REFINITIV STREETEVENTS

EDITED TRANSCRIPT

WFRD.OQ - Q1 2023 Weatherford International PLC Earnings Call

EVENT DATE/TIME: APRIL 26, 2023 / 2:00PM GMT

CORPORATE PARTICIPANTS

Arunava Mitra *Weatherford International plc - Executive VP & CFO*

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

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

CONFERENCE CALL PARTICIPANTS

Atidrip Modak *Goldman Sachs Group, Inc., Research Division - Research Analyst*

Douglas Lee Becker *Capital One Securities, Inc., Research Division - Research Analyst*

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

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

PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. Welcome to the Weatherford International First Quarter 2023 Earnings Call. All participants will be in listen only mode. (Operator Instructions). After today's presentation, there will be an opportunity to ask questions. (Operator Instructions). As a reminder, this 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 First Quarter 2023 Conference Call. I'm joined today by Girishchandra Saligram, President and CEO; and Arunava Mitra, Executive Vice President and CFO. We will start today with our prepared remarks and then open it up for questions. You may download a copy of the presentation slides corresponding to today's call from our website's Investor Relations section.

I want to remind everyone that some of today's comments include forward-looking statements. These statements are subject to many risks and uncertainties that could cause our actual results to differ materially from any expectation expressed herein. Please refer to our latest Securities and Exchange Commission filings for risk factors and cautions regarding forward-looking statements. Our comments today also include non-GAAP financial measures. The underlying details and a reconciliation of GAAP to non-GAAP financial measures are included in our first quarter earnings press release, which can be found on our website. As a reminder, today's call is being webcast, and a recorded version will be available on our website following the conclusion of this call. With that, I'd like to turn the call over to Girish.

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

Thanks, Mohammed, and thank you all for joining the call. Our first quarter results were another set of first, and I am incredibly grateful to our entire One Weatherford team for their passion and tireless focus on execution. Our results continue to demonstrate the viability of our strategy and the strength of our execution capabilities. We delivered above expectations in revenue, margins and cash and are set up well for the remainder of the year. The first quarter did benefit from some contract recoveries that we had expected to materialize in the second quarter. And as a result, we will see some timing deltas between the 2 quarters in the first half. Nonetheless, it will be a first half that is well ahead of performance last year and gives us the confidence to significantly increase our guidance for the total year.

In the first quarter of 2023, revenue of $1.19 billion increased 26% over the first quarter of 2022, reflecting broad-based growth in each of our 3 segments across all geozones. We also saw a sequential decline of 2%, which is very moderate relative to the usual seasonal decline, demonstrating the strength of the cycle, especially in the international markets. North America revenues grew 20% over the first quarter of 2022. And as expected, the seasonal declines in activity, especially in PRI, caused a sequential drop of 5%. The year-over-year international growth was largely broad-based as revenue grew 29% over the first quarter of 2022. As we have been talking about for a while, Middle East activity is firming up strongly, and we're also seeing greater strength in Latin America.

I am particularly pleased with our margin expansion performance as we delivered adjusted EBITDA of $269 million or adjusted EBITDA margin of 22.7%. A margin expansion of over 650 basis points year-over-year is very significant, especially coming on the heels of a strong margin expansion year in 2022 and puts us on the right trajectory towards our ambition of mid-20s EBITDA margins. We delivered $72 million of net income in Q1. To put this in perspective, 2022 was the first year in 10 years, we generated positive net income, and that was $26 million for the entire year.

Finally, we generated $27 million of adjusted free cash flow for the quarter despite a significant investment in CapEx, working capital and annual incentive outflows. We have always stated that our investments will never come at the expense of generating cash, and the first quarter is a tangible proof point of that commitment to our investor base. Since I joined the company in late 2020, we have been intensely focused on improving the liquidity profile of the company and have come a long way towards enhancing the overall capital structure of the company. The announcement to pay down the $105 million, 11% exit note stub is another important milestone in our post-emergence journey, which brings our gross debt levels below December 2019 levels, another remarkable achievement.

On our last call, I highlighted the 5 strategic priorities we have for Weatherford, financial performance, customer experience, organizational vitality, lean operations and creating the future. Financial performance is hopefully clearly visible to everyone and it's something that will remain our North Star.

