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WFRD.OQ - Q3 2022 Weatherford International PLC Earnings Call

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. Welcome to the Weatherford International Third Quarter 2022 Earnings Call. (Operator Instructions). I would now like to turn the conference over to Mohammed Topiwala, Director, Investor Relations and M&A. Sir, you may begin.

Mohammed Topiwala - *Weatherford International plc - Director of IR and M&A*

Welcome, everyone, to the Weatherford International Third Quarter 2022 Conference Call. I'm joined today by Girish Saligram, President and CEO; and Desmond Mills, Senior Vice President, Chief Accounting Officer and Interim CFO. We will start today with our prepared remarks and then open it up for questions. You may download a copy of the presentation slides that correspond to today's call from our website's Investor Relations section. I want to remind everyone that some of today's comments include forward-looking statements. These statements are subject to many risks and uncertainties that could cause our actual results to differ materially from any expectation expressed herein.

Please refer to our latest Securities and Exchange Commission filings for risk factors and cautions regarding forward-looking statements. Our comments today also include non-GAAP financial measures. The underlying details and a reconciliation of GAAP to non-GAAP financial measures are included in our third-quarter earnings press release, which can be found on our website. As a reminder, today's call is being webcast, and a recorded version will be available on Weatherford's website following the conclusion of this call.

With that, I'd like to turn the call over to Girish.

Girishchandra K. Saligram - *Weatherford International plc - President, CEO & Director*

Thanks, Mohammed, and thank you all for joining the call today. I'd like to start by thanking the entire Weatherford team for their continued focus on our customers and operations. Their tireless efforts and commitment are the driving force behind an excellent third quarter of 2022. Our results reflect the team's ethos and laser focus on ensuring that we deliver quality and performance for our customers and continue delivering free cash flow, margin expansion and growth for our investors.

Third quarter 2022 revenue of $1.12 billion was up 5% sequentially, driven mainly by higher drilling and evaluation activity across both the North American and international markets. From a geographic standpoint, our North America business grew 11%, while international growth was 3%. I am especially pleased with our margin performance this quarter as we delivered EBITDA margins of 19.1%, an expansion of over 160 basis points sequentially and generating $133 million of free cash flow driven by strong fall-throughs and higher service activity and solid execution across the

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board. We continue to experience inflationary pressures and supply chain bottlenecks, but our focus on cost discipline, changing our operating paradigm, and pricing have enabled another strong quarter of margin expansion, getting us closer to a sustainable rate of high-teens EBITDA margins.

I have talked in prior calls about our ability to not just survive but thrive. And the third quarter is another clear marker of us delivering value and having the potential to do even more. We were net income positive once again in Q3, following our first instance in the second quarter after a lengthy period. The $133 million of free cash flow in the third quarter puts us at $128 million year-to-date and solidly on the way to a third consecutive year of free cash flow generation an unprecedented, but hopefully to be normal scenario for us in the future.

To put this in perspective, this is the first time in over 10 years that is over 40 quarters that we have had 2 consecutive quarters of positive net income. Moreover, both these quarters have had positive free cash flow in addition to positive net income, something that Weatherford has never witnessed over that same period. Over the past 2 years, I have gotten an in-depth look at our customer relationships, technology portfolio, field operations and culture. With that insight and a continued positive outlook for our sector, I am confident in our ability to continue this trajectory of high performance. I still acknowledge that we are not done and still have a lot to fix. But today, that is less a risk and more an opportunity. The challenges that Weatherford faces took several years to create, and we are addressing them methodically and systematically. Today, we are a team and a company with a lot to be proud of as we continue to increase our focus on our customers, technology portfolio and commitment to driving innovation, while fundamentally shifting our operational and financial paradigms.

Over the course of 2 years, our efforts have resulted in making significant headway across the spectrum. As we have successfully put a credit facility in place, refinance costly debt, deleverage the balance sheet, achieved revenue growth and improved EBITDA margins consistently and in tandem with free cash flow generation. We continue to improve the liquidity profile of the company with the announcement of our credit facility and pay down of $125 million principal amount of the 11% exit notes. This allows us to take another important and significant step towards improving our capital structure efficiency. I want to thank our banking partners for their creativity and partnership in working with us on a structure that recognizes our improved profile while also providing flexibility to scale up. Getting a credit facility in place was one of our stated goals, and I'm very pleased that we have been able to accomplish this and simultaneously deliver on our commitment of continuing to pay down debt, improving leverage and our free cash flow profile heading into 2023.

