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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. Welcome to the Weatherford International Third Quarter 2021 Earnings Call. (Operator Instructions) As a reminder, today's event is being recorded.

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 2021 Conference Call. I'm joined today by Girish Saligram, President and CEO; and Keith Jennings, Executive Vice President and CFO. We will start today with our prepared remarks, then open it up for questions. You may download a copy of the presentation slides that correspond with 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 materially differ 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 press release, which can be found on our website.

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 our call today. We will start on Slide 3, which highlights very significant accomplishments on our key priorities during an exceptional third quarter.

As you're all aware, there have been significant headwinds roiling several industries over the past quarter. In addition to the ongoing effects of the pandemic, the third quarter witnessed pervasive supply chain disruptions, inflationary pressures and severe weather impacts. Despite these challenges, I am very pleased and proud of our team's commitment to our 4 strategic competitors that enabled outperformance against expectations on revenue, adjusted EBITDA and free cash flow.

We ended the third quarter of 2021 with ample liquidity. Our product and service portfolio continued to prove its strength with record-breaking accomplishments. Our market-leading product lines, including managed pressure drilling and tubular running services, enabled us to drive synergies across our portfolio and demonstrate the unique value of integrating our offerings.

We have laid out our strategy and approach in prior calls, and our results this quarter are another important proof point of the tangible outcome of the daily efforts of the One Weatherford team. Getting into some specifics, I'll start with safety, which is a foundational element of our performance, having the discipline, rigor and focus to continually ensure that our team goes home safely every day, instills the same mindset across all operating processes. I'd like to recognize our team in Mexico where we maintain a 100% safety record for 2021. This is an exemplary achievement and a great example of our continued commitment to safety.

Turning to our financial results. We delivered outstanding performance with reported adjusted EBITDA margins of 19%, an improvement of more than 380 basis points sequentially. Like prior quarters, where we have exceeded expectations, I will temper the enthusiasm with a reminder that we are still laser-focused on fundamental operating performance improvement. We have talked in the past about our approach of improving our margin at baseline activity levels while capturing increasing activity at higher fall-throughs. This came through in spades in Q3 with a very favorable services mix on increased activity.

We also had some onetime items during the quarter, which Keith will cover. But even without them, our margins ticked up significantly. We have also talked about 15% adjusted EBITDA margins as our intermediate goal over the next couple of years, and I am pleased that we are delivering at that level well ahead of our time line. However, we do recognize that we still have work to do to ensure balanced and predictable performance consistently and through cycles.

Our cash performance was remarkable with the company generating $111 million in free cash flow. This puts us on track for another full year of positive free cash flow, which is a notable achievement. We recently executed multiple financial transactions to address our capital structure and efficiencies. This basket of transactions resulted in achieving much needed flexibility with our banking partners, reducing interest expense and extending our maturities. We appreciate investors for recognizing the underlying and improving capabilities of our company and recognize the current constructive tone towards energy services, which afforded us the window to accomplish these transactions.

With these transactions, we are materially reducing interest expenses, improving our operating profile and enhancing balance sheet flexibility. We give the company a stable foundation to continually drive our focus on customers, technology and operations, which should deliver increased margins and free cash flow generation.

None of the results were feasible without the tireless dedication and hard work of our entire One Weatherford team, and I'm incredibly proud of their commitment and achievements. As I reflect back on my first full year with the company, I am humbled and grateful at having the privilege to represent their efforts to all of you.

Moving to Slide 4. I want to highlight progress on our strategic vectors, which we shared earlier in the year. Our first strategic vector is our product and service portfolio, and we continue to make technology, commercialization and business model advancements across product lines. We have talked about our market-leading product lines, and the PressurePro expansion in managed pressure drilling is a great example of enhancing our offerings to ensure that we have capability across the application and pricing spectrum.

The slide highlights new offerings, expansions and technology-driven records in each of our market-leading product lines. However, where we get an amplification effect is when we are able to integrate our offerings to enhance the synergies among them. The single largest vehicle for this is our integrated services, which delivered outstanding results this quarter in Europe and Mexico. In one project in the North Sea, we were able to leverage MPD and TRS to pull through our drilling services business. This enabled us to replace a competitor to drill 3 challenging large hole well sections, ultimately saving the customer more than 13 days.

In Mexico, our integrated services tripled the efficiency from the exploration to the early development phase of a project to deliver early production in a new field development. In fact, we set a field record by drilling one well to total depth in approximately 22 days, a 2/3 improvement in drilling and well construction time. The solutions span several drilling and completion technologies, including advanced geosteering and logging welding or LWD tools. The strength of our industry-leading brands and technologies, like the Magnus Rotary Steerable System and the Centro well construction optimization platform was evident in delivering these solutions.