I wanted to take a few minutes today to share some of the important product launches and operational highlights from the first quarter that point to our advances on the priorities of customer experience and creating the future, which go hand in hand. In our Drilling and Evaluation segment, we continue to build upon our market-leading managed pressure drilling product offering by adding a performance tier option. This comprehensive solution enhances pressure management and improves detection and visualization of kick or loss incidents. We also digitally capture data for post job analysis and process improvement by leveraging our industry-leading monitoring and modeling software capability and gives us position points across the market spectrum.

In our Wireline product line, we deployed our Memory Raptor case-hole evaluation system, which uses our existing pulp neutron wireline logging capabilities that provides advanced analysis of oil, water and gas saturation behind casing. As a result, the tool increases production by providing precise saturation data and improving efficiency while reducing customer costs. In well construction and completion, we launched the Xpress XT liner system. With this launch, we are driving increased reliability of liner hanger systems leading to reduced operational risk and superior well integrity. To enhance well integrity, we have implemented the Triple plug subsea release or SSR system that features added fluid separation capability to prevent contamination before the cementing process. This cutting-edge technology is the only system available in the market that offers a triple dart and plug feature ensuring true fluid separation.

In production and intervention in joint development with the Middle East operator, we delivered the Whipcheck technology, utilizing a sensor in the whip stock milling assembly that provides a reading of inclination and separation achieved at casing exit depth, allowing the customer to validate the casing departure profile. We also released a Fluid Loss Sleeve, a system enhancement in our existing reentry fleet, which will enable customers to save rig time to cure loss circulation. These are some examples of using digital technologies to enhance our differentiation while creating greater value in customer outcomes. These technology introductions and spirit of collaboration with customers are what enables us to win business, and we had several noteworthy examples in the first quarter.

In Latin America, we were awarded a $290 million 2-year contract extension to provide multiple product line offerings, including pressure pumping, wireline, well services and testing services for onshore gas and shale wells. We were awarded a 3-year 5-rig deep water contract with bp Azerbaijan. The contract allows BP to automate CRS operations further and reduce red zone risk using the Vero technology. We have been awarded a 3-year joint operations contract with Saudi Arabian Chevron and Kuwait Gulf Oil Company.

Weatherford is the first company to provide its premier MPD technology offering for an upcoming exploration campaign. In addition to our core offerings, we continue to gain traction in the geothermal energy space through a combination of commercial wins and partnerships. These achievements build on our long history in this area and enable us to further our positioning. We entered into an exclusive collaboration agreement with CeraPhi Energy to provide an integrated package of products and services to end users for the development of geothermal energy. Weatherford will offer its global expertise in data acquisition, digitalization and automation services and CeraPhi will leverage its proven engineering and project management services to provide enhanced geothermal technology solutions to the market.

We signed a contract with Eavor, a revolutionary geothermal company to support their first commercial ever loop in Germany, providing our liner hanger system cementation products and associated services. This project is based on a new closed-loop advanced geothermal system that will begin drilling in July with 3 more Eavor-Loops(TM) projected afterwards. Our successful track record in the geothermal market made us an ideal partner for this challenging project. In digital, we saw success in further enabling our customers to increase the production of their wells through our industry-leading data analytics and measurement capabilities. Petroleum Development (PDO) awarded Weatherford a 7-year contract for our market-leading Foresight technology, which enables improved production performance of wells through its integrated and automated well models. We received an award from Aramco to deliver Red Eye Water Cut meter. This technology delivers real-time measurements and enhanced accuracy in multiphase conditions.

Now let's turn to our view on the markets. In North America, we are seeing signs of the growth trajectory starting to flatten as expected as rig counts have slightly decreased due to the softening in the gas market. However, we continue to see pricing resilience and expect an uptick in new production plan for the second half of the year. As we've indicated before, our portfolio in U.S. land markets is much more production-oriented and has limited downside risk to the declining rig count and gas. At the same time, on offshore, we continue to see robust activity in the Gulf of Mexico and are actively engaged in planning mid- to longer-term projects, especially for our market-leading offerings of MPD and TRS. Net-net, we believe North America will still grow for us this year, but at a lower pace closer to mid-single digits. The outlook for international markets continues to demonstrate strength with the Middle East and Latin America leading the way.