This quarter, we won several meaningful highly technical and competitive project awards. Coupled with our recent announcements on the wins with Aramco and PDO, these give us greater visibility into 2023 and are a very tangible proof point of our competitiveness and differentiation. So turning to our commercial success during the quarter. We received a 5-year framework agreement from ADNOC in Abu Dhabi to provide directional drilling and logging while drilling services that will minimize OpEx, reduce risks and optimize production. This builds on our previously announced wins with ADNOC and positions us with significant growth in the UAE in 2023. A major IOC in the Middle East awarded us a 5-year contract to provide wireline services as a comprehensive wireline portfolio enables operators to make key life of field decisions and maximize recovery.

We received a 2-year contract to continue delivering drilling fluids and the associated services and unconventional wells to YPF in Argentina where we have delivered more than 250 wells with a keen focus on health, safety and the environment. Pertamina in Indonesia awarded us a 5-year contract to deliver intervention through tubing and tubular running services. This win comes on the back of strong performance as the incumbent provider of similar services, showcasing our commitment to quality and customer satisfaction. We received an award from KOC to deliver upper completion services and technology for 300 development wells across several fields in Kuwait. Our completion offerings stood out because of their field-proven reliability and strong in-country footprint.

During the quarter, we received an award from Fri-EL Green Power in Europe to provide drilling, well construction and formation evaluation in San Giovanni geothermal project. The energy produced in this operation will heat regional hydroponic greenhouses without emissions. This award showcases how we apply our traditional and new technologies to renewable energy applications. We have talked in the past about exiting the drilling services market in the United States as well as our commitment to ensure that the intersection of every product line in each country is able to provide a positive contribution to the enterprise. So while we have no intention of reentering the U.S. in a conventional fashion for drilling services, I am very excited with us successfully reintroducing our HEX ultra-high temperature logging while drilling or LWD technology to support gas plays in the Haynesville and Eagle Ford basins. We have developed a new business model that will allow us to leverage our technology differentiation and provide a high rate of return on our assets while solving a critical customer problem.

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We recently hosted our forward digital conference, a 2-day event with key customers, technology partners and technical experts, showcasing the value created through our next-generation digital solutions, which enhance operational efficiencies, improve safety while enabling cost savings and reduction in carbon emissions. This is a conference we have held over the past 18 years, and it was great to have it go back to an in-person event with terrific customer attendance and reaction.

Now let's turn to our view on the markets. We continue to see a favorable multiyear outlook for our sector, implying a constructive scenario across all our segments. The positive market fundamentals, combined with our top-line momentum and traction on pricing improvements, give us increasing confidence that we will continue to deliver top-line and bottom-line growth with meaningful margin expansion and solid cash generation. The last several quarters in North America have seen a high rate of growth for drilling and completion activity, and we are now starting to see that rate of growth starting to taper off. We continue to expect services supply to remain constrained and therefore, expect pricing traction to hold.

Going into 2023, we see moderate growth with a continuing focus on returns. The international markets have continued momentum, underpinned by strong fundamentals across the Middle East and Latin America, with strong tender activity to support multiyear plans. Our continued focus on pricing, profitable share retake and operational improvements is driving positive results and will continue to be a key focus for the organization. We are also seeing strong signs of offshore activity and are very well positioned with our market-leading product offerings of managed pressure drilling and tubular running services, which bring a compelling value proposition to customers. Overall, international activity continues to improve with the cycle likely to continue into 2023. We have talked in the past about some of the activity in the Middle East being later in the year, and we are starting to see that come through and will likely accelerate heading into 2023.

During the third quarter, we announced the addition of Chuck Davison to our leadership team as our Executive Vice President of Operational Excellence. Bringing someone of Chuck's caliber on board is a significant step for us as we shift to the next step in our operational paradigm, which is about scaling up for growth without losing the effectiveness we have developed. So in summary, a Q3 that was highlighted by solid sequential top-line growth, significant margin expansion and excellent free cash flow generation, topped off with strong commercial wins and a return of the banks with a new credit facility and $125 million of debt paydown.

With that, I'd like to hand it over to Desmond, who's done a terrific job leading our finance team over the past few months to talk more specifically about our financial performance this quarter.

