing to work on them and execute on them. So it's a combination of both, Sean, which will contribute to that 1/3 reduction.

Mark A. McCollum - *Weatherford International plc - President & CEO*

I guess we've done the difficult, right? As we've talked about, we expect to be cash flow positive in the year, which means that we're not using EBITDA to buttress the cash flow. That means that while the dispositions, the collection of those -- the monies from the dispositions add to our liquidity position and help us during this period of time but at some point in time, either we're reducing net debt on a notional basis and, at some point, we'll reduce real debt.

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

Got it. And one last piece of that, if I could. Just thinking about the 2021 bucket, are you thinking about the convertible notes differently than the unsecured?

Mark A. McCollum - *Weatherford International plc - President & CEO*

As we've talked about, we're -- that's out there. Not -- we'll address that in time, so stay tuned.

Operator

Our next question comes from James West from Evercore ISI.

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

I guess you've addressed a lot of the concerns, I think, that the market has. And you've done a great job. You guys have done a great job as an organization on the transformation front. One of the concerns that I have kind of in the background is with the reduction in kind of CapEx, which we certainly applaud, but are you spending enough on R&D infrastructure to keep up with the competition? I want to make sure there's no atrophy going on within the organization as you get back to sustainable profitability?

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Mark A. McCollum - *Weatherford International plc - President & CEO*

The answer is yes, we believe we are. I mean, our transformational efforts don't result in any kind of reduction of R&D spend. In fact, if anything, at the margin, we're trying to put some more monies into it. And so it's not dramatic, it's not a doubling up, but we're trying to be prudent about where we're spending money and what we're working on. And as you see in these new technology introductions, I mean, the Magnus RSS, from concept to commercialization, I don't believe there's any tool rotary steerable that's ever entered the market faster than the Magnus. And so it's really around execution, around that sort to save dollars there. The other side, part of our capital spending, we're consolidating facilities. That is part of the transformation, but we're consolidating manufacturing. That increases efficiency in our ability to get product out and serve our customers. We're consolidating camps and enhancing camps around the world as we build out. And we're seeing our own work expand in areas like the Permian Basin, in the SCOOP/STACK and other areas around the U.S. or in the Middle East. We may continue to make enhancements to our facilities there. So there's capital being spent there. For us, the good news is that part of the reason the numbers kind of look down year-over-year, we're not having to spend money on rigs. And we're not having to spend money on pressure pumping and several others. And a few others of the business lines that we have that we're shopping around have fairly significant capital requirements that we're continuing, on a relative basis, that we're continuing to manage down to be lean and light and, long term, have our focus on trying to be a real return-generating organization.

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

Okay, perfect. And then a follow-up from me on the international side of the business. While the data points I'm picking up is that you guys are very disciplined on pricing, that you actually are being a high -- already a high bidder on several large tenders. So you're not undercutting to get this single -- high single-digit growth. Is the rest of the market behaving, sort of behaving more rational for you? Or what I mean by more rational, so that we can see some real pricing leverage for the industry.

Mark A. McCollum - *Weatherford International plc - President & CEO*

I would say that there are pockets of rationality and say, "We could all do better." We could all do better, okay? I mean, obviously -- I think you -- onto you guys on other calls. You're -- sort of the elephant in the room for us as an entire sector is we're not generating returns that our investors expect. I mean, I'm not going to say anything. We're certainly not. We have a long way to go. And part of that is asset efficiency and being -- but also there's price discipline, understanding what it takes to cover our costs and being well in step in there and ask for it. And we're trying to do our part. You see it, but we still have a ways to go.

Operator

Our next question comes from Byron Pope from Tudor, Pickering, Holt.

Byron Keith Pope - *Tudor, Pickering, Holt & Co. Securities, Inc., Research Division - MD of Oil Service Research*

Mark, as you all went through your operating and capital budgeting process for this year and thinking about the 4 global business units, could you frame for us where do you see the growth coming from for Weatherford this year, putting aside the near-term North America headwinds? But again, in the context of the 4 business units, where are you most excited about at some of the growth opportunities, whether it be in the Eastern or Western Hemisphere?

Mark A. McCollum - *Weatherford International plc - President & CEO*

Well, we try to highlight a few of those -- tied us back up, I mean. We talked about the issues in North America. But I mean, even despite maybe capital budgets coming down, I think one of the things that everybody has kind of worked through -- and it will be interesting as we hear more from our customers, they have -- while capital budgets may come in, they've got more dollars to spread around because completions cost through pricing has come down significantly. I mean, completions are 60% of the well ticket, and you have the price. I mean, you could see what that may

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apply. And customers are telling me when I speak to them, North American customers, that their key focus in '19 is going to be around enhancing production. You guys have got them zeroed in on cash flows and returns, and that's right up our -- that's in our wheelhouse, right? So as we talked about, I actually am pretty excited about what could start really happening as the cycle turns for our artificial-lift systems, particularly what I call later-cycle artificial-lift systems. And a number of customers are getting more intrigued by the capabilities of our ForeSite platform that's getting them the ability to gain insight into how their various pads or well pads are even fulfilled. Well programs are behaving as they sort of drive production or realizing that enhancing that production is going to put more cash in their pocket to spend elsewhere. So I'm really excited about production. And I would say I'm most excited about what it could lend for us in the U.S, but it's -- we're seeing this -- the Middle East has been leading in that area, and it will continue to enhance. The second is in directional drilling, right? We talked about the Magnus. The Magnus has been, in my view, widely successful. We've had some hiccups. I was hoping that we'd get it even earlier, but we worked through. But I'm telling you right now, it is performing exceptionally well. And everybody, from our customers in the Middle East to the Permian, they want it. In fact, I'm looking at Christoph. Christoph's biggest challenge is actually making sure that we build enough of those tools because I think they're going to go fast and go hot. And the good news is they require less of those tools per application, and so we'll -- because they're being able to do the work in single runs with less maintenance. And so I'm excited about directional drilling and what that portends. Tubular running services, Vero, I mean, that's in the managed pressure drilling. We have a number of packages that are being sold. The green shoots that we're beginning to see at offshore, we're experiencing most on managed pressure drilling and in the tubular running service space. And so I'm thinking that, that's going to continue to pick up. Completions are steady Eddy business. It's been one of our most profitable. It continues to just sort of execute -- go along the way. Part of our capital spend, the transformation is actually trying to improve our ability to deliver more tools to the market because there's demand. And in many times through '18, we were sold out. And so we continue to feel good about that as well.

All right. I think we are out of time. Carol, can we hand it back over to you to close the call?

Operator

Certainly. This does conclude today's conference call, and you may now disconnect.

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