Additionally, we see incremental opportunities in Asia, the Mediterranean and sub-Sahara regions, driven by robust offshore project sanctions and start-ups. We expect to see the broader Middle East region grow north of 25%, followed by Latin America and the mid- to high teens. There will be volatility driven by customer project timing and supply tightness they're witnessing as well as FX in certain international markets, but the organic activity growth is very encouraging for the next few years. With that, I'd like to hand it over to Arun to walk us through financial performance and the guidance for the second quarter and full year of 2023.

Arunava Mitra - *Weatherford International plc - Executive VP & CFO*

Thank you, Girish. Good morning, and thank you, everyone, for joining the call. I'll begin with our consolidated results and then move into our segment results and liquidity and cash flows. As Girish mentioned, we had a great start to 2023 with our first quarter revenue of $1.19 billion, which grew 26% year-over-year, led by across-the-board improvements in all segments and geographies. Operating income of $185 million in the first quarter of 2023 increased by 928% year-over-year. Net income of $72 million increased by 190% year-over-year when compared with a net loss of $80 million in the first quarter of 2022. Adjusted EBITDA for the quarter was $269 million, which translated into 22.7% adjusted EBITDA margins. First quarter results were favorably enhanced by the timing of inflation-related cost recoveries, particularly in the DRE segment, which we had forecasted for the second quarter of 2023. Regardless, our first quarter margin expansion was noteworthy on a year-on-year basis and sets us up for a great first half of 2023.

Now moving into our segment results. Drilling and Evaluation, or DRE, revenues of $372 million increased by $80 million or 27% year-over-year due to increased activity across product lines and geographies, largest contributors being drilling related services. DRE segment adjusted EBITDA of $108 million increased by $49 million or 83% year-over-year, mainly due to higher service activity and larger fall-throughs. Well construction and completion or WCC revenues of $421 million increased by $77 million or 22% year-over-year, driven by increased activity across all product lines and geographies, especially by higher cementation products completions and TRS activity.

WCC segment adjusted EBITDA of $96 million increased by $29 million or 43% year-over-year, mainly due to increased activity across all our geographies. Production and intervention or PRI revenues of $349 million increased by $63 million or 22% year-over-year due to increased activity across all product lines and geographies. Intervention services and drilling tools, international pressure pumping and artificial lift experienced the highest activity increases. PRI segment adjusted EBITDA of $68 million increased $29 million or 74% year-over-year, mainly due to higher activity across all product lines and geographies led by intervention services and drilling tools.

Turning to liquidity and cash flows. I should point out that we are now referring to what used to be called in our non-GAAP disclosures as free cash flow as adjusted free cash flow. This is just a terminology change, structure and calculation remains exactly the same. Operating cash flows minus CapEx plus sale proceeds from disposition of assets is what it remains. Our cash flow performance was robust despite the seasonal headwinds in the first quarter of 2023.

We generated an operating cash flow of $84 million, an improvement of $148 million versus first quarter of 2022 and an adjusted free cash flow of positive $27 million, an improvement of $91 million versus first quarter of 2022. These improvements were primarily driven by higher margins as well as ongoing improvements in operational and working capital efficiencies.

It is important to note that we drove this cash flow despite the CapEx and working capital investments. CapEx at $64 million for the quarter is expected to be at the higher point of spend versus rest of the year, and the total year will be in the 4% to 5% range of revenue. We closed the first quarter of 2023 with total cash of approximately $983 million as of March 31, 2023, down $129 million sequentially. This reduction was predominantly driven by a $52 million remittances for tax obligations related to equity awards vested and senior notes repayments and repurchases of $62 million, comprising of $20 million of our 11% senior unsecured notes and $42 million of our 6.5% senior secured notes.

On the previous call, I had suggested that we would reduce our restricted cash balance by $50 million by moving cash collateralized bilateral LCs into a new credit facility. I am very pleased at the team's execution as we accomplished a reduction of $52 million this quarter. On April 20, 2023, we issued a notice to redeem the remaining $105 million of our 11% senior unsecured notes, i.e., the exit notes.