Desmond J. Mills - *Weatherford International plc - Senior VP, Interim CFO & CAO*

Thank you, Girish. Good morning, and thank you, everyone, for joining us on the call. I'll begin with our consolidated results and then move into our segment results and the liquidity and cash flows; and finally, with some thoughts on guidance. On our consolidated results, revenues for the third quarter of 2022 were $1.12 billion, an increase of 5% sequentially and 19% year-over-year. Operating income was $121 million in the third quarter of 2022 compared to $104 million in the second quarter of 2022 and $71 million in the third quarter of 2021. The Net income was $28 million compared to $6 million in the second quarter of 2022 and a net loss of $95 million in the third quarter of 2021. We mentioned last quarter that we were aided by the recognition of certain benefits and generating positive net income. This quarter proves that we can get there operationally. Adjusted EBITDA was $214 million, an increase of 15% sequentially and 20% year-over-year, showing very strong performance. Our adjusted EBITDA margins ticked up to 19.1%, up over 160 basis points sequentially, driven by favorable services follow-through and cost discipline overheads.

Now moving into our segment results. Drilling and Evaluation, our DRE revenues of $348 million, increased by $31 million or 10% sequentially due to higher demand across all DRE product lines, primarily driven by managed pressure drilling and drilling services in the Middle East, North Africa, Asia and North American regions. Segment-adjusted EBITDA of $85 million increased by $16 million or 23% sequentially, largely due to higher fall-through for managed pressure drilling and the Middle East, North Africa, Asia, and North America regions. Well construction and completion, our WCC revenues of $391 million increased by $8 million or 2% sequentially, driven by cementation products in North America and Middle East, North Africa, Asia regions.

Segment-adjusted EBITDA of $78 million increased by $11 million or 16% sequentially, largely due to higher fall-through and execution efficiencies for cementation products in the Middle East, North Africa, Asia region, and tubular running services in the Europe/Africa region. Product and intervention or PRI revenues of $357 million increased by $12 million or 3% sequentially, primarily driven by higher artificial lift activity in North

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America. Segment-adjusted EBITDA of $66 million decreased by $2 million or 3% sequentially, mainly due to a change in product over-service mix in North America and Europe, Sub-Sahara Africa, Russia regions.

Turning to liquidity and cash flows. We ended the third quarter with total cash of $1.1 billion, up $53 million sequentially even after the debt paydown of $50 million during the quarter. Last week, we issued a notice to redeem an additional $125 million of the 11% exit notes in November. The paydown of $125 million would generate $13.8 million in annualized interest savings. After that payment, we will have refinanced or paid down $1.975 billion of the original $2.1 billion of exit notes over the past 12 months, driving significant change in maturity as well as reduced interest expense. Cash provided by operating activities was $160 million, and free cash flow was $133 million, a sequential improvement of $100 million and $74 million, respectively. These improvements were primarily driven by our higher adjusted EBITDA margins as well as improved receivable and inventory efficiency and lower interest payments. For the first time in over a decade, our net debt-to-EBITDA ratio is below 2x, a significant achievement and a reflection of the tremendous progress we've made.

Additional to last week, we announced that we entered into a credit agreement, which amended and restated our existing secured letter of credit agreement. Total aggregate commitments under the credit facility are $370 million, of which $45 million is immediately available for revolving loans. The amount available for revolving loans can be increased by up to an additional $100 million as the company meets certain leverage ratios and subject to lender's consent. The credit facility will also allow the company to transfer certain cash-collateralized letters of credit to the credit facility, resulting in lower aggregate cash collateral requirements and improved liquidity going forward. The credit facility also provides the company the flexibility, bond satisfaction of certain conditions to request incremental increases in the aggregate commitments under the credit facility to not more than $600 million. The maturity date under the credit facility is October 17, 2026, subject to certain conditions.

As we look ahead to the remainder of the year, in the fourth quarter, we expect consolidated revenues to increase by low to mid-single digits sequentially, driven by higher demand across all of our segments. DRE is forecasted to deliver low single-digit growth. WCC to deliver in the low to mid-single digits and PRI in the mid- to high single digits. Adjusted EBITDA margins are expected to be in line with the third quarter at approximately 19%, reflecting a seasonal mix change of higher product revenues as well as geographical seasonality. We are targeting fourth-quarter free cash flow to be higher than $50 million, including approximately $87 million in interest payments, and expect capital expenditures to be between $40 million and $50 million. This increases our total year free cash flow guidance to over $170 million in an upcycle with increased CapEx spending and working capital growth over last year. This outlook continues to reinforce the strength of our organization and our customers' confidence in our abilities.

