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WFT - Q2 2018 Weatherford International PLC Earnings Call

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OVERVIEW:

Co. reported 2Q18 revenues of $1.45b and non-GAAP net loss, excluding unusual charges and credits, of $156m or $0.16 diluted loss per share.

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CORPORATE PARTICIPANTS

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

Karen David-Green *Weatherford International plc - VP of IR, Corporate Marketing & Communications*

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

CONFERENCE CALL PARTICIPANTS

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

John David Anderson *Barclays Bank PLC, Research Division - Senior North America Oilfield Services and Equipment Analyst*

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

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

William Andrew Herbert *Simmons & Company International, Research Division - MD & Senior Research Analyst*

PRESENTATION

Operator

Good morning, my name is Carol, and I will be your conference operator today. At this time, I would like to welcome everyone to the Weatherford International Second Quarter 2018 Earnings Conference Call. (Operator Instructions) As a reminder, ladies and gentlemen, today's call is being recorded.

I would now like to turn the conference over to Karen David-Green, Vice President of Investor Relations, Marketing and Communications. Ma'am, you may begin your conference.

Karen David-Green - *Weatherford International plc - VP of IR, Corporate Marketing & Communications*

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

Before we begin with our prepared statements, I'd like to remind our audience that some of today's comments may include forward-looking statements. These matters may involve risks and uncertainties that could cause our actual results to differ materially from our forward-looking statements. Please refer to our latest Form 10-K, 8-Ks and other SEC filings for the risk factors and cautions regarding forward-looking statements.

A reconciliation of GAAP to non-GAAP financial measures is included in our second quarter press release and accompanying presentation, which can be found on our website.

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

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

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

Thank you, Karen. Revenue in the second quarter of 2018 was $1.45 billion, an increase of 2% compared to the first quarter of 2018 and 6% higher than the $1.36 billion of revenue reported for the second quarter of 2017. The sequential revenue increase was due to higher activity levels, improved product mix in the U.S., increased activity in integrated service projects in Mexico, seasonal improvements in the North Sea and higher activity levels in several countries, offset by the seasonal slowdown associated with the spring breakup in Canada. The year-over-year increase was primarily due to higher levels of production and completions work in the U.S. and increased integrated service projects activity in Mexico.

In the Eastern Hemisphere, higher levels of activity in Saudi Arabia was offset by a lower amount of offshore project in West Africa and Asia, combined with adverse exchange rate effects in Russia.

Operating loss for the second quarter of 2018 was $73 million. Excluding unusual charges and credits, segment operating income in the second quarter of 2018 was $69 million, up $29 million or 73% sequentially, and up $142 million or 195% year-over-year. The sequential improvement in the Western Hemisphere was due to higher volume, favorable product mix and improved operational efficiency associated with our transformation efforts.

Eastern Hemisphere operating income increased primarily due to transformation initiatives, resulting in a lower cost structure.

The year-over-year operating income improvements were driven by production and completions activity increases in the U.S., and market share gains in Latin America, combined with lower operating costs as a result of our transformation initiatives in both the Western and Eastern Hemispheres.

Non-GAAP net loss for the second quarter of 2018, excluding unusual charges and credits, was $156 million or $0.16 diluted loss per share. This compares to a $188 million non-GAAP net loss for the first quarter of 2018 or $0.19 diluted loss per share, and a $282 million non-GAAP net loss for the second quarter of the prior year or $0.28 diluted loss per share.

In the quarter, we recorded pretax charges of $109 million. Of this amount, $70 million were impairments and asset write-downs, the majority of which related to Land Drilling Rigs.

An additional $38 million were restructuring and transformation charges, and $11 million related to Angolan kwanza currency devaluation charges. These were partially offset by a $10 million credit related to the fair value adjustments of the outstanding warrant.

Moving on to our results by hemisphere. In the Western Hemisphere, second quarter revenues of $769 million were up $13 million and up $91 million or 13% year-over-year. Sequentially, growth resulted from higher U.S. rig counts, improved margins as a result of the product mix and increased activity in Mexico, Argentina and Colombia, offset by the spring breakup in Canada.

Year-over-year revenues increased on higher activity levels for the Well Construction, Production and Completions product lines in the U.S., and from growth in integrated service projects in Mexico.

Second quarter Western Hemisphere segment operating income of $50 million was up $26 million sequentially and up $101 million year-over-year. The sequential increase resulted from the revenue drivers previously mentioned and reduced operating costs due to our transformation efforts.

Year-over-year results improved due to higher activity levels across all product lines in the U.S. and certain product lines in Mexico, offset by a more severe seasonal downturn in Canada, which was exacerbated by widening commodity price differentials during the first half of this year.

A change in revenue recognition in Venezuela and higher depreciation cost reduced operating results in the second quarter of the prior year.

In the Eastern Hemisphere, second quarter revenues of $679 million were up $12 million or 2% sequentially and decreased slightly year-over-year. The sequential increase was primarily due to seasonal improvements in the North Sea and completions activity in Saudi Arabia and Asia, offset by decreased Production deliveries in Kuwait.

