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EDITED TRANSCRIPT

WFT - Q3 2018 Weatherford International PLC Earnings Call

EVENT DATE/TIME: OCTOBER 29, 2018 / 12:30PM GMT

OVERVIEW:

Co. reported 3Q18 revenues of $1.44b and non-GAAP net loss (excluding unusual charges and credits) of $103m or $0.10 per diluted share. Expects 4Q18 total revenues to be relatively flat sequentially.

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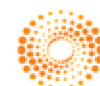

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PRESENTATION

Operator

Good morning. My name is Carol, and I will be your conference operator today. At this time, I would like to welcome everyone to the Weatherford International Third 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 - Senior VP of Stakeholder Engagement & CMO*

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

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

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

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

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

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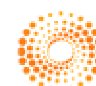

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Christoph Bausch - *Weatherford International plc - Executive VP & CFO*

Thank you, Karen. Revenue in the third quarter of 2018 was $1.44 billion, essentially flat compared to the second quarter of 2018 and slightly lower than the $1.46 billion of revenue reported for the third quarter of 2017. Sequentially, seasonal improvements in Canada, activity increases in Continental Europe and deliveries of liner hangers delayed from the previous quarter were offset by lower activity levels in the United States and foreign exchange impacts in Latin America.

On a year-over-year basis, higher revenues associated with integrated services projects in Latin America were offset by lower activity levels in Canada as crude oil differentials expanded, reducing demand for completions and production services and products. Results in Russia were also negatively impacted by adverse foreign exchange rate effects although activity levels remain broadly flat.

Operating loss for the third quarter of 2018 was $13 million. Segment operating income in the third quarter of 2018 was $116 million, up $47 million or 68% sequentially and up $123 million year-over-year. The sequential improvement was mainly driven by seasonal activity increases in Canada and higher margins across all segments on reduced costs and improved efficiencies as a result of our transformation efforts.

Significant year-over-year operating income improvements were due to improved operating efficiencies and reduced expenses as a result of our transformation. Higher revenues in Latin America produced solid incremental margins, which more than offset relatively weak results in Canada.

Non-GAAP net loss for the third quarter of 2018, excluding unusual charges and credits, was $103 million or $0.10 diluted loss per share. This compares to a $156 million non-GAAP net loss in the second quarter of 2018 or $0.16 diluted loss per share, and a $221 million non-GAAP net loss for the third quarter of the prior year or $0.22 diluted loss per share.

In the quarter, we recorded pretax charges of $95 million. Of this amount, $71 million were noncash impairments and asset write-downs, the majority of which related to land drilling rigs, adjusting for the divestiture group following several changes during the quarter. An additional $27 million were changes related to restructuring and transformation and $8 million related to currency devaluation charges in Angola. These were partially offset by an $11 million credit related to the fair value adjustment of the outstanding warrant.

Moving on to our results by hemisphere. In the Western Hemisphere, third quarter revenues of $762 million were down 1%, both sequentially and on a year-over-year basis. Compared to the second quarter of 2018, revenues in Canada grew seasonally as the rig count increased following the spring break-up but were offset by lower top line contributions in the United States and negative foreign exchange impacts in Latin America.

Year-over-year revenue increases related to integrated service projects and market activity improvements in Latin America were offset by lower activity levels in Canada as a result of increasing crude oil differentials driven by pipeline takeaway capacity constraints.

Third quarter Western Hemisphere segment operating income of $78 million was up $28 million sequentially and up $75 million year-over-year. The sequential increase benefited from lower expenses and improved operating efficiencies associated with the transformation.

The year-over-year improvements were mainly driven by a combination of higher activity levels in Argentina and Mexico, combined with the positive impacts from our transformation initiatives, which overcame lower operating results in Canada and adverse foreign exchange impacts in Latin America.

In the Eastern Hemisphere, third quarter revenues of $682 million were up $3 million sequentially but decreased by $11 million or about 2% year-over-year. Compared to the second quarter of 2018, higher revenues from managed pressure drilling in the Mediterranean and liner hanger systems deliveries in the United Arab Emirates, Iraq and India were offset by lower drilling rig activity and completion sales in the Middle East. On a year-over-year basis, higher drilling revenues in Continental Europe and completion sales in the Arabian Sea geozone were offset by lower land rig activity and adverse exchange rates in Russia.

Third quarter Eastern Hemisphere segment operating income of $38 million was up $19 million sequentially and up $48 million year-over-year. The sequential improvements resulted from a seasonably favorable completions and well construction revenue mix in Russia, combined with the positive impacts of our transformation efforts. Compared to the third quarter of 2017, costs were down across the Eastern Hemisphere as a result

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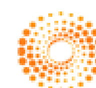

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of the implementation of various transformation initiatives. Higher operating margins in the Middle East and Asia also contributed to the positive variance.