Our second strategic vector is around our evolution as part of the energy transition. For us to ensure a bright future in the new energy economy in the future as an energy services company, we need to drive the same technology differentiation and solution creation as we have in traditional oilfield services. We are actively pursuing opportunities in CCUS, while working plug and abandonment projects for customers in multiple geographies. We also remain excited about geothermal as an important energy source, where we have been a leader for over 20 years. During the third quarter, we provided the technology and engineering needed to remove scale and enable installing an electrical submersible pump for the rejuvenation of a geothermal well in Germany.

The final strategic vector for us, digitalization and automation, is critical to address our customers' needs, and we continue to gain traction and increased adoption with customers across all our geozones. A large operating company in Colombia awarded Weatherford a 3-year contract for the ForeSite production optimization platform. With this award, the ForeSite platform has the leading production monitoring market share in that part of the world. On top of that, an NOC in the Middle East recognized our production automation and software services for performance excellence and problem-solving in the face of extreme challenges. And following up on these accomplishments, Hart Energy declared ForeSite Edge as a winner of the Special Meritorious Award for Engineering Innovation. This honor further solidifies it as a best-in-class technology with game-changing technical and economic potential for our industry.

Digital solutions like ForeSite Edge, where again the focus of our Weatherford Enterprise Software Conference, or WESC, for 3 days at the end of October 2021. WESC is Weatherford's largest customer event and the industry's preeminent digitalization forum. This year marked the 16th Annual Conference featuring advancements from well construction to production. The size and scope of the show expands year after year. In 2021, we had virtual participants from Houston to Abu Dhabi and Jakarta, and we held nearly twice the number of breakout sessions for customers.

One thing that didn't change is the unique features where customers not only attend but also share testimonials on Weatherford technologies in action. Our strategic vectors are the central teams and our long-term approach to preserve our ability to differentiate and create value. And with all of these moving in the right direction, we feel confident in their progress ahead. That same spirit of differentiation and value creation is evident in our operational highlights shown on Slide 5.

We leveraged our industry-leading offerings to deliver differentiated services for our customers and pull through others across our portfolio. You'll notice that we help them deliver better wells, wells with enhanced integrity from the start and improved reservoir productivity in the long run. These kinds of outcomes have not gone unnoticed by our customers, which has enabled us to gain market share, expand our margins and generate repeat business.

Our market-leading product lines enable a Beachhead offerings with customers that then allows us to gain share of wallet by pulling through other product lines. As an example, an NOC in North Africa awarded the contract for NPD services in an onshore field. The win comes after multiple years of contracting with our competitors and was based on the strength of our technology. With this award, we not only gained share but also expanded the scope of our NPD work in the country beyond deepwater to land. Additionally, in the same geography, a major customer awarded us a sole-source contract to supply completion materials, reservoir monitoring systems and associated services. This award enables us to replace vendors who historically provided the services.

In addition, a major IOC in South America awarded us an offshore TRS contract for running completions on its next campaign. This opportunity, again, comes after years on the outside and let us introduce Vero technology with all of its benefits. As a premium offering, Vero technology provides immediate and lasting benefits to the crew efficiency, safety and integrity, all of which bring enormous value to our customers.

With an operator in Australia, after serving as the incumbent deploying our other TRS services, we secured an inaugural contract for Vero. Upgrading the customer services has delivered significant rig time savings and reduced personnel on board. For a major operator in the Gulf of Mexico, we replaced conventional operations with a Vero trial, which allowed the customer to mitigate potentially detrimental connection issues.

We are also driving the same returns focused differentiation across our other product lines. We have seen significant commercial traction and margin expansion in our drilling services product line, spearheaded by our Magnus Rotary Steerable System. In South America, we increased the adoption of these services by completing a successful field trial within NOC. Our Magnus RSS and RipTide drilling reamers both achieved rates of penetration 30% faster than planned. As a result of the performance of the first well, the customer signed us additional wells with the potential to expand further. For another customer, our services, including Revolution RSS, which drilled a well 13 days faster than planned and saved 27 operational days over the course of the entire campaign.

Turning to Slide 6 for our view on the market. We continue to see improvement in the overall macro environment and believe we are in the early stages of a multiyear up-cycle. In North America, market fundamentals continued to improve and we continue to see capital discipline from public E&Ps. Our focus, however, continues to be on generating sustainable returns and going after work only where it makes sense for us to do so. Keith will talk more about that in relation to our fourth quarter outlook and our margin improvement, an area where we continue to see improvements. It is also important to note that our business in North America has changed significantly over the past couple of years. We no longer play in high-volume, low-margin services and are focused on our core market-leading product lines, conventional lift and other high-margin offerings, including digital solutions.

This has been a key driver of our continued margin improvement in North America, but does reduce our growth expectations relative to the rest of the industry. However, we strongly believe that the prioritization of margins and returns is the right call for us now.

Internationally, we continue to see activity increases in most geographies, particularly the Middle East and South America. In an environment where we saw increasing signs of economic recovery and very tight oil and gas markets, tendering activity was above pre-pandemic levels and rig counts continued to trend up. We are very appreciative of our customers' support as we have had wins during the quarter throughout every geo zone. Additionally, we have deployed differentiating drilling and evaluation technologies to the North Sea and Middle East with very positive results, and we believe that there will be drivers for continued growth in future quarters.