Year-over-year revenues decreased slightly with increased completions and well constructions activity in Saudi Arabia, offset by fewer offshore projects in West Africa and the impact of foreign exchange rates in Russia.

Second quarter Eastern Hemisphere segment operating income of $19 million was up $3 million sequentially and up $41 million year-over-year. The sequential and year-over-year increases were primarily due to a more favorable revenue mix and improvements from our transformation initiatives, resulting in a lower cost structure.

Net cash used by operating activities was $130 million for the second quarter of 2018, impacted by cash payments of $99 million for debt interest and $29 million for cash severance, restructuring and transformation.

Total net free cash flow in the quarter was negative $140 million, including capital expenditures of $48 million and proceeds from asset disposals of $38 million. Second quarter capital expenditures were $48 million, including $9 million of capital investments in our Drilling Rigs business. Apart from investments in drilling rigs, the largest investments during the quarter were in our Drilling and Evaluation product line, reflecting investments in our new and existing rotary steerable systems as well as new Wireline tools.

Customer receivables increased $67 million, and overall DSO was up 4 days at 73 days compared to the prior quarter due to increased sales in international markets where collection time is traditionally slower compared to North America. Collections in the Middle East lagged due to Ramadan-related delays and the learning curve following VAT implementation in several countries.

Inventory levels decreased approximately $80 million, mainly as a result of noncash-related reserves to slow-moving or held-for-sale inventory.

Our transformation initiatives continued to gain momentum during the second quarter, delivering sequential recurring improvements, in line with the guidance we provided on the last conference call.

In the second quarter of 2018, incremental recurring benefits, as a result of the transformation, were $21 million, which, combined with amounts realized during the first quarter, put us at an annualized EBITDA run rate of over $190 million or about 19% of our total goal.

We realized the largest incremental improvements in our sales and commercial work stream, which is the work stream with the highest potential in terms of total improvements. During the second quarter, we reached 20% of our total goal for this work stream.

We're not satisfied with our cash flow generation during the second quarter, as we were unable to overcome various setbacks and seasonal drags that increased our working capital balance. We are sharply focused on reversing these trends as we move through the remainder of the year. Achieving our breakeven cash flow target for full year 2018, excluding expenditures related to restructuring and transformation and capital expenditures for our drilling rigs, has everyone's full attention. In order to meet this objective, we have identified and are aggressively working on several internal processes to improve efficiencies in our working capital management. Specifically, we have set the goal of reducing our days of sales outstanding to 65 by the end of the year compared to the current level of 73 days, which was up from 69 days during Q1.

Beyond recovering from seasonal effects in Q2, we are implementing processes and applications to track the progression of these changes and to help us focus on areas that need additional scrutiny.

On the inventory front, we have adjusted orders to our manufacturing centers to reduce overall inventory levels at a faster pace.

Additionally, delayed deliveries in the Middle East during the second quarter will shift in the third quarter, eliminating timing queues working capital builds.

Transformation and restructuring costs during the quarter were $38 million, including provisions for severance, adviser fees and costs related to country exits. We expect the incremental recurring EBITDA benefits from our transformation efforts to reach a run rate of 30% of our overall targets by the end of next quarter. To date, we have completed action items for specific initiatives that should provide opportunity for, at least, $400 million in recurring run rate benefits by year-end.

We continue to build momentum in our transformation efforts, evidenced by the results in our operating performance. During the third and fourth quarters, we will also continue to drive very hard towards improved cash flow from onetime cash benefits, resulting from working capital and small asset sales.

Again, this quarter, we have supplemented our earnings press release with an accompanying presentation that provides greater detail about our financial results, transformation and outlook. We encourage you to review this information, which can also be found in the Investor Relation section of our website.

Last week, we announced the sale of our interest in a guar gum joint venture in India. This transaction is part of our planned divestitures and is an example of a deal to refocus the company's portfolio, in line with our long-term strategy and to maximize shareholder value.

We have other divestiture programs underway, which will account for a large portion of our $500 million target for non-rig divestiture proceeds. We will continue to be diligent in getting these deals across the finish line, as we explore various paths to maximize shareholder value. We're confident that we will reach an agreement on, at least, one of the planned divestitures during the third quarter.

We are also in process of renegotiating an extension of our -- to our revolving credit facility with our lending group, as we speak, and we are nearing a resolution to the process. We expect to make a formal announcement on the revised terms of the structure in the very near future.

Moving on to our outlook. In the third quarter of 2018, we expect Western Hemisphere revenue to increase in the mid-single-digit range, driven by activity improvements in Canada as we move out of spring breakup and as price differentials in that market improve.

We expect some increase in the United States revenues, driven by production and well construction.

Latin America revenues are expected to be slightly lower, as some of the positive impact we experienced during the second quarter is likely to reverse, in particular, in Argentina where very high inflation rates are expected to have some destabilizing effects.

Western Hemisphere operating income is expected to modestly increase during the quarter with positive incremental contributions from the increased activity in Canada, offset by decremental impacts from the deterioration in the Latin American market, primarily a function of the inflation-related uncertainty in Argentina.