Thanks all for your time today. And now back to you, Girish, for your closing comments.

Desmond J. Mills - *Weatherford International plc - Senior VP, Interim CFO & CAO*

Thanks, Desmond. Our results from the third quarter reinforce the rationale behind our strategic focus and imperatives as we drive revenue growth with margin expansion and free cash flow generation. The focus areas we highlighted around fulfillment, directed growth, execution excellence, and simplification are providing the direction and alignment for the entire company to come together to deliver enterprise-wide objectives with a collaborative spirit. In fulfillment, our multiyear initiative to fundamentally change the manufacturing, sourcing, and repair network of the company, we have made some really good headway as seen by improvements in gross margin, which were up over 180 basis points sequentially. This was enabled by various initiatives such as higher sourcing from lower-cost regions, inventory efficiencies, and facility optimization as we have now exited over 10% of our operating facilities since the start of 2021. As we think about scaling up Weatherford, it is all about directed growth for us. We are not chasing volume for the sake of growth and are focused on ensuring that incremental revenues provide margin lift as well.

The example of reentering the U.S. with our HEX ultra high-temperature LWD technology with a new business model that will allow us to leverage our technology differentiation, improve customer outcomes and provide a good return on our assets is a very illustrative example of this mindset. Excellence in execution is about improving our operational effectiveness across the board from service excellence to asset utilization to working capital efficiency. This quarter, we continue to build upon the progress we have made as seen from the 3-day sequential reduction in net working capital. In a growth environment, improving our DSI by 3 days sequentially is a testament to the hard work, dedication and focus of the entire team. Our overall net working capital as a percentage of revenue continues to trend down and a 27% this quarter is progressing well towards a milestone of having net working capital less than 25% of revenue.

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And lastly, on simplification, we continue to take steps to increase operational efficiency across the organization, resulting in overhead costs as a percentage of revenue decreasing by 40 basis points sequentially. We highlighted our next-level goal of high-teens EBITDA and believe we are solidly on track to deliver that, with EBITDA margins expected to be at least 200 basis points above 2021 at this point for the total year. This will position us well going into 2023. As I noted earlier, the sector fundamentals are strong, and we expect to see revenue growth in the double digits in 2023. While inflationary pressures continue to be strong and supply chain issues have not fully abated, we expect 23 to be another year of solid double-digit revenue growth, further margin expansion, and strong cash flow generation.

We will continue to see seasonal shifts in our margin performance based on mix, transient challenges, and inflation. However, over a longer time frame, our efforts and focus will continue on our path to deliver value creation with increased margins and free cash flow. We are excited about our progress and have the humility to recognize that a lot more needs. Weatherford has the technology offerings, coverage, relationships and most importantly, the people who will propel our journey further. We are a company that is characterized by differentiation in technology and in our people, harnessing that combination to create a winning culture is something we are actively working on, and seeing it evolve and come alive is very exciting. While the Weatherford team has worked relentlessly in achieving these results, we remain more focused than ever to seize the growth opportunity that lies ahead.

Thank you all for joining us today. And operator, let's now open it up for questions, please.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). And our first question today comes from Doug Becker of Benchmark Research.

Douglas Lee Becker - *The Benchmark Company, LLC, Research Division - Senior Equity Analyst*

Girish, you highlighted a nice list of recent awards. How much do you consider incremental versus extensions? And just any characterization along the pricing that's embedded in those contracts.

Girishchandra K. Saligram - *Weatherford International plc - President, CEO & Director*

Doug, thanks for joining. And look, as you pointed out, we've had a very impressive list of wins and awards. And it really looks as a mix. We don't break it out explicitly by what is extension, what is new, but let me give you some flavor and color around that. A lot of these, to some extent, are continuing activity, but sometimes, and in most cases, with increased share. A lot of them with significantly enhanced margins due to better cost as well as increased pricing. So that creates an effect as well. And then you've got awards like the ones we just announced with our fourth quarter on PDO and Aramco, which are effectively new business that we have not been doing before. So those become really new incremental things. So it's really a little bit of a mix of a variety of things. But all of it put together goes into this view that '23 should be double-digit growth as well as margin expansion.