Net cash used by operating activities was $32 million for the third quarter of 2018, impacted by cash payments of $156 million for debt interest and $20 million for cash severance, restructuring and transformation, offset by segment operating income. Total net free cash flow in the quarter was negative $67 million, including capital expenditures of $55 million and proceeds from asset disposals of $20 million. On an adjusted basis, free cash flow was a use of approximately $35 million during the third quarter, excluding cash severance, restructuring and transformation costs and CapEx associated with our international drilling rigs.

Third quarter capital expenditures of $55 million included $12 million of capital investments in our Drilling Rigs business. Apart from the Drilling Rigs, the largest investments during the quarter were in our Drilling and Evaluation segments, highlighted by outlays for new directional drilling and wireline tools.

Customer receivables decreased by about $12 million, and overall DSO was flat compared to the previous quarter. The overall DSO stayed at 73 days with slightly slower average collection times in the Western Hemisphere, offset by improved collection times in the Eastern Hemisphere compared to the previous quarter.

Inventory decreased by $46 million as a result of our initiatives to better manage inventory levels and manufacturing processes.

Our transformation initiative delivered sequential recurring improvements that were in line with the guidance provided on the previous conference call. In the third quarter 2018, recurring benefits associated with the transformation were approximately $27 million, which combined with amounts realized during the first half of the year, put us at an annualized EBITDA run rate of about $300 million or about 30% of our overall goal.

During the third quarter, we continued to see steady progress from our operational segment and product lines and sales and commercial work streams, which reached 65% and 34% of their total targets, respectively. These are 2 of the largest work streams, together representing over half of our $1 billion EBITDA target. The manufacturing work stream recorded its first recurring EBITDA benefits as we closed and consolidated facilities. Procurement is beginning to gain traction, as we start to execute the individual initiatives and adapt plans in line with the market environment. We expect to see steady progress from all of the work streams during the fourth quarter.

Adjusted free cash flow, excluding severance, transformation cash costs and land rig CapEx, was negative $35 million, short of our goal of positive cash flow for the quarter but a significant improvement versus our results for the first half of this year and compared to 2017. Net working capital was a source of cash during the quarter, as cash conversion from inventory continued the positive trend we experienced at the end of the last quarter. We expect overall days sales outstanding to decrease during the fourth quarter of 2018 as is typical for Weatherford historically.

Transformation and restructuring costs during the quarter were $27 million, including provisions for severance and adviser fees. We expect the incremental recurring EBITDA benefits from our transformation efforts to exceed a run rate of 40% of our overall targets by the end of next quarter. To date, we have completed action plans for specific initiatives that should provide the opportunity for almost $600 million in recurring run rate benefits over the coming quarters.

Recently, we announced the sale of our Laboratories business for cash consideration of $205 million. This transaction represents a significant step in the process we have undertaken to focus on the core product lines that represent the best long-term value for our company. Closing this deal will further improve our financial leverage and overall debt metrics. We are pleased to announce this transaction at these terms: it fits our strategic rationale and will create long-term benefits for Weatherford while providing an opportunity for the business to grow more quickly with new ownership who can fully focus on this business.

The Laboratories' sale represents another large divestiture that moves us closer to our long-term goals. This deal, combined with the previous sales of certain of our international drilling rigs, will provide gross proceeds of approximately $500 million for paying down debt and funding our ongoing transformation initiatives through 2019.

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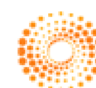

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Current market conditions are not conducive to us setting specific sales proceeds or timing targets for the remaining transactions, although we continue to work to sell individual noncore product lines, market our remaining land rigs and divest other small assets and businesses. We remain committed to focusing on our core businesses and further delevering our company, and we will not enter into deals at terms that are inconsistent with these strategic objectives.

That being said, we have announced sales of our largest plant transactions that will continue to positively impact our capital structure. We continue to expect the closings of our previously announced transactions to be substantially completed by year-end, subject to regulatory approvals, consents and other customary conditions.

Moving on to our outlook. In the fourth quarter of 2018, we expect total revenues to be relatively flat compared to the third quarter. Growth in typical year-end product sales are likely to be offset by stalling activity levels in the United States, where we expect some declines at the end of the year related to remaining E&P budgets and typical holiday and weather delays. Further, inflationary and foreign exchange pressures in Latin America and seasonality in Russia will negatively impact operating results in the fourth quarter.

These factors are likely to result in a lower sequential EBITDA, despite the uplift expected from the continued progress on our transformation efforts. We are forecasting EBITDA to decrease by low to mid-single digits sequentially during the fourth quarter of 2018.