We expect Eastern Hemisphere revenue to increase in the mid-single-digit range, led by continued improvements in activity levels and product sales in the North Sea and Continental Europe. Further unrest in Iraq could reduce top line results, but we are hopeful that the situation will calm down soon. We expect higher margins due to a combination of revenue pull-through and the positive contribution from our transformation initiatives.

We forecast net cash generated by operating activities to be meaningfully improved. During the third quarter of 2018, with higher EBITDA, working capital reductions and lower severance and transformation costs, more than offsetting negative impacts from higher cash interests and cash tax expenses. Capital expenditures are expected to be between $70 million and $90 million.

For the full year 2018, we reiterate our expectation of breakeven cash flow. As mentioned before, this excludes cost related to restructuring and transformation and drilling rig capital expenditures. EBITDA increases will be driven by our transformation initiatives and market growth.

The improvement of our internal processes and system implementations will support more efficient management of our working capital and, as such, help us to achieve our cash flow target.

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

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

Thank you, Christoph, and hello, everyone. Once again, I'm happy to report sequential and year-over-year improvements in our operating results during the second quarter. Transforming the way on which our company does business is the most important step to improving earnings and cash flow and providing a path to reduce overall debt. Our transformation is in full force, and we now have tangible evidence of its effect on our bottom line and back-to-back quarters. With a clear mission, the right organizational structure and a solid strategy, our Weatherford team is embracing this challenge head on. And together, we have already made considerable progress toward our ultimate goals.

As Christoph mentioned, impacts of our transformation initiatives were 78% higher sequentially, which was above the high end of our expectations. I'm pleased that we've reached nearly 20% of our $1 billion target. We'll make additional progress on these initiatives as our transformation continues to accelerate.

We expect to approach 30% of our recurring EBITDA target by the end of the next quarter. We are running toward our goal of $1 billion in profit improvements and, internally, setting our sights on bigger targets. Our ultimate aim is to generate more sustainable value for all of our stakeholders.

Shortly, I'll share our progress in key individual work streams. But first, I'd like to give a shout out to the Weatherford transformation team. Our organization has readily embraced the changes required to make these targets a reality, as shown by the results from the last 2 quarters. The transformation team is working relentlessly toward completing close to 1,600 different transformation initiatives. The results are coming fast, but that doesn't mean they're coming easy. I cannot understate the sacrifice of time and the amount of heart and dedication being put forth by our employees to get this done. This is a massive integration project, and our team is working incredibly hard to build a new organization, to implement new processes, to install new systems, to learn new disciplines and to instill a new culture, all while continuing to perform their day-to-day duties. This is not a simple ask, so I want to personally thank the Weatherford team for achieving the results to date. It's a testament to your determination, hard work and commitment.

Now I'd like to provide an update on the work streams that were most instrumental in driving our second quarter progress. A key work stream in our success this quarter was Sales and Commercial, which had the most upward movement. One initiative in this work stream showed marked improvement during the quarter relates to pricing customized products, where we're using new planning tools to ensure we've accounted for the full cost to design and manufacture bespoke products we produce for specific customer needs. This area has a great deal of opportunity to increase profitability from the value we help create for our customers.

In addition, we had improved our win rate and execution on integrated service projects in Mexico, further contributing to the success in sales. The group doubled its revenues from the last quarter. Strong operational performance enabled us to extend the scope of work onshore and move into more complex wells offshore with the respective increase in revenue and profitability. Our sales initiative specifically focused on the Permian Basin also positively influenced results in this work stream. We invested in local talent and integrated service centers designed to help operators produce more barrels at a lower cost for longer. We also implemented a dedicated call center to improve responsiveness and enhance overall customer service.

Another work stream, Operational and Product Lines, also made significant progress this quarter. This work began with the earlier realignment of our geo zones and product segments. This quarter, the realignment simply continued to cascade down through the organization. Our new structure is working as intended, so that there's greater clarity in roles and responsibilities and increased accountability and collaboration within the organization.

So these two work streams led the way for improvements this quarter.

During this quarter in G&A, initiatives were finalized to streamline and standardize our compensation and benefits policies across the company. We also signed contracts to outsource several back-office activities in finance, human resources and IT. The transition of these activities is already underway, but will take the remainder of the year to complete with larger benefits expected in 2019.

In Procurement, we're a little behind where we wanted to be at June 30, but we're making up ground fast. In particular, we're bundling similar products throughout the organization and to request for proposals, or RFPs, to our vendors to leverage our volume of spend. This approach will enable us to better align with our vendor base and maximize our savings, as we purchase parts and materials more efficiently. In addition, it opens up opportunities for our primary vendors who can handle larger volumes the benefit from the scale of our purchasing. We've already released RFPs, representing about $750 million of annual spend that are in the Q to deliver value in the second half of the year. These RFPs include machining, elastomers and key artificial lift components.