Douglas Lee Becker - *The Benchmark Company, LLC, Research Division - Senior Equity Analyst*

Any context in terms of putting our minds at ease at a lump sum turnkey contract? Historically, that's caused some consternation, just any context there?

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Girishchandra K. Saligram - *Weatherford International plc - President, CEO & Director*

Yes, yes, absolutely. And look, these are -- when we say lump-sum turnkey, these are not the old style, what we used to do at Weatherford EPF type of contracts that caused a lot of banks. These are really front and center, what we do every day just in a much more integrated fashion, where we have more project management responsibility for delivery to the customer. So the contract in Oman, for example, is a drilling contract, but these are areas where we have a tremendous amount of experience already. We've been doing work in Oman for several years in not the same field, but very close by in Oman. So we've got a lot of experience on doing this work, and we've got a team and the technology to do it. It's not significantly that much more complex. So we feel very confident in our ability to deliver.

In Saudi, the contract that we announced is really built around reentry and intervention services, that's something that we do very well. So it's taking a lot of the discrete services that we provide and putting a bit more of a project management wrapper around it to deliver Aramco in a slightly different model. So I feel very confident in our ability to learn and deliver these things. They are slightly different, but certainly not the risk that maybe conjured up with the notions of old-style EPS, et cetera. That's not what we're talking about here.

Douglas Lee Becker - *The Benchmark Company, LLC, Research Division - Senior Equity Analyst*

No, that's very reassuring. And then I'll try and push the 2023 outlook, just a little bit, very strong incremental margins this quarter. Is it reasonable thinking about next year, given everything you've laid out that maybe incremental EBITDA margins are 30% or higher or still were premature to go that far?

Girishchandra K. Saligram - *Weatherford International plc - President, CEO & Director*

Yes. Look, it's a bit premature, I would say, Doug. Again, we have not given explicit guidance on '23. We will do that when we come back with our fourth quarter and total year earnings. But look, I think it's reasonable to expect that anywhere in that 25 to 75 bps range of margin increase is normal. So we'll continue down that path, but we'll come out with more explicit guidance. And look, as you know, we don't commit to stuff unless we've got clear line of sight to it. I think the more important thing is, over a longer-term time frame that we are committed to keep growing margins.

Operator

And our next question today comes from Luke Lemoine with Piper Sandler.

Luke Michael Lemoine - *Piper Sandler & Co., Research Division - MD & Senior Research Analyst*

I know we've already seen MENA and Asia reflect a good bit this year on a year-on-year basis. And as Doug mentioned, you've had some recent awards with ADNOC along with Aramco, on the LSTK contracts. But could you talk a little bit more on how you see MENA and Asia unfolding in '23?

Girishchandra K. Saligram - *Weatherford International plc - President, CEO & Director*

Sure. Look, as we said, Luke, we do expect solid double-digit growth next year across the board. It's going to be spearheaded by this particular region and the Middle East, most specifically. Now as we report, we put them together. But I think what we will see is that region leading the way with exaggerated growth driven by the activity in that region as well as some of the additional contract awards and the wins that we have had in the share that we are regaining.

Operator

And our next question today comes from Alexa Petrick with Goldman Sachs.

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Alexa Petrick

This is Alexa on for Ati. I wanted to ask, how are you thinking about capital allocation as you continue improving your liquidity? Are capital returns starting to become the topic of conversation? And then just to add to that, what metrics are helping guide your capital allocation priorities? And how are you expecting that to evolve over time?

Girishchandra K. Saligram - *Weatherford International plc - President, CEO & Director*

So a lot of different pieces in that question. Look, obviously, as you can imagine, as we have continued our journey, it is becoming a bigger and bigger topic. I want to put it in context there. Look, Weatherford is a company that has had some serious structural issues and that have taken several years. So for us, it's really important as we look to the future to make sure that we are addressing it systematically. We're addressing it methodically. And so we are very, very intentional about what we are doing around that notion. And we are driving everything to the view that ultimately, it has to result in operational flexibility, but at the same time, making sure that shareholders get the maximum value.

Look, our company, unfortunately, had a history of very poor capital allocation decisions. We've also got some fairly primitive systems. So we are making sure we've got all the plumbing in place. We are optimizing working capital. And ultimately, all of that will enable us to have cash for strategic purchases.