Our capital allocation strategy and priorities remain unchanged. We will continue to invest back in the company for technology, CapEx and working capital, but not at the expense of generating free cash flow. As seen from the recent announcements, we've made significant progress on debt reduction and thereby interest cost reduction and simultaneously leverage improvements. During the quarter, we continued to engage in opportunistic buyback for our secured debt below par and were able to retire $42 million. Subsequent to the redemption of the $105 million stub, our gross debt will be approximately $2.08 billion, comprised of $450 million of secured notes due 2028 at 6.5% and $1.6 billion of unsecured notes due 2030 at 8.625%.

Our Q1 ending leverage of 1.3x is well within the industry norms and should continue to drop as we generate additional cash and expand more -- and further expand margins.

Turning to our outlook. I'll start by noting that we are taking up our total year guidance meaningfully. There are some shifts versus normal quarterly patterns that I'll explain as well. For the second quarter 2023, we expect consolidated revenues to grow by mid-single digits sequentially.

Across the segments, DRE revenue is expected to be flat to down by low single digits. WCC is expected to grow by mid- to high single digits and PRI is expected to grow by mid- to high single digits. We are expecting to see a slight decrease in adjusted EBITDA margins versus the first quarter of 2023, and this is driven by 3 factors: the shift to Q1 of contract recoveries, which were projected for Q2. The mix shift towards products in WCC driven by new business in the Middle East, and the start-up costs on new contracts that we have previously talked about. Nonetheless, adjusted EBITDA margins are expected to expand by over 400 basis points over the second quarter of 2022 and the first half margins in total will remain very strong.

CapEx is expected to be in the range of $40 million to $50 million, and adjusted free cash flow is expected to be greater than $50 million despite higher cash interest and continued net working capital investments for the full year of 2023. Our full year 2023 consolidated revenues are now expected to grow by mid-teens compared to 2022 versus the low double digits to mid-teens we had indicated earlier. Across the segments, DRE is forecasted to deliver low double digits to mid-teens growth, WCC to deliver mid-teens growth and PRI to deliver mid- to high single digits' growth.

As mentioned in our last earning calls, 2023 will be a year in which we invest the company for the long term and have some start-up costs on the newly announced contracts. Having said that, we have visibility to some significant opportunities and continue to execute in favor of our long-term strategic priorities. This will enable us to offset the aforementioned risks and deliver another year of meaningful margin expansion.

Accordingly, we are raising our guidance for full year consolidated adjusted EBITDA margins to expand by at least 250 basis points over 2022. While the third quarter typically benefits from greater service fall-throughs, this year, we anticipate that there will be some offset to that effect driven by service and product mix. Additionally, labor inflation and wage increases will start having an impact from Q2 through Q4. As mentioned earlier, CapEx for the full year is expected to be 4% to 5% of revenue. Notwithstanding, we are now increasing our adjusted free cash flow guidance as we now expect 2023 adjusted free cash flow to be greater than 2022 on the back of increasing margins.

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

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

Thanks, Arun. To summarize our commentary thus far, a very strong start to the year that enables taking up the full year outlook. While our financial results are clear, they are enabled by the people and the initiatives we have in the company, and I want to take a couple of minutes to highlight our other 2 strategic priorities as well. On lean operations, we are making good progress on simplification and our fulfillment initiative, which also has a direct impact on our financial performance and customer experience.

We are streamlining our integrated supply chain by developing new strategic partners, which allows us to increase our low-cost region sourcing spend by over 5x over the next couple of years. It will also increase logistics network efficiencies and decrease delivery lead times as we intensify our execution footprint around our customers.

We also continue to relentlessly focus on the intersection of product line and geography as we have discussed numerous times. In the first quarter, we exited our Alaska operations as we did see a sustainable path to longer-term profitability and scale in that region. We saw improved inventory efficiency evidenced by a 12-day reduction in DSI year-over-year in a quarter where revenue increased by 26%.