In our Manufacturing work stream, we've made several decisions during the quarter to rationalize our footprint, including consolidating facilities in Canada and closing a plant in Vietnam. And we accounted for a large amount of related implementation cost during the quarter. These initiatives, by their nature, take time, and there are no delays compared to our original plans. The results for this work stream are expected to accelerate toward the end of this year and into early 2019.

In the Logistics and Distribution work stream, we were able to post some savings on freight cost in this quarter. Beyond that, we're working smarter to develop more efficient ways to distribute our products and are piloting several cross-docking initiatives that yielded positive early results. We're increasing our internal collaboration, which is one of our core values, and working together to leverage our size and to streamline transportation needed to ship items around the world.

We're now a couple of quarters into our transformation, but a tremendous amount of work remains. While I'm very pleased with the transformation benefits, I'm equally disappointed by our second quarter cash flow results. We recognize that we must correct this. A primary focus on both the transformation and our daily operations is generating cash. We remain committed to our target of achieving breakeven cash flow for the year. Many on the call may recognize the magnitude of this challenge, in particular, as we continue to see accelerated growth. However, this is the goal we've set for ourselves. And as Christoph previously noted, we're taking aggressive, focused, remedial action where necessary to get it done.

A focus on flawless service quality execution is also critical to our path to profitability. In fact, our focus on improved processes and standardization has enabled us to achieve record service quality levels, and we're currently exceeding our target for nonproductive time reduction in 2018. At the same time market activity is increasing, our service quality metrics are improving. This sets a solid foundation for enhanced operational performance.

As I've anticipated, this supply-driven industry recovery continues to demonstrate wavelike patterns with specific areas of rapid acceleration suddenly seeming to lose momentum just as quickly. But on an overall global basis, we continue to move directionally higher. The best demonstration of these trends is, perhaps, in the Permian Basin, where the development of plentiful resources has run into headwinds, as takeaway constraints have created price fluctuations and uncertainty surrounding drilling and completion activity in the coming quarters. We're watching the situation carefully, but as you've heard from our peers, we neither see a substantial pullback in activity nor are our Permian customers telling us they plan to. Most of the noise seems to be related to frac capacity and pricing, which doesn't really impact us today. Even if operators in the Permian Basin delay completions or decrease rig counts, they'll be a continued emphasis on maintaining current production. This trend plays right into our wheelhouse. Artificial lift is a core competency of Weatherford. The recently announced alliance with Valiant helps fill in our electrical submersible pump offering to create the strongest portfolio of artificial lift applications in the industry. Multiple customers have expressed enthusiasm for this alliance and the technologies it brings. We look forward to sharing more detail with you in the coming quarters.

We've also signed new software contracts with several operators across major U.S. basins. One of these contracts engaged Weatherford to install ForeSite production software on approximately 26,000 wells. The ForeSite platform was introduced in 2017, marking the first in a series of integrated software offerings that combined prudent Weatherford production optimization technologies with the Internet of Things, cloud computing and advanced data analytics. We further expanded this platform during the first quarter, building on its existing capabilities for reciprocating rod lift systems. Our platform now also supports gas lift, electrical submersible pump systems and naturally flowing wells.

Regardless of what happens near term in West Texas, we remain very encouraged by activity levels elsewhere in the U.S. and around the world.

Latin America, for example, has shown very promising results during the second quarter. We benefited from integrated project awards in this region, and we believe this trend will continue. A major operator in Argentina awarded Weatherford a 5-year contract worth $300 million for fracturing, coiled tubing, wireline completions and testing services. Another operator in Columbia awarded Weatherford a 5-year contract worth $270 million for multiple product line services, including fracturing, coiled tubing, wireline, fishing and reentry, Tubular Running Services, Completions and testing. In Mexico, integrated project activity has increased, and we've executed work using solutions designed to meet our customers' unique needs.

In April, we introduced our new push-the-bit directional drilling system, the Magnus rotary steerable, which combines reliable, high-performance drilling with precise directional control. Since then, we performed several jobs, including an onshore oil well in Mexico where the Magnus RSS drilled 6,400 feet in 1 run and saved 1.2 days compared to drilling estimates.

Our Eastern Hemisphere operations experienced modest activity increases during the first half of the year, and we expect the second half results to be even stronger. We've seen an uptick in tender activity and have identified opportunities to extend our business into new markets through multiple product lines. For example, in Kuwait, we received a contract to supply liner hangers for field operations in the deep drilling sector. This represents an additional product offering in the space for Weatherford, enabling us to expand operations in the high-pressure gas drilling markets throughout the Middle East. We anticipate further expansion into untapped markets in the region, as we focus on offering customers access to our complete portfolio of product, services and technologies. Our transformation initiatives will help us to optimize our sales and commercial operations to achieve cross product line synergies.

Elsewhere in the Middle East, we deployed completions and cementing equipment, including the SwageSet V0 packoff stage tool. We delivered managed pressure drilling equipment for a gas well campaign, subject to an ultra-narrow window and high temperatures and pressures, which, compared to conventional methods, reduced the average drilling time by 15 days.

In the Asia Pacific region, we won a 3-year contract from a major operator in Australia for Tubular Running Services, largely based on our safety performance, differentiating technologies, including our connection evaluation software and our experienced local workforce.