Those strategic purchases will include debt that we've seen over the last year or so. And at some point, we will start talking about returning capital to shareholders through a variety of different mechanisms. So we've made great progress, but we are not done yet. And I expect us to continue on this notion of making significant improvements and that cash for strategic purposes to grow. Now what we are looking at in terms of metrics are really what we have talked about. Our ability to grow share, our ability to grow share with the right margin expansion, where that's coming from a pricing standpoint, what is the working capital usage in the company? Are we able to drive that down, our return on assets as well as our asset utilization? How all of that is improving as well as how we're closing that multiple gap from an external standpoint. All of those get factored in. And as we look at the overall capital structure of the company and figure out how best to allocate it.

Operator

And our next question today comes from James Hubbard at Deutsche Bank.

James Richard Hubbard - *Deutsche Bank AG, Research Division - Research Analyst*

So 2 questions. The first one is, obviously, everything looks wonderful at the moment. And I'm just wondering, as we look into next year, you mentioned supply chain inflation issues, and we know obviously there's global supply chain issues. To what extent is your growth next year may be constrained by supply chain issues? I mean we're expecting growth, obviously, but could it be even higher if it wasn't for what's been going on in global supply chains? And then the second question is, again, in this multiyear upcycle, where might you want to add capacity? Where is it you think you're lacking at the moment where there is an opportunity particularly suitable for Weatherford?

Girishchandra K. Saligram - *Weatherford International plc - President, CEO & Director*

Look, so let me start with the supply chain question. So the short answer is no. But look, I think to elaborate on that a little bit further. We have not -- this is not a new thing. We've been seeing this. We started talking about it in the second quarter of 2021, supply chain issues, inflation, et cetera, and we have been very effective at combating it and delivering margin expansion and growth while changing the fundamental operating structure of the company. So look, our focus, though, as we have talked about in the past, has really evolved and changed. We are not just pursuing growth for the sake of growth and pursuing it everywhere. We're very targeted, very focused. And we are also building that on a function of what is the capacity available to us. Do we have the right sources of supply. And therefore, driving the optimal margin decisions and the trade-offs on where to participate in that growth activity. So right now, we think we've got line of sight to everything that we need.

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Obviously, the teams are working fast and furiously to make sure that we are running the factories effectively and efficiently. We're getting deliveries out to customers, et cetera. But we don't see barring some a seismic event that we can't predict right now. We don't see our growth being constrained at this point in time.

What I will say very categorically though, is we are not adding more supply in and building additional CapEx with the expectation that the growth will show up. That is the fundamental change that we have been very explicit about. We are allocating capital where we have crystal-clear line of sight, 2 projects, 2 activity, and contracts, and that's where we're committing capital. Your second question on where we are seeing it, it's really, again, look, the biggest area for us is the Middle East. We have committed a lot of resources and a lot of investment and a lot of capital, and we'll continue to do so. But we're also seeing significant activity and growth in Latin America.

This quarter, as you've seen, North America had a fantastic quarter and significant growth in North America as well. So it's -- to a certain extent, I would say it's almost a very secular type of a growth that we are seeing across it. And we are being very judicious about prioritizing our capital, prioritizing our tools, our resources, and making sure we get the best margins, which is why for us, this intersection of product line and country becomes even more critical. And we're not just going everywhere. We are just -- we're making sure that we can handle it, and we can scale up with that growth in an effective fashion.

Desmond J. Mills - *Weatherford International plc - Senior VP, Interim CFO & CAO*

James, I'll just add, this is Desmond Mills, that one of the most impressive things when you look at our growth for the quarter and for the year so far, it's been pretty broad-based, crossing all regions and fairly steady across all regions. So it just gives us a lot of hope in terms of the momentum as we move into 2023 that we're seeing that growth across the board.

Operator

And our next question today comes from Gregg Brody of Bank of America.

Gregg William Brody - *BofA Securities, Research Division - MD*

Nice quarter. You hit on the capital allocation focus. Can you talk a little bit about capital needs for next year to support your growth plan? And I recognize you're still focused on reducing debt. I'm curious, as you look at the world today, do you -- how do you think about what the right debt levels are? I'll start with that.