Overall, net working capital days improved by 13 days to 99 days, a noteworthy achievement in a growth environment. We've also launched a program to modernize our human capital management platform and have selected Oracle to be our new platform. This is an important investment in the infrastructure of the company and one that will provide a solid foundation for people and talent development for the future. Like all other programs, this is viewed through a rigorous execution and payback lens, and we are excited about the potential of this change in the next few quarters.

We launched our turnaround with a clear goal of sustainable profitability and free cash flow generation. Over the past 11 quarters, we have consistently delivered and are committed to more of the same. Our margins now demonstrate the differentiation of our portfolio and make a strong case for the continued investment potential in the company. While there has been significant equity appreciation over the past 2 years, we still believe there is further room for growth and that a rerating of the multiple is justified given the performance and trajectory of the company.

We remain grateful to our customers for their unwavering trust, our employees and business partners for their steadfast support and our investors for their continued confidence throughout this journey. And now operator, let's please open it up for questions.

QUESTIONS AND ANSWERS

Operator

Thank you. We will now begin the question-and-answer session. (Operator Instructions) If you're using a speaker phone, we ask that you please pick up your handset before pressing the keys. (Operator Instructions). Today's first question comes from Luke Lemoine with Piper Sandler.

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

For 1Q, you guys talked about how contract recoveries that we're expecting in 2Q kind of moved into 1Q. But was there anything else that was different versus your initial outlook that caused a large beat? And then you gave what you expect regional growth rates this year. But could you talk about where the increase in confidence is coming from that raised your full year guide and maybe more specifically on the margins there as well?

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

Yes. Sure. Luke, this is Girish. I'll start. So I think, look, a few things. The contract recoveries were a part of it for sure. But look, I think a couple of other things that contributed. The first one is activity continues to be really robust. And we saw that in the revenue numbers, right? The seasonal decline was a lot less. And that just, I think, really points to the strength of the market in general, especially on the international side. And that typically comes in at a higher fall-through rate, so that benefits as well. I think the other thing that I would point to is, look, the team has done just a phenomenal job at executing both on our commercial initiatives as well as internal cost controls and the initiatives that we're driving around margin expansion. So I think all of that put together really drove the outperformance this quarter and something that we have continued to build on momentum last year and continues in.

And look, a lot of that is what leads into the second part of your question, which is what gives us confidence. We are seeing the international markets are really, really strong. Like we pointed out in my prepared remarks, the Middle East activity is very robust. We are very encouraged by the signs that we're seeing and ongoing tendering activity as well. And then Latin America is actually much stronger than we had potentially anticipated. And the other regions are starting to kick in as well. So net-net, look, it's a very robust market. North America has been strong as well. Look, the year-on-year growth in North America was very good. So we think there is a lot more traction left in the market, and that gives us the confidence to increase guidance.

Operator

And our next question today comes from Atidrip Modak with Goldman Sachs.

Atidrip Modak - *Goldman Sachs Group, Inc., Research Division - Research Analyst*

You've made some incremental progress on the balance sheet, which has been an area of focus for you. But as you think about the subsequent steps here, can you help refresh the thinking around capital allocation between return of capital, dividends or M&A opportunities? How do you think about that?

Arunava Mitra - *Weatherford International plc - Executive VP & CFO*

Atidrip, this is Arun. Our priorities really haven't changed. We continue to focus on balance sheet, debt stack optimization and access to liquidity. As we discussed before, we will be prioritizing allocation of capital associated with infrastructure build-out on the technology side. We are investing monies in R&D.

As you would have noticed, our CapEx spend went up meaningfully, about 30% sequentially. So our capital allocation priorities as far as reinvesting in the business remains the same. And we will continue to make meaningful progress on access to liquidity and debt reduction. So that continues to remain a priority.

Atidrip Modak - *Goldman Sachs Group, Inc., Research Division - Research Analyst*

Great. Thank you for that. And then on the full year margin expectation, I mean you raised your, I guess, basis point change guidance here. But I'm wondering if that changes your longer-term normalized expectations versus the guidance you provided last time? Or does that more so pull forward that expectation?