As demonstrated by our first half results, operational highlights and new contract wins, Weatherford is well positioned to continue growing earnings, EBITDA and cash flows by responding to market trends and continuing to benefit from our transformation. The second quarter results confirm that our transformation is building momentum and delivering the intended path to profitability. We're seeing strong growth in our process discipline and positive shifts and culture. I'm pleased with our progress toward our operating improvement goals, the divestitures of certain noncore assets and our organizational changes. I remain confident that we'll achieve $1 billion in annualized recurring EBITDA improvements by year-end 2019 and cut the debt to EBITDA ratio in half by the end of the year 2018. You can rest assured that as stewards of your company, we'll utilize our resources and assets to deliver sustainable and profitable growth for all of our stakeholders. Changing the way Weatherford has historically done business will ultimately create a formidable company for the long term. We're well on our way to becoming a stronger, healthier, more integrated energy services company, and I look forward to telling you about our evolution in the quarters ahead.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question today comes from Jim Wicklund from Crédit Suisse.

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

My question is about the Eastern Hemisphere. You note that most -- all of the improvement in operating income was due to the transformational efforts. There's been a great deal of talk about pricing in the international markets over the last couple of quarters. We know the international markets, at least, shallow water and onshore, starting to improve, but it would seem like you didn't see any pricing improvement either. Can you talk about the timing of contracts, the role of contracts, and the momentum you see? Can you kind of walk us through activity and price for the Eastern Hemisphere as you see for the next year or so?

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

Jim, it's Christoph. And a lot of moving parts, so I'll go first on the second quarter. I think, from us, the second quarter was benign growth and the main reason were some delays of equipment deliveries, so you'll see that gearing up in Q3. Going on your second question about contracts and pricing, in general, I think there are several parts to that. And we said that last quarter, and I think it's the same now, you see a mixed bag. We see some contracts with pricing pressure. And we see some contracts and bids where we have pricing opportunities. So I -- it's really not a clear trend in one or the other direction. And I would say, the most competitive area is the Middle East, whereas in other parts, we have been able to see some price improvements. Maybe on the tendering activity, we have seen an increase in tendering activity over -- and that's already last quarter, and we continue to see that. So we do expect further growth in the Middle East based on our tenders we have already won and we're building into and, again, increasing activity going forward. One last point and you've -- I think you know that for sure, many contracts are multiyear contracts in the Middle East. So one of the affects you do see is that pricing agreed a year ago, you have to work through, and that goes another year until the next tender goes out. So pricing improvement in the Middle East takes usually -- or in the Eastern Hemisphere, in general, takes usually a bit longer. Now if you deliver top service quality and the customer is very happy, you are able to, I think, sell up or get some additional opportunities to maybe improve your commercials. But I hope that answers your question.

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

Yes. Jim, this is Mark. And let me add to -- so I think that Christoph is exactly right. That -- off -- this is traditionally the way Eastern Hemisphere works. Our customers there bid multiyear contracts. The guy who has the sharpest pencil and the lowest cost typically wins. Your pricing opportunities typically come true in terms of providing superior service quality and then finding new technologies to sell through. I think that the market is tightening up as equipment gets back to work in many areas around the world, and that's a net positive. I think those -- as there are more lump sum turnkey integrated service contracts that are coming out. And those tend to be very aggressively bid for those who are trying to get multiple services and discount across those. And so I think some of the noise that you typically hear is if you're the guy who wins, it's typically -- you feel good about your pricing and pricing is going up. And if you lose, it's because you lost on price because people are undercutting and -- so I think that's just the nature of the gang.

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

And heads you win, tails you win. Okay. My follow-up, if I could, let me move hemispheres to the Western Hemisphere, Mexico. You talked about lump sum turnkey projects. We all kind of remember that you've kind [packed] years ago for Weatherford. You talked about how you've expanded your scope due to service quality in Mexico. How much capital risk do you take in that project? And if you're going to do that elsewhere, can you -- are the terms going to be different? Are you taking any balance sheet risk here?

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

Jim, capital risk in terms of capital expenditure is very, very little because we have the existing infrastructure. We have drilling rigs in Mexico. We work -- so nothing needs to be acquired or invested. And it's very, very benign. Yes, you take performance risk overall. And one of the things, which, I think, we have learned a lot from the past, we have a very rigorous process now looking at the risk on a sophisticated basis, and various risk and we build that over a number of wells and we build it into the pricing of the contract and operate accordingly. And I think that's different to what was done in the past. Those projects are very much in our [bill house] and all of them, so far, we're ahead of the drilling curve. We have not actually touched our risk part in those projects, so we're quite confident in that. And we approach other projects we bid for in the Middle East exactly the same way. So very rigid process, very rigid review of the risk involved in those. And the risk part is part of our pricing.

Operator

Our next question comes from James West from Evercore ISI. Our next question comes from David Anderson from Barclays.