Looking ahead to 2022, we are now more confident in the growth scenario and despite inflationary headwinds, expect to see continued improvement in profitability reflected in margin expansion on a year-over-year basis. Now I'll hand it over to Keith for our financial update.

H. Keith Jennings - *Weatherford International plc - Executive VP & CFO*

Thank you, Girish. Please turn to Slide 7. Let's begin with a summary of our third quarter results, which continues to reflect the ongoing improvement in our operations despite an increasingly challenging cost environment. We continue to see rising inflation. And as a company that deploys equipment to support our services, we are increasingly challenged by logistics and rising transportation costs.

Consolidated revenues were $945 million, 5% better sequentially and 17% better year-on-year, driven primarily by a 6% sequential increase in service revenues. Product revenues increased by 2% sequentially and as our production-oriented products maintain pace with energy output levels. The sequential improvement in performance was seen across all geographies with above-average results from South America, which continues to reopen along with the Middle East region.

The third quarter top line performance primarily resulted from increased activity in our Drilling, Evaluation and Intervention business, or DEI, which is increasingly being enabled by our Integrated Services and Projects, or ISP offering in the Middle East region. In South America, both our Completion and Production or C&P, and DEI businesses benefited from increased call-ups. The C&P business activity in Canada and in Europe, Sub-Sahara and Africa and Russia, continued to trend well.

Third quarter operating income was $71 million or 7.5% of revenues, which increased $46 million sequentially. Adjusted EBITDA for the quarter was $179 million and adjusted EBITDA margin of 19%, an improvement of 388 basis points sequentially and 605 basis points year-over-year.

The operating income and adjusted EBITDA growth were driven by the growth in service revenues and improved mix of services, bad debt recovery and lower inventory charges. Our EBITDA in the quarter was bolstered by approximately $20 million of onetime items. Without these items, our

EBITDA margins were approximately 17%, still a significant step up reflecting favorable fall-through from the improved services and geographic mix.

Free cash flow for the quarter was $111 million, driven primarily by lower cash interest payments as our improved earnings was offset by working capital investments and asset dispositions effectively funded increased capital expenditures.

Let's look at our geographical breakdown, starting with the Western Hemisphere on Slide 8. Western Hemisphere revenues of $441 million in the third quarter of 2021 increased 4% sequentially and 40% year-on-year. North America revenues of $224 million increased by 2% sequentially, primarily due to increased C&P business activity in Canada. Third quarter revenues of $217 million in Latin America increased 6% sequentially, driven by improved pricing, increased activity in both our C&P and DEI businesses in Colombia and increased DEI business activity and pricing in Brazil.

Adjusted segment EBITDA of $75 million increased $17 million and associated margins of 17% improved 340 basis points sequentially and improved 780 basis points year-on-year. The growth in adjusted segment EBITDA was primarily driven by increased service sales and service mix improvement in North America and Latin America.

Next, on Slide 9. Eastern Hemisphere revenues of $504 million increased 5% sequentially and increased 3% year-on-year. Middle East, North Africa and Asia revenues of $312 million increased 8% sequentially, driven by DEI business activity and ISP pull-through.

In Europe, Sub-Saharan Africa and Russia, revenues of $192 million increased 2% sequentially, primarily due to increased activity in the C&P business and ISP, partially offset by decreased activity in DEI business.

Adjusted segment EBITDA of $118 million increased $25 million and associated margins of 23% improved 390 basis points sequentially and increased 220 basis points year-on-year. The growth in adjusted segment EBITDA was primarily due to increased activity and a favorable mix of services and sales in MENA, Asia and Russia.

Turning to Slide 10 for a summary of our liquidity. We continue to maintain our disciplined focus on running our business with the intention of generating operating cash flow. This is being demonstrated to the results of our underlying businesses and cost improvement initiatives. In the third quarter of 2021, we generated unlevered free cash flow of $141 million, an improvement of $34 million year-on-year from a 72% increase in adjusted EBITDA.

Free cash flow was $111 million, which improved $63 million sequentially and $6 million year-on-year after $28 million more in interest payments versus the corresponding quarter a year ago. Total cash increased $59 million, and we ended the quarter with approximately $1.45 billion of total cash. Capital expenditures were $20 million in the third quarter of 2021 compared to $9 million in the second quarter of 2021 and $27 million in the third quarter of 2020. Our capital expenditures increased this quarter as we increased the focus on our growth capital requirements given increasing activity levels. We expect to at least double our capital expenditures in the fourth quarter of 2021 to meet the increasing demand for our market-leading products and technologies.

I wish to thank our One Weatherford team for the continuing cash flow improvements, which are the result of improved operating performance, disciplined capital expenditures and working capital performance, driven by our continuous focus on asset utilization.