Despite these headwinds, we anticipate a similar sequential improvement in free cash flow during the fourth quarter, mainly as a result of working capital improvements. Cash interest expense and cash taxes are expected to decrease during the fourth quarter. Capital expenditures are estimated to be between $80 million and $90 million during the fourth quarter. These factors suggest positive free cash flow for the fourth quarter. Our top priority continues to be improving our internal processes with the primary focus on cash flow generation.

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

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

Thank you, Christoph, and good morning, everyone. I'm pleased with our third quarter results, especially the accelerating trajectory of our transformation path. Our transformation efforts have added approximately $150 million in incremental EBITDA compared to the 2017 baseline. This amount represents approximately 75% of the total EBITDA increase for the first 3 quarters of 2018 versus the first 3 quarters of 2017.

Thousands across the organization have come together to drive our transformation forward. Because of their commitment, we're carrying out initiatives that will continue to deliver improved financial results and add long-term value for all of our stakeholders. I'll revisit these in a few minutes to give you our cumulative progress on the transformation initiatives and some details behind each work stream.

Our progress this quarter has not come without some bumps in the road. Revenue was flat sequentially versus our expectation of mid-single-digit growth. Some of the variance was created by our own choices, such as when revenues were decreased when we started turning down unprofitable contracts. But we also experienced transitory supply chain issues and manufacturing inefficiencies that decreased top line results during the quarter.

Adjusted free cash flow came in at about $35 million below our goal of breakeven for the quarter. Although we fell short of our target, we've made significant improvements in this metric, both sequentially and on a year-over-year basis. Continued challenges converting working capital to cash are mostly to blame for the lower-than-expected cash flow results. Make no mistake, we have a laser focus on these issues, and we have initiatives in place to keep us moving in the right direction.

The transformation initiatives are not designed to solve small problems one time and then move on. In order for this massive integration program to be successful, each item, each process must be evaluated to drive out systemic inefficiencies causing us to waste time and money. From the sales organization all the way to the payroll department, we're working to rectify historical issues.

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Transformation is hard work, and the organization is using muscles it's never used before. However, I see the results firsthand every day. As we progress, I'm confident that we're solving issues more quickly and finding additional opportunities for improvement beyond our original scope. This is an ongoing process, and these positive trends will intensify to deliver even stronger performance results.

So where are we in the transformation process? Well, as Christoph talked about, through the first 3 quarters of our 2-year plan, we have added an annualized run rate of approximately $300 million of EBITDA or an almost 75% increase over our 2017 EBITDA. Based on the guidance for the fourth quarter, we expect our EBITDA for 2018 to increase over last year by approximately 80%, well outpacing our peer group, with the transformation responsible for about 3/4 of the overall improvement.

As of today, we have completed the necessary work for nearly $600 million in recurring EBITDA improvements. We're working against the time line to complete initiatives with a value of $1 billion by the first quarter of next year. Our experience to date suggests that it takes a few quarters for these improvements to actually hit the P&L statement. As such, I remain confident that we'll see it in the run rate by the end of 2019. We're focused on ensuring each of our initiatives delivers the promised positive impact to our bottom line.

Now I'd like to take you through the group's dedicated executing initiatives in generating value, our work streams. Our manufacturing work stream made the largest contribution to our overall progress this quarter. And we anticipate that in the fourth quarter, it will show a significant increase compared to year-to-date results. As a global provider, it's critical that our manufacturing footprint operates as an efficient engine, scales appropriately and offers best-in-class capabilities to our customers. To support this initiative, the work stream has consolidated operations from 4 facilities and is currently rationalizing our manufacturing footprint with larger purpose-built facilities in fewer locations.

While we optimize our supply chain, we remain focused on maintaining service continuity, and we're committed to improving our manufacturing deliveries before year-end. The demand for some of our technologies, such as our sucker rods and new Rotaflex long-stroke pumping units, has outpaced manufacturing, even while producing at near full capacity. As we move forward, implementing transformation initiatives will help us to better serve our customers in a more efficient and cost-effective manner.

Our logistics and distribution work stream has also realized a substantial amount of savings. As one example, the work stream is implementing centralized trucking in the United States for a recurring annual benefit of approximately $4 million. It has also started implementing freight pay and auditing in North America for a recurring annual benefit of $3 million.

The procurement work stream is starting to gain traction as well. We've been working to consolidate our purchase of similar parts and materials with the same vendors. We have released requests for proposal representing $840 million of annual spend. We expect them to start delivering value and impacting the P&L this year and into the next.

Within the G&A work stream, transformation initiatives related to streamlining IT services have resulted in recurring annualized cost savings of $16 million. This result represents the benefit of work we've undertaken since the beginning of the transformation process.