John David Anderson - *Barclays Bank PLC, Research Division - Senior North America Oilfield Services and Equipment Analyst*

I was wondering if you could just kind of step back a little bit. You seemed to mention that -- it sounds like a lot of these costs have been coming out of the international side, at least on the Eastern Hemi. Is it fair to say that kind of the easy wins are in the international side? And if you see kind of double-digit growth next year in international market, I'm just kind of curious about your take on that. You feel pretty confident. I guess, I'm just kind of curious. Is it more skewed towards international? Is that where we should be seeing this for the next several quarters?

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

No. Actually, I don't think that, that's case. It's actually fairly evenly spread between the hemispheres. If you look at the results and how they've accumulated, I think some of the -- remember, there's -- there are both cost savings opportunities as well as revenue opportunities. And probably, what you've seen is that some of the cost saving opportunities are coming from the Eastern Hemisphere and the revenue opportunities have been coming from the West. And a large part of that is that, oftentimes in the East, we have been historically a bit more integrated, but more cost heavy because our structure, particularly being in 90 countries and having multiple regions and all, you had layers of management across each of the product lines that existed in each of those regions. And so they've had more opportunities to streamline and to do a better job on logistics and moving things. And of course, in the U.S. for us, where we were more disaggregated in the way that we approach the market and, particularly given the strength of the market, we've had pricing opportunities. There's a lot more bespoke work that's done in the U.S. I mean, all that has created opportunity for revenue growth over here. And I think that, that's probably a trend that you'll continue to see. So it's been more evenly distributed. And they -- each of these initiatives, as they are recorded and tracked, we have fairly high visibility of where they're happening and where they should benefit.

John David Anderson - *Barclays Bank PLC, Research Division - Senior North America Oilfield Services and Equipment Analyst*

So Mark, I was curious. You were talking about the tendering activity and talking about how it's very competitive in the Middle East. I also came up to think about your procurement side. That seemed to be such a massive opportunity for you guys in terms of how you price everything in terms of your scale and purchasing. Is it fair to say that, that part over in the procurement could have a real big impact on maybe an outsized impact on that Middle East business as it evolves?

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

Absolutely, absolutely. I mean, obviously, the first order of business in procurement is looking at how the machine feeds our manufacturing. We've got distributed manufacturing around the world, both in the West and the East, and finding ways to leverage the spend in a way that can feed all of our manufacturing facilities. And then, of course -- then better logistics, yes, the movement of resources around the world brings down our cost basis, which, then, so as we're going in and we're tendering lump sum turnkey or other projects, we're making massive product deliveries into the Middle East. Our ability to get it there faster, get it there more cost effectively as well as reduce our internal sourcing cost just makes us even more competitive. So it's actually a fairly exciting opportunity, and we have unaccounted for a lot of the downstream effects for some of that.

John David Anderson - *Barclays Bank PLC, Research Division - Senior North America Oilfield Services and Equipment Analyst*

Right. And then one last quick question on Christoph. You talked about the 5 -- can you just repeat what you said on the asset sale pack, which is the remainder? I think we had -- the last we spoke, I think we heard there's 2 separate packages supposed to total around $500 million. Can you -- you've mentioned -- I think you said you expected one of those packages to close by the end of the third quarter. Can just explain what you meant there?

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

Yes. What I said, I -- we will announce, at least, one in the third quarter. But let me just clarify, David. We have a couple of packages that have been out. Those couple of packages represent the sort slight majority of the value of the -- $500 million was a series of different opportunities. Those 2 don't represent $500 million. There are more things that we are teeing up in the Q to bring forward over the next quarter or so.

Operator

Our next question comes from Sean Meakim from JPMorgan.

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

So Mark, that's a good segue for one of my questions. Looking at the outlook that you put out, it's certainly positive, the number of key milestones on the list. And so -- of course, you have a reputation for being conservative in terms of what you promised to The Street. I'm just curious why you're willing to put time lines on some of these goals that aren't necessary completely within your control, like the divestitures and the revolver extension? Perhaps, it's -- you're close enough that you have comfort to report those time lines out there or, perhaps, it's an opportunity to apply some pressure internally or to make sure these things happen. Just curious about the thought process of putting some of these time lines out there.

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

I'm going to let Christoph take the first shot because he's the guy who's responsible for hitting those deadlines. How about that?

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

Thank you, Mark. We wouldn't put time lines out there if we wouldn't have, I think, good confidence that we'll achieve those. And so specifically, as we said, one package, we feel very confident that, that's going to happen in Q3. And similar to the revolver, we feel very confident that we can get that done in the very near future. So -- and I think that's why we commit to the time lines.

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

We have to recognized we have a little bit of scar tissue on the rig transaction complication and that was probably one of the more complicated transactions that I've done in my entire career. And hats off to Christoph and his team for navigating all those challenges. And we have more to go on that. So we're trying to give you a sense of what those things that we can clearly see and sort of know where we are. And there are other things that we're working on. I'm not willing to put a date on it at this point.