Slide 11 is a summary for our recent financial transactions. During the past few months, we made significant changes to our capital structure, which included not only refinancing our debt, resulting in lower coupon rates and extended maturities, but also paying down $200 million of our unsecured notes with cash on hand. After repaying $200 million of the exit notes, partially refinancing the majority of the remaining exit notes and refinancing all the prior secured notes, our annual interest payments will be approximately $204 million until their maturity, which is an annual cash interest savings of approximately $71 million.

The major highlights of the -- of the completed transactions are the transactions began with the LC facility amendment to permit up to $500 million of debt repayment and very importantly, allowing for an ABL or RCF to enter the debt stock and hold the prime position on key working capital assets, if required. Repayment of $200 million of unsecured 11% notes we generated free cash flow, extended maturities on both classes of debt. We refinanced $500 million of secured notes and extended the maturity to 2028. Then we refinanced $1.6 billion of the remaining $1.9 billion of the exit notes enabled by a tender process with a new tranche maturing in 2030. The end results can be summarized in the improved debt metrics as weighted average cost of debt reduced to 8.5% versus 10.6% and maturity increased to 7.5 years versus 3.3 years.

$300 million of exit notes remain maturing in 2024 with a 103 call option expiring in December 22. Girish and I are appreciative of the trust the capital markets have placed in the new Weatherford team and wish to thank all participants, agents, service providers and the Weatherford team members that worked tirelessly over the past months. Special thanks goes to Deutsche Bank and Morgan Stanley as the lead banks across this basket of transactions.

Turning to Slide 12. I will share a few qualitative thoughts on the fourth quarter of 2021. We now expect our fourth quarter revenues to continue the upward trend and increase by low single digits from the third quarter as we continue to see activity improvements. Adjusted EBITDA margins are expected to be 25 to 50 basis points above year-to-date Q3 '21 levels of 15.6%. The seasonal mix shift created by a pickup in product sales were pulled negatively on our margins as we continue to be challenged by material and labor inflation and the ongoing port and logistics challenges present delivery risk to product orders and service equipment.

Our third quarter had several positive onetime items totaling approximately $20 million, which we do not expect to repeat in the fourth quarter. In the fourth quarter, we expect to see an increase in demand for products as activity levels continue to grow. Net working capital will continue to be an outflow and as receivables continue to reflect revenue growth. We expect CapEx to be in the range of $40 million to $60 million in the fourth quarter.

Thank you for your time today. I will now hand the call back to Girish for his closing comments.

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

Thanks, Keith. Our results in the third quarter were terrific, but we are firmly focused on the future and the work ahead of us. We continue to make progress on our 4 key focus areas for 2021 as shown on Slide 13.

As demonstrated over the last few quarters, we have made significant and meaningful changes to our business as we strengthened our product and service offering, optimized our global footprint, enhanced customer relationships and began to instill a performance-driven culture throughout our organization. These results form a foundation for us to build on.

We will continue to see seasonal shifts in our margin performance based on mix, transient challenges and inflation, as Keith highlighted for Q4. However, over a longer time frame, our efforts and focus should continue to create a company with increasing margins and greater value creation. We are excited about our progress, but have the humility to recognize that it is but the first step and a lot more needs to be done. We believe that Weatherford has the technology, offerings, coverage, relationships and most importantly, the people who will propel our journey to further improvements in profitability and free cash flow generation.

We are at the early phases of a multiyear up cycle. And as we institutionalize our operating improvements, Weatherford is well positioned to remain a key player in the industry and capitalize on increased activity. We will continue to focus our offerings in geographies where they are clearly profitable and continue to focus on margin improvement from internal efficiencies. With the increased activity, the combination of these 2 items should continue to provide margin expansion and sector-leading EBITDA rate growth. Thank you all for joining us today. And with that, operator, let's open it up for Q&A, please.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Today's first question comes from Ian MacPherson with Piper Sandler.

Ian MacPherson - *Piper Sandler & Co., Research Division - MD & Senior Research Analyst of Oil Service*

Congratulations to everyone in the team for the strong results. I understand that you had some outperformance from integrated services during Q3. Keith, you also mentioned that you had about 2 points of favorable one-offs in the third quarter that take you down from 19% to 17% adjusted margins without those favorable one-offs. Could you elaborate on those? And also just speak to what the spectrum of possibilities with margin above or below your base case guidance for Q4 entails with regard to integrated services, exposure or other items?

H. Keith Jennings - *Weatherford International plc - Executive VP & CFO*

Ian, Good questions. First, when it comes to the $20 million of onetime items, they fall into 3 buckets. There's about $7 million of asset sales or gains on asset sales. We have probably an equal or slightly greater amount, probably 8, which were recovered bad debts that were written off prior. We collected on those, so we had to bring that back. And then the final component was a onetime price adjustment in Latin America from a contract that had a catch-up component. And that rounded it out. And then we also had some E&O that were -- that was lower in the quarter. And so those were the 4 parts of the $20 million, but the first 3 were the major components.