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

Yes. Atidrip, this is Girish. Look, we have talked about this a few times now, and we have very clearly stated a couple of things. One is our philosophy and our methodology is we set a target, we work towards it and unless and until we cement it, we don't take it up further, right? We started at 15% EBITDA margins about 2 years ago. We raised it to high teens. And now we have said, look, mid-20s, which is a pretty remarkable achievement that we can get there, which we are confident we will and really sets us up in the highest tier of the industry.

So look, for us, that continues to be the goal right now is to get to that mid-20s. When we talked about it towards the end of last year, right, we basically said it is a multiyear journey. Obviously, it's always going to get helped with a stronger market, and we are seeing that right now. So our hope is that over the next couple of years, we should be able to get there. But more importantly, we want to make sure that we can sustain that. And that's really going to depend a little bit on the market. But while we're doing that, we are making sure that we are making all the structural changes in the company and to set us up for a through-cycle basis. So that's really our effort and if the market continues to go gangbusters, then certainly get accelerated, but we are much more focused on the sustainability aspect.

Operator

And our next question today comes from Kurt Hallead with RBC..

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

Great work, great effort, great results. So congrats.

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

Thank you.

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

You're welcome. All right. So my question is initially here on the growing dynamics in the international market. And like you booked $1.2 billion in new contracts during the course of the first quarter. We booked $6.5 billion last year. Question number one, along those lines is you think you have the capacity and capability to potentially book more contract awards in 2023 than you did in 2022? Can your system handle that?

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

Yes. So look, it's a really great question, Kurt. The short answer is yes. The longer version of the answer is, look, a lot of these contracts are multiyear, right? So that's an important thing to remember. So a lot of it will depend on the duration of the contract and what product lines, et cetera. But look, we are very confident not just in our capacity but also our ability to scale. It's also partly why we are investing in capital, right?

If you look at Q4 and Q1, collectively in those 2 quarters, we have invested about over $110 million of CapEx into the company, and that really sets us up to execute on all of these contracts, not just in 2023 and 2024, but beyond as well. So look, we are gearing up from a CapEx capability. We're making sure we've got the right service delivery -- we're making sure we've got the right fulfillment networks and as well as that, making sure the commercial efforts around the company are set up to work the new opportunities as they come. A lot of these wins are sometimes extensions. Some of them are incremental new opportunities, and we're going all out on all of them.

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

Got you. All right. So a follow-up question then is you've obviously increased your margin expectations for 2023. So how much of that upside in that margin dynamic is pricing of the contracts that are rolling through? How much of that is specific internal drivers? And it'd be great to get some color from you on that.

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

Yes. Look, Kurt, we're not -- we don't have that degree of precision that we can point to exactly how many basis points comes from each piece. But what I think is fair to say is, look, the big components, pricing is certainly a factor around it. We continue to see a constructive environment for pricing. There is a significant offset from inflation.

Look, that hasn't fully abated in a lot of different material areas and wage increases are a factor as well, and it's important given the cost of living increases for people around the world. So we are committed to make sure that our employee base gets that merit adjustment and that's baked into our forecast as well, which offsets the pricing piece a little bit. Look at the same time, like we've been talking about for the last couple of years, there's a lot of sort of, I'll call, self-help initiatives that we are driving to really modernize the company and to make sure that our structure instead of being what has been a historical disadvantage is actually a strategic advantage for us.

So our efforts around fulfillment, what we are doing with service delivery, the way we are driving our product line strategies, changing the mix around our product line. The commercial strategy is not just around pricing, how we really attack our contract base and make sure that we're getting the maximum utilization out of the contracts themselves, all of it are factors which are leading to very significant margin expansion now for a couple of years.

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

Okay. Great. And then if I may, just -- look, the markets are concerned about the significant macroeconomic slowdown, recession, whatever you want to call it, how does that translate? Is any of that translating to discussions you're having with your international customers? Or are they starting to get wary -- or are they starting to maybe scale back on their aggressiveness on wanting to increase their work? I mean, it doesn't appear that way, but I just -- you guys are having these conversations on a regular basis. Are you sensing any tone change from your customers at all?