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

I think if you can check up all those boxes in third quarter will be very productive. Could I also just ask a question on the Valiant alliance on ESPs? Sounds like you're going to wait a little bit to get some of the more granular details, but it will be great to hear just at the high level how you think this is going to impact your lift portfolio. Maybe elaborate on opportunities in the nearer term or in terms of markets or applications, just great to understand a bit more of how that fits into the strategy for lift.

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

Sean, it's Christoph again. We had a very good discussion with Valiant. We have a very good reputation, very good product, and that fits right into the hole in the portfolio. We have -- Valiant has already a good distribution network in the U.S. And so the opportunity exists more on the Eastern

Hemisphere side, where we have very good distribution network, a very good customer relations and where we can distribute and then integrate also these ESP offerings into our overall artificial lift offering and come with our expertise when wells and what type of lift we have for each well. In the Western Hemisphere side, on the U.S., if we have incremental opportunities on our side, as customers either want to have a full lift solution with rod lift for the later stages and ESPs for an earlier one, we have the discussions. We will bring Valiant to the table, and Valiant will execute in those places because we have the setup already existing. I think that answers broadly to your question on how we see it.

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

Honestly, for -- the big opportunity I see is having a complete portfolio, everything in our catalog that we can offer. I think customers tend to come to Weatherford and buy because, I mean, it's the products, but it's also the reputation of having good service quality, performance across the whole phase of the contract. And I think, particularly in North America, as we see there's a life cycle of these wells and customers, as we get into this more discussions about production solutions and managing through the life cycle and understanding, all of that takes, I think, having the opportunity to provide a full catalog of different tools to them, along with our ability to take ForeSite and our ability to manage the production data and cash, I think, just creates a better value proposition for our customers. And so I'm excited about the -- having this JV and the alliance and seeing what we could do with it.

Operator

Our next question comes from Bill Herbert from Simmons.

William Andrew Herbert - *Simmons & Company International, Research Division - MD & Senior Research Analyst*

Mark and Christoph, can you guys remind us what the forward path and time line is for the disposition of the remainder of your land rig portfolio, how many land rigs and which regions are likely to be sold first? And if you could just touch on kind of expected proceeds to -- do they match or exceed what you're garnering from the first stage sale?

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

Yes, thanks. And I'm not going through all -- give you the broader understanding, so the -- let's cover first the piece, which we have signed with others, which is Saudi Arabia, Kuwait and Algeria. Our thought will be to close this in -- the bigger portion in end of Q3 and the rest in Q4. That includes 31 rigs, and all operations in those 3 countries. You're then left with another 79 rigs globally. And there is a pool of rigs, which are stacked. And then there's a pool of rigs working in countries and operating there, and has contracts and so on and so forth. During the divestiture process, we had already some offers for the individual countries, but we didn't want to entertain them because of -- we wanted to talk about the bigger package first focus and then go onto the other ones. So we will get to these other ones, and there is some which will go very quick, some which will take a little bit longer. So overall, we said we will be the next quarters will be sold, whether we have, for example, free rigs and jet. Whether those will happen in Q3 or Q4 or Q2 or Q3 next year, I don't know, okay? So -- and I don't want to answer on those. On the proceed sides, overall, it's not going to be the same amount as what we've got for the key piece in Saudi, Kuwait and Algeria. So it's going to be a lower amount there. And again, it depends on the countries we sell. So I don't want to give an absolute dollar number, but we will proceed as quickly and as diligently as we can.

William Andrew Herbert - *Simmons & Company International, Research Division - MD & Senior Research Analyst*

Okay. And with regards to the capital intensity, if I heard you correctly of your $48 million in CapEx in the second quarter, $9 million was for land rigs. Or was the $9 million for the land rigs that are being sold?

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

No, 9 rigs for the land rigs in total. And those come very close to the ones being sold in those countries. That's where the highest CapEx goes because of the rigs are the highest spec.

William Andrew Herbert - *Simmons & Company International, Research Division - MD & Senior Research Analyst*

Okay. So basically, $40 million rounding up a little bit in the annualized CapEx almost all for your land rigs fee, a lot of which is going to go with the sale of this first stage.

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

Well, it's actually a way higher number.

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

It's way higher than that, actually. I mean, the biggest opportunity, not -- in selling these is not just the proceeds you get, but also the avoided capital because there was an bow wave of capital that was about to come in somebody's countries relative to -- I mean, they're high spec, but they're also hanging the latest and greatest jewelry on them as they come in and out of the market there. So it's -- it was a big cost avoidance, part of our capital that's going to be very helpful for us.

William Andrew Herbert - *Simmons & Company International, Research Division - MD & Senior Research Analyst*

Okay. And I've just got one last one. Why is capital spending going up so much in the second half of the year?

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

Because there -- because some of the sales force, some of those rigs, right? I mean, the forecast itself will be a transitory time before that we actually finish all the legal requirements to get them sold and closed that we'll have to incur some of that money. And so Christoph, I think, conservatively is forecasting that they'll be some of that money starting to spend on the rigs, and then it will go away.