With respect to ISP and its ability to increase margins, I wouldn't say that we look at it from that perspective. I'll also invite Girish into the conversation. But what it does do is it allows us to pull through various product lines when we are the lead projects provider in the region or whatever region we're working in. So if we have an ISP opportunity that we are delivering, and there's a need for an ancillary product line that we also offer. Sometimes it allows us to pull through things that was not in our forecast.

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

Yes. Ian, I think just to add to a couple of things to round out your question. Yes, I think, look, for us, as we look at Q4, really on the downside what we are probably looking at, as Keith mentioned in his remarks, things like supply chain disruptions and product deliveries, as everyone is aware and just about every company is talking about right now; logistics, snafus are really the biggest gating item. And so that presents the biggest risk for us and making sure that we can get product to customers. We think we've got a solid game plan and we've got everything lined up with contingency plans, et cetera. But that's something that could drag us down a little bit.

On the upside scenario, what it really comes down to is look at the services business. And depending upon the nature of interventions that we require across our portfolio on a geographic basis, we have events that cause greater services pull-through, that could create a little bit more upside. So what we really tried to do is make sure that we have presented a balanced view of all of that in terms of where we expect Q4 to land.

H. Keith Jennings - *Weatherford International plc - Executive VP & CFO*

Also, Ian, I know that while we are indicating that we will have increased revenue sequentially going from Q3 to Q4, buried in there is seasonality. We have significant step down in Latin America seasonality. We have significant step-down in Europe-Africa seasonality as well. It's just that we have geographies that continue to show activity increases. But also, we have to consider the mix in Q4. Q4 is traditionally a stronger products quarter. And so with both seasonality and mix shift, we think that the margins should be in line with our threshold numbers, but it's going to be an interesting quarter.

Ian MacPherson - *Piper Sandler & Co., Research Division - MD & Senior Research Analyst of Oil Service*

Okay. That's very helpful. Keith, also on the balance sheet. You have, I believe, another $100 million of the 11% unsecured that you would wish to take out upon arrival of the ABL, just wanted to confirm that as well and then ask really what sort of flexibility you've retained for another sweeping refinancing between now and 2030, just given the trajectory of the business, it looks like this should not be an 8.5% cost of debt company in 2 or 3 years. So what flexibility do you have to go back to the well to improve that, if the leverage improves as we think that it probably will?

H. Keith Jennings - *Weatherford International plc - Executive VP & CFO*

So first, we have a $300 million stub remaining from the exit notes that will still mature in 2024. It has a 103 call option on it. That expires in December of 2022. We are -- we continue to dialogue with our banks to see what is the right structure for us between an ABL and an RCF. And with that, we may then choose to address the stub or depending on how free cash flow generation is occurring.

The weighted average cost of debt at 8.5%, I think, is a big improvement from where it was. I think the market will, as already priced in a lower effective yield for our debt, we will continue to deliver. And if we are delivering enough -- enough operationally, and that pricing continues to reflect a better credit profile and business trajectory, then liability management is always a way to further improve our weighted average cost of debt. So we have a little bit more runway. As you said, we have until '28 to think it through. So hopefully, there's enough in the cycle in this one and probably one after that, that we can all think about how to readdress the debt stock.

Operator

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

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

Just -- since you were just answering that question, I'll just pick up from there. So how are you -- how are things progressing with the credit facility? Do you have a sense of timing of when that will be in place? And any updates on potential size?

H. Keith Jennings - *Weatherford International plc - Executive VP & CFO*

Sure. So the -- the change we made in the LC facility, I think, accommodates up to a $400 million facility. We are -- we continue to dialogue with the banks on two fronts. The first is can we get a secured RCF in place? Because Weatherford, as a company, given that our asset profile and our business profile with 75% of our business being outside North America, we are less favorable towards the ABL format because of the remeasurement of the availability based upon where the assets are. And so we'd much rather have -- we would, we are considering an RCF. But that's because given our still credit rating, it becomes a difficult dialogue for our banking partners.

And so we are working through that because we'd rather not have the remeasurement of availability. And then we are working through the ABL dialogue on how can we include more assets into the asset base, more geographies given our ownership structure, different types of assets, whether we can bring in more rental assets and so forth. So the dialogue continues. And we think that it is a constructive dialogue.

I say that because if you look at what we were able to achieve, which is a major milestone that facilitated this transaction, is for the banks to accept that Weatherford needs an ABL or an RCF for them to give us increase in the RP basket to repay debt and also to accept that they can be primed by an ABL and RCF. And so we have very constructive dialogues but I don't have a time line.

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

Does the expiration of the on the 11%, the $300 million that you can call 103, can you exercise that without a credit facility put in place? Are you comfortable doing something like that?