Girishchandra K. Saligram - *Weatherford International plc - President, CEO & Director*

Sure, Greg. So look, I'll break out the capital needs into 3 broad buckets. The first is going to be the tools themselves that we invest in to run the business to deliver services to our customers. This year, we are spending significantly more on CapEx than we did last year. And I expect that rate to be roughly about the same. Look, historically, the industry has seen a fairly broad trend of somewhere between 5% and 7% of revenue. Our business model as well as our product mix has changed significantly. So we actually think our CapEx needs will be in the 3% to 5% range from a revenue standpoint. And we will probably kind of run around somewhere in that thing, and it will change a little bit on a quarterly basis.

So that's one though, and we will continue to invest in CapEx. And we will have a year in 2023 that I expect to see a decent amount of CapEx getting spent on the heels of the range that we have given for this year. The second area of us that we will invest in CapEx is really around all of the restructuring elements that we have talked about with our operational paradigm specifically around fulfillment.

As we consolidate facilities, move into new ones, put what we call supercenters or multimodal types of facilities into place, that will require some capital that will pay off though, in very significant OpEx benefits as we go forward. And we've laid that out before with some of the restructuring charges we have taken, et cetera, and that's a process that's well underway. The third significant area for us from a capital allocation and some of

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it is CapEx for sure is, it's really around systems. I mentioned earlier in response to another question about the primitive systems that Weatherford has. And look, for a variety of reasons, which all of you can definitely, I think, relate to, over the past several years, we have not invested in the systems infrastructure of the company and the lack of integration of the various acquisitions over the past 2 decades have culminated in a systems infrastructure that is quite difficult to manage and puts a very significant manual workload on a variety of different teams within the company, making cost less efficient.

So that's something that we will be looking to modernize. We have taken a first step this year with some investments, and we expect to do that more and more as we go forward. But all of it always encapsulated within this notion that it can never be a crutch or an excuse for us to say we can't generate cash flow. So it will always have to be a type of an equation. We will do that and generate free cash flow. And then in terms of, look, ideal debt levels or suitable ones, look, we've -- as we have talked about in the past, we haven't laid out an explicit target of leverage for the company. I think it's going to be somewhat situational. But look, as Desmond pointed out, this is the first time in over a decade that we have been under 2x leverage. That's very significant. So clearly, it's a priority for us to continue to improve the cap stack of the company to improve our leverage, and that's both through growing EBITDA as well as reducing debt.

Gregg William Brody - *BofA Securities, Research Division - MD*

That's helpful. And just one more that's 2 parts. I've asked you about Russia before. You've talked about how you're going to run the business. I'm curious if there's any updates there that you think are relevant. Anything that's coming -- how you're thinking about that? And then clearly, you pointed towards Middle East strength. Is there any impact from the OPEC decision to pull back or to cut back on production? Or do you feel like that's not going to have an impact on your long-term decisions?

Girishchandra K. Saligram - *Weatherford International plc - President, CEO & Director*

Sure. So look, on Russia, really no change. Everything stays as we have stated before and within the range that we have talked about. Look, the Middle East, Gregg, it's a really exciting area for, I think, not just us but the entire sector. To answer your question, I don't think that the OPEC decision is really going to have any impact per se. We continue to see tremendous amount of investment. Look, these kinds of transient changes in terms of production quotas, et cetera, will keep happening, they'll go up. They'll go down. That's going to be a -- I think that changes every couple of months. But over the short mid-term, we see over the next 2 to 3 years, a tremendous amount of investment, and it's in Saudi Arabia. It's in the UAE, it's in Oman. It's in Kuwait. It's in Qatar. It's in Iraq.

So every country, and we are tremendously excited about the amount of investment that's going on there, the commitment of not just the national oil companies, but all the affiliated IOCs and their partners into it. And we think we've got a tremendous opportunity for Weatherford. It's evidenced by some of the wins that we have had and the activity that we continue to see coming down the pike. So we really think that this area is going to continue to see tremendous investment going forward.

Operator

Ladies and gentlemen, this concludes our question-and-answer session. I'd like to turn the conference back over to management for any final remarks.

Girishchandra K. Saligram - *Weatherford International plc - President, CEO & Director*

Great. Thanks, Rocco. Thank you all for joining the call today, and we look forward to speaking to you again early in 2023 with our fourth-quarter and full-year results. Thank you.

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Operator

Thank you. This concludes today's conference call. We thank you all for attending today's presentation. You may now disconnect your lines and have a wonderful day.

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