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

Yes. It's very specific on a contract, on a conversion and upgrade project of some of the rigs, which are sold and we will spend that CapEx. And the other part outside that, we are ramping up our fleet for Magnus. It's a high opportunity in the market, and we want to have a big-enough fleet to go out there. Lastly, we have one, I think, quite some contracts on wireline right now, and we are getting into the state where we are short in tools. And we've seen that on some, so we're also ramping up some of the built-in wireline tools.

William Andrew Herbert - *Simmons & Company International, Research Division - MD & Senior Research Analyst*

Okay. So bottom line, sale of these land rigs, right, the 31 in the Middle East saves you what in annualized CapEx going forward?

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

If -- it depends on what year you take because it's lumpy, but for that scope, in 2017, we spent about $80 million, 8-0, in CapEx in 2017. In 2018, if you look at it on a full year basis, you will come on a CapEx basis to probably about $50 million or so. If you look at it for the full year, $50 million to $60 million. Next year will be -- would be a bit less, I would expect. But again, they're high spec and there's always something which you invest.

Operator

Our next question comes from Kurt Hallead from RBC.

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

So you guys are spreading a lot of very good details on the call, I just want to maybe follow up on -- with you, Mark, on -- from an operational standpoint. You mentioned, obviously, the concerns in the Permian related to completion-related activity. You guys don't have any frac exposure to speak of at this point. You have emphasize the positive dynamics on production. But if there were going to be risks in the Permian for you, what kind of product lines would there be risk? And then what kind of magnitude of impact, just on a relative basis, to your portfolio if you think that could be?

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

Well, obviously, I think it depends upon what customers are going to do. If they -- so much of their CapEx spend is going toward the frac itself, if what we see over the course of the next quarters, as things get tight that customers continue to spend there, but they're increasing the docks -- the dock inventory that, really, the only exposure that we would have will be on the completion side and plugs and packers, I mean, that -- which is relatively small. Part of our Completions business there is cementation products and liner hangers, and that continues to do exceeding well. And so we wouldn't see that risk. If they decide that they're going to reduce the rig count itself and shift, then, obviously, it will have more direct impact on our Drilling and Evaluation business. But the reality is that if they shift that -- then it's going to go somewhere else. Oil prices continue to be supportive. And in many ways, you look across the U.S., we have a pretty balanced basin exposure from California to the Bakken. And I just don't see it being a big impact to us, at all, quite frankly. On the -- whether it's rig count or related to just accumulation on docks.

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

Okay. Great. That's great color. And then you walked through a couple lift from regions, a couple project wins, and particularly talking about Latin America. So as you think about the opportunity set internationally from this point forward, if you were to kind of rank orders on regions in terms of highest growth or lowest growth and maybe not so much on revenue, obviously, as you're focused on profitability, where do see your best opportunities for improvement in the international market through the second half of this year and into '19?

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

Well, I guess, thinking about Eastern Hemisphere and Western Hemisphere as a separate region, In the Eastern Hemisphere, the Middle East, clearly, is the nexus of activity. It continues to ramp up. We've gotten some great contract wins across our Arabian Sea geo zone and in Saudi Arabia, and that continues to do very well. We've seen a lot of tendering activity in the North Sea. And while we haven't necessarily had our name in some of the headlines, we're behind the scenes. We're winning contracts there, as well, and continue to do very well. So that activity pickup should benefit our results, particularly in the second half. We're highly exposed to Canada more than some of our other peers on a percentage basis, as we come out of breakup, which was -- this was a more severe breakup this year as a result of the widening differentials coming into that season. Now that the differentials have moderated some or coming out of breakup, we expect Canadian activity to show opportunity there. And we came into the year fairly bullish about what might happen there, and I think that, that opportunity still exists. In Latin America, quite frankly, in the first half of this year, Latin America hit it out of the park. These =our guys did a great job of managing that business. We won contracts in Argentina. It's been rock solid. Columbia have all been -- and even in Mexico had outperformed where we thought that they would be. It'll make it a little bumpy because we've got some inflationary trends that are happening down there. But I think that the currency noise may mask what under -- may underlie continued growth and activity there. So I -- particularly Argentina and Columbia, we feel very good about the future, broadly speaking.

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

That's great color. If I could sneak one in real quick for Christoph. You gave us the guidance ranges for what you think revenue growth is going to be by hemisphere. You gave positive margin improvement generically. How would we think about magnitudes and margin improvement for the hemispheres in the third quarter?

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

Yes. I think I've said that in my prepared remarks that the Western Hemisphere is going to be small. So forgot the word I used. I think it's marginally or...

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

Modest.

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

Modestly, and the simple reason we will get -- grow in Canada and that will have good incrementals. We'll see how the U.S. evolves, but we will have a Latin America offset. That's our expectation because of the inflation risk in Argentina, predominantly. And so that's the Western Hemisphere. The Eastern Hemisphere, we do expect that good incrementals in Q3, normal, I would say, for -- from a revenue perspective, and we've guided to that. So you would expect good incrementals there into the third quarter.

Karen David-Green - *Weatherford International plc - VP of IR, Corporate Marketing & Communications*

And we are a little past the half hour now, so thank you all for joining us on today's call. I will now turn the line back over to the operator. Carol?

Operator

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