H. Keith Jennings - *Weatherford International plc - Executive VP & CFO*

It depends on how much cash we've generated. We've exercised $200 million of it without a credit facility in place because that was the cash we generated through the end of the second quarter. It's all a question of the cycle. It's a question of many things. So we are comfortable with the liquidity that we have on our balance sheet. We've -- our business hasn't changed that much. We are not going to do anything, whether on the balance sheet side or on the P&L side that gets ahead of the activity levels that we see. We've approached this in a very cautious manner. And so I know that the stuff is still out there and lots of calls have come in as to when and how to address it. But at this point in time, we see that as a small thing. I think we feel that we've addressed the major components of the balance sheet, and we'll address that in an orderly manner. Girish?

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

Yes. Look, I think, Gregg, the only thing I'd add to what Keith said, this whole notion of we are really trying to be prudent and responsible about this. If you sort of rewind about 60 days, the whole discussion was around what are you guys going to do? And all of the things that we have done in 60 days is pretty remarkable given where we were. So for us, it's really about making sure we take it step by step. We do the thing that is optimal for the company in the longer term without taking undue risk, while we are -- continue to be very focused on making sure that we don't let our eye off the ball on generating operating improvements in the company that will fuel cash flow generation. And look, as we build up more cash flow, that gives us another lever to go after the debt.

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

So what I think I heard earlier because, I mean, it's a month away...

H. Keith Jennings - *Weatherford International plc - Executive VP & CFO*

It's '22, it's December '22.

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

It's '22. December '22, the expiry on the call is December '22.

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

And 103? I guess I had that confused there for a second -- I leave it to the credit analysts to get that messed up.

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

Yes, it's a month and a year. So its 13 months...

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

All right. Thank you for clarifying. Maybe just switching back to some of your free cash flow numbers. So you pointed out CapEx is doubling more than -- potentially more than doubling versus this quarter. Yet it is coming in below where you thought it would for the year. I'm trying to figure out how you're thinking about CapEx going forward from here? And I think you've said 3% maintenance of revenues, but I think 5% to 7% on growth in growth mode. Maybe you can help us think through we should be thinking about it going forward after this year?

H. Keith Jennings - *Weatherford International plc - Executive VP & CFO*

So I think after this year, we believe that our CapEx is going to start to step back up, given activity levels, just given the requirements to support the asset base that delivers our services. We see the first half of 2022 probably still being in the 3% range of revenues. We think that, however, the second half of '22, it should move back to the 4% to 5% range as we inch back into refining the asset base that delivers our services and make changes to our infrastructure.

So we've been lucky enough that during most of 2020 as we went through the COVID step down and through most of 2021, we were able to do a lot of asset redeployment and repositioning and didn't have to spend as much. Yes, we are slightly below our overall guidance of 3% on full year 2021. But we think we're close enough and we are still being effective on delivering everything that our customers need.

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

Yes. And I think, Gregg, look, if I could add to this, just I think it's really important to understand the ethos and the philosophy that we are driving. It's a very, very significant focus on making sure that we are exhausting every avenue to redeploy equipment, to reuse equipment, to repair equipment before we go out and purchase new equipment. You've also got to sort of take a step back and look at the business where it used to be, and we had a much broader asset base. As Keith pointed out, we have had the luxury to go back and basically harvest from that. So what this is really about is us, again, being very mindful of where we spend our cash, being very mindful of driving a higher set of returns on the asset base that we have rather than, hey, we're not going to spend as much on CapEx. So we are being very, very specific about how we drive it.

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

Great. And then the other one items to free cash flow, cash taxes and severance payments, I think they were a little lower this quarter as well than I would have expected based on sort of your annual guidance. I'm curious how we should be thinking about that for the fourth quarter? And then do any of the severance payments/restructuring go into next year?

H. Keith Jennings - *Weatherford International plc - Executive VP & CFO*

So I think about cash taxes this year, I think it's quite possible that we would probably see the same level or a little bit higher in Q4 than we saw in Q3. So I think we'll probably be around a $60 million to $65 million number for cash taxes on a full year basis. Severance and restructuring has slowed because we are using a lot more of the things that we thought we may not have needed. And so as the activity picks up, I think that when we think about severance and restructuring, in terms of overall spending, we did spend $5 million in Q3. We could probably spend between $5 million and $10 million in Q4. So that will bring us to a number that is inside our starting guidance for the year.

But overall, when you think about free cash flow for the quarter -- for the upcoming quarter, EBITDA margins as we've talked about will be lower than Q3. That lower margin will fall through and impact our unlevered free cash flow. Interest payment will step up by another roughly $60 million. So free cash flow is going to be at best breakeven and probably more likely to be slightly negative. But overall, we still think the full year will deliver strong free cash flow.

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

Great. And there was a positive benefit from the E&O inventory charges and increase (decrease) in accruals this quarter. I'm just curious if how should we be thinking about that going forward?

H. Keith Jennings - *Weatherford International plc - Executive VP & CFO*

So the E&O accrual is always there in the add-back in the Other. We took the nudge or, I should say, the feedback from group that we speak to every quarter to break up Other into its components, so we could all see it better. E&O is usually there. What we are seeing this quarter or what we saw this past quarter was E&O step down. So even though if you look at the earnings press release, and there's a table in there, in one of the supplemental tables in the back that shows the progression of E&O from Q2 to Q3, you will see that is a step down by 5%.