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

Look, not at all. The only tone change that we are seeing is really around how can we do more. So if anything, look, I would say on the international side, our customers are really committed to their investment thesis their plans that they've laid out, which are not look on a short-term basis, they've really thought this well through. There is a longer-term disconnect on the energy security and energy supply side that has got to be fixed, given the longer-term underinvestment that's happened in the sector. So we see our international customers very committed to that and continuing to go forward with their plans regardless of the sort of day-to-day perturbations and headlines that appear.

Operator

(Operator Instructions) Today's next question comes from Doug Becker with Capital One..

REFINITIV

Douglas Lee Becker - *Capital One Securities, Inc., Research Division - Research Analyst*

Girish, you highlighted the launch of a new MPD offering. Could you go into a little more detail about what markets that technology is really targeting and I'm guessing offshore? And then just your general outlook for MPD, we've been hearing that it's difficult to get the equipment offshore, which suggests pretty good pricing power for Weatherford.

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

Yes. Doug, thanks for joining the call. I appreciate the question. Look, we continue to remain very excited about MPD. It is really sort of our flagship product line. And as we have talked about multiple times before, this is really a story of adoption versus share for us given our technology leadership in the space. So look, this offering -- what this really is, is a performance tier offering. So we've got a terrific offering on the onshore market.

It's going to have the base MPD. We've got the higher end with our Victus offering. This really complements that overall portfolio by addressing the entire market now sort of at the midpoint of that performance tier that allows customers who want that but don't want the full scale and the range of the offering. And so we get it a little bit on both sides of the market on onshore and offshore. It's still early days, but we are tremendously excited about the potential and really think that this will allow us to drive that adoption story even further on MPD and get more traction.

Your point on supply tightness, I think, is very correct. Look, this is a market that we are now seeing a lot more demand and the capital cycles are a little bit longer. And we are very committed to capital discipline on this. This is not going to be a case of build it and they will come. This is going to be, as with everything else that we have done, very rigorous payback lens, making sure that we've got a line of sight to the right returns and the right profiles.

And you're absolutely right. It does give us an opportunity to drive good pricing. But at the same time, look, we want to make sure that we are working with our customers to make sure that they are getting the efficacy and the benefit of this. So it's a very holistic view. But look, it's a very profitable product line. It's a tremendous room for growth. We are very excited about it.

Douglas Lee Becker - *Capital One Securities, Inc., Research Division - Research Analyst*

That's very encouraging. I was also looking for a little more granularity on the free cash flow guidance. It seems to imply more than $300 million this year. Last year, the EBITDA, the free cash flow conversion was north of 35%. Is that a reasonable expectation this year given the growth opportunities you see?

Arunava Mitra - *Weatherford International plc - Executive VP & CFO*

So as is typical of our industry cash flow generation is skewed to the second half of the year as opposed to the first. What we can definitively tell you is that we are off to a great start, right? By the time we are done and dusted with the first half, we would be well in advance of where we would have been in the first half last year. But think about the number of investments we are making relative to what we did last year, where we have meaningfully increased our CapEx spend there will be some working capital buildup, notwithstanding working capital efficiency that will drive top line growth, not only in the second half but into the next calendar year as well. So I think at this point, it is -- what we are saying is we expect the cash flows to be greater than what we did last year. Hopefully, greater can be 5%. I don't know. At this point, we are not really talking about a number, but it will be meaningfully greater than what we did last year.

Douglas Lee Becker - *Capital One Securities, Inc., Research Division - Research Analyst*

Fair enough. And then, Arun, just wanted to dig into DRE just a little bit. Is the inflation recovery is the primary reason that revenue is expected to be flat to maybe down a little bit in the second quarter? Or are there other factors at play there?

Arunava Mitra - *Weatherford International plc - Executive VP & CFO*

The primary reason is the fact that we experienced some cost recoveries, which typically flow through the revenue line as well. Had that not been the case, we would have experienced a sequential growth in the second quarter. So that is why we are guiding towards maybe flat or somewhat negative on a sequential basis in Q2.

Operator

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

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

Great. Hey, thank you all so much for joining the call. I think, look, appreciate everyone's interest in the company. And once again, a huge thanks to our entire Weatherford team for just fabulous execution in the first quarter, and we look forward to talking to you again in 90 days on the second quarter results. Thank you all.

Operator

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