And so as we manage our inventory better, we harvest what we have. We get into those stale-dated bins of things and start to push as we particularly think about Q4 being a stronger product sale quarter. E&O will probably be in that range of about 10% for the charge, which will be lower than it was over the past quarters, and we are still working through the model for 2022. So then we'll come back to you in the start of the year and tell you where we think that will be.

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

So the $10 million charge that would be -- in this case, it will be a benefit to you in your free cash flow from or is it actually...

H. Keith Jennings - *Weatherford International plc - Executive VP & CFO*

It's a add back. It's just a noncash add back, right?

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

Got it.

H. Keith Jennings - *Weatherford International plc - Executive VP & CFO*

It was one of those noncash add-backs that was buried in Other. And as we went through few quarters that we've been here as people try to peel it back, we decided to open it up. And so it's not something we'd love to talk about in this level of detail, but it's hopefully helpful.

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

I will not ask about again on the call, but I appreciate it. You have even clicking off some small asset sales every quarter. Curious if there's much more left to do?

H. Keith Jennings - *Weatherford International plc - Executive VP & CFO*

You know, those are a lot more infrastructure type assets as we've consolidated manufacturing sites, as we've moved to a supercenter model in the U.S. where we have more product lines on single basis so we can deploy and do some other things. This company was much larger a few years back, right, even up to 2019. This is a $5 billion revenue business going back even 5 to 7 years. This was in $14 billion, $15 billion of revenue.

So there's a fair bit of infrastructure assets that as we coalesce around being a $3.5 billion to $4 billion business that we are exiting strategically, that doesn't make sense for the new footprint. And that's really what it is. How much more depends on what we're going to do with our repair and maintenance facilities and our fulfillment centers. We are working through that and we'll have a better profile of that as we get into 2022.

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

Got it. And maybe last question for me. So obviously, a fantastic last couple of months or a month plus of refinancing your debt and lowering our cost, so congrats there. I think the next question is how do you think about your return to shareholder strategy going forward? Obviously, you've talked about pivoting to strict growth CapEx in the second half of next year which will require some more capital. But I'm curious how you think about a leverage target and potentially actually paying a dividend and how you're thinking about that?

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

Yes. So let me start, and then I'll ask Keith to follow up with a bit more specifics, Gregg. So look, I think #1 in terms of shareholder returns, that is a very important priority for us. But the way we are really thinking about that is operating performance of the company. So as we clearly showed that we can generate better margins, we can consistently generate free cash flow, we think that we should get the recognition for that as the operating profile of the company shifts and that should have an effect on the shareholder value.

At this point in time, that really is the main focus, is the operating profile and then, of course, addressing the capital structure right after that, which we have taken a very, very big chunk out of and really made a big difference in the past couple of months as you pointed out. So there's a few other things to do there that we'll get after. But beyond that, look, we don't have any specific plans right now on any other specific type of return of dividends or buybacks or anything like that.

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

I'm sorry, anything to touch off?

H. Keith Jennings - *Weatherford International plc - Executive VP & CFO*

No, no, no. I was just going to add to what Girish said by saying that I think it's a little early for us to be thinking about returning capital to shareholders in the form of either dividends or share repurchases. We do need to continue the trajectory of delivering positive free cash flow. And then as we get there and move towards our objective of being in an earnings positive company overall, I think and then we can come back to that conversation.

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

Got it. No, I appreciate that's not necessarily tomorrow. Just thinking about how you're trying to get there. And that was very helpful.

Operator

And our next question today comes from [Doug Becker at Benchmark Research].

Doug Becker - *Benchmark Research*

Girish, you mentioned more confidence in growth scenarios for next year. Some of the larger service companies have talked about spending next year growing low to mid-single-digit teen-type growth in North America is closer to 20%. How do you see that playing out for Weatherford given the different business mix as well as to focus -- strategic focus on margins more so than growth?

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

Sure. I appreciate the question, Doug. Look, I think what you will notice is over the past several quarters, we've been characterized by being a little bit more, I'll call it, prudent and a little less ebullient about the growth prospect. And I think that comes from a couple of things. One is, we really want to see it play out before we commit to it. Second, as you pointed out, look, we've got a very different business mix today. So we are not as broad as we used to be and certainly not as broad as some of our larger peers.

So for us, it's really about where do we want to go after the growth and it's really that intersection of geography or product line that creates a favorable mix of profitability that's accretive to the company. So that's what we are more focused on. We do see the international markets, especially in the Middle East and South America, seeing a lot more activity. So we are confident that, that will persist over a significant period of time. And then we are seeing more in North America. But then North America, as I pointed out in my prepared remarks, it's really much more of a focused strategy. So again, for us, we expect our top line to be a little bit more muted, but we expect that our profitability will continue to grow and have a much more progressive stance.

Doug Becker - *Benchmark Research*

No, that makes sense. Now within that outlook, does that assume services revenue is growing faster than product revenue next year as well?

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

It's -- look, we've not gone down to that specific of guidance for 2022. We'll come back in the early part of next year to lay that in a bit more detail. But my overall sense is look, I think both have to, right? What we will see is production increases. And as production ramps up, especially on the OPEC+ front, some of our production-oriented businesses are typically a bit more products-oriented. And so -- and even in the U.S., that's very true. So we'll see that drive product sales, whereas more of the drilling types of businesses are much more services oriented. So that will drive the services piece. So we expect to see growth on both sides. The exact specifics of what is that relative proportion that mix effect will have a little bit of effect on the overall profitability for sure.

Doug Becker - *Benchmark Research*

That makes sense again. And then just a housekeeping item. You mentioned weather supply chain inflation. Do you have any quantification associated with that just as we think about 4Q versus 3Q?

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

Look, not specifically, as we pointed out in the third quarter, everyone experienced those, but the team did an outstanding job, and we were also a little bit fortunate in just the way some of the timing played out, so we can't take all the credit that we didn't really feel the impact like a lot of other people did feel. So for us, in the fourth quarter, it's really the supply chain issues, the logistics constraints getting material into the ports and off of ships that could be probably delivering factor as we look at it. But it's a little bit hard to quantify exactly how much that's going to be. But I'll ask Keith to jump in with a bit more color.

H. Keith Jennings - *Weatherford International plc - Executive VP & CFO*

So Doug, I think the way to think of it is we -- when we normalize Q3, we're probably at 17% EBITDA margin threshold. But going into Q4, when you put everything that we are faced with, whether it's seasonality, inflation, the mix changes, we think that, that will have probably 150 basis points to 200 basis point impact on EBITDA margins, bringing us back to our Q3 year-to-date average of about 15.5%. So that's the way to think about it. We haven't quantified each of those components. But in the forecast, it is a cost impact moving into Q4.

Operator

(Operator Instructions) Our next question today comes from Scott Levine at Bloomberg Intelligence.

Scott Justin Levine - *Bloomberg Intelligence - Analyst*

So just following up on that last question. Even with like a 15.5% to maybe pushing 16% margin in the fourth quarter, you guys pretty -- are you guys effectively declaring victory on the 15% intermediate-term EBITDA margin target, number one. And number two, just wondering if there's any other maybe guide posts you can put out there? It sounds like you're expecting margin expansion next year as well. Any other targets you're willing to communicate with regard to your margin expectations going forward?

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

Yes. Scott. So look, for those who know me really well, I'm always a little bit reluctant to declare victory until it is absolutely seen -- signed and sealed. But look, as I pointed out in my prepared remarks, we feel very good about the progress. We are ahead of schedule. But again, I think it would be a little bit imprudent of us to say that until we've actually delivered a full year and then another full year with that. So -- but I think all of the signs are there that we should be a company, these activity levels that can deliver that and then build more importantly, build from there to get better.

In terms of, look, the next target, again, as we come out with '22 guidance and give you a little bit more of a flavor early next year, we'll lay out a bit more of a product -- a longer-term road map. But what we really strongly believe is that there is a ton of opportunity at Weatherford to create more margin expansion.

Scott Justin Levine - *Bloomberg Intelligence - Analyst*

Got it. Fair enough. And then maybe one follow-up. I think earlier on, you were asked about possible divestitures. I mean, how do you feel that your business portfolio as a whole, I guess, I'd ask you? Are there any -- are you happy with what you have? Do you see any room for potential subtractions or maybe even additions as we go forward?

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

Sure. So look, I'll start with just overall, we are happy with the portfolio. What we don't see is the need for massive surgery to take out big chunks or anything like that. What we are focused on and we have been and done this over the past year is what I'll call surgical tweaks, which is again, this intersection of product line and geography. We've got to make sure that every product line is able to stand on its own feet and be accretive to the company on a cash basis in every single geography. We cannot have -- unless it's something supremely strategic, we really can't have product line subsidizing each other.

So every single one of them in a geography needs to be self-sufficient, and we got to figure out how to run the company that way. So that's what we've been doing. And as a result, that's why we have exited the Drilling Services business in the U.S., changed our business model in wireline, exited the wellhead business. Those are some examples of what we have done.

Now in terms of additions, look, they really revolve around our strategic vector. So one is, as we look at our market-leading product lines, if we see opportunities to fortify, to enhance that, that we cannot do organically, that's something that we will look at. But we, again, feel very strongly about those 4 product lines that we have. And then what we look is on the energy transition piece and on the digitalization piece where there are certainly opportunities. But our predominant focus is really focused on organic growth and on operating efficiencies within the company.

Operator

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

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

Great. Thank you all for joining today. We really appreciate your interest and support of the company and look forward to speaking to all of you in the New Year. Thank you.

Operator

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