The rest of our work streams are completing initiatives at a steady rate, and we should see -- we should continue to see advancement. I've stated many times before that accomplishing these self-help initiatives is critical to increasing our recurring EBITDA and establishing a solid foundation for the company going forward. The sooner we get our work done, the sooner our stakeholders will reap the benefits.

As we execute our transformation initiatives, we also remain focused on delivering daily for our customers. This quarter is no exception. As one of our newly articulated core values, flawless execution is a standard that we're working toward every day. The organization is embracing the positive correlation between exceptional safety and service quality, delivering customer value and profitable growth. Our year-to-date performance reflects our commitment to this principle. As market activity has continued to increase, we've surpassed our goal for reduced nonproductive time in 2018. To add to that, we have completed work without a lost-time incident for 98% of our customers. This type of consistent performance is key to a trusting customer relationship no matter where we operate.

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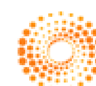

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In the United States, we've seen promising results from product commercializations across our portfolio. For example, the demand for our PressurePro control system, launched in the fourth quarter of 2017, is exceeding our production schedules. We plan on increasing deliveries in the first quarter of 2019 and expect to be sold out for the remainder of next year.

Likewise, the commercialization of our new and improved Rotaflex long-stroke pumping unit in the second quarter of this year is surpassing expectations. In short, our customers are energized by the value of the new unit. It increases production with fewer strokes, reduces lifting costs, streamlines maintenance and enables the cost-effective transition to rod lift earlier than ever. We are doubling our manufacturing rates to meet demand in North America.

Another technology with high customer demand is our Magnus rotary steerable system, which as you know, we launched earlier this year. In fact, the footage drilled and revenue booked has undergone a significant increase. In the month of September alone, the footage drilled increased by 68% and the revenue increased by 52% over the year-to-date totals through August.

Magnus has received very solid reviews from our customers. In Mexico, we drilled an entire well, and along with our RipTide reamer, we drilled and reamed a well with a 42-degree profile. We've also used it in some of the most challenging unconventional sections, and it did not disappoint.

In the Permian, we mobilized in 10 hours to finish a competitor's job, and we reached the Magnus tool's deepest depth in the process. And last but not least, in the Eagle Ford basin, we displaced an incumbent and drilled 2 wells flawlessly by achieving a higher rate of penetration than the customer's previous tool.

The next frontier for our RSS is the Middle East, where the mobilization is now in full swing. The Magnus is working, it's proving itself and we're building them as fast as we can to keep up with the growing demand.

Having the technology is one thing. We can definitely offer our customers impressive tools, such as our Magnus RSS, Rotaflex unit and PressurePro system. But we also offer the expertise to deploy these new tools in the right context and with other existing technologies to provide customers with high-value, integrated solutions.

In one such case, we replaced a major competitor in the Permian because of our strong technical capabilities in formation evaluation. Our InZone well placement services, combined with our SpectralWave logging-while-drilling technology, is helping our customer with real-time well trajectory strategy while increasing wellbore exposure.

In the Eastern Hemisphere, we have made steady progress with the Weatherford ESP through the Valiant alliance. During the quarter, we finalized the agreement and worked hand-in-hand with Valiant to qualify this technology with key customers in our target markets. I'm happy to announce that we have agreed to the first deployment of our ESP system with a prominent national oil company in the Eastern Hemisphere, and this is not a single technology transaction.

Let me explain. Only Weatherford offers complete production solutions for every form of lift in every production environment. First, we offer all forms of lift so that we can device true lift-agnostic solutions. Second, we offer everything needed to optimize each form, from downhole components to surface equipment to intelligent production-optimization systems. We call this an end-to-end solution. Our Eastern Hemisphere customer is taking advantage of our differentiated end-to-end ESP solution for a high gas-to-oil ratio well with flow rates ranging from 230 to 1,200 barrels per day.

We're currently mobilizing equipment for the first 2 wells, including all hardware, automation and our industry-leading ForeSite optimization platform, the latter of which will mitigate gas lock in this particular application. Further, we're simultaneously working with this customer to optimize their gas-lift assets with our Smart Gas-Lift and ForeSite technologies as well as piloting new hydraulic jet and rod-lift programs.

And speaking of our digital production software, we recently released our ForeSite and CygNet software platforms on the Google Cloud to reduce costs and infrastructure requirements. Essentially, the collaboration places a virtual network of IT professionals and computing power right at our customers' fingertips. With the Google Cloud, operators can easily deploy and access our software to maximize uptime per dollar spent.

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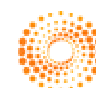

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Next month, at the 12th Annual Weatherford Enterprise Software Conference, we have an exciting announcement for our ForeSite production software suite. We've already integrated features such as the cloud and advanced analytics. Now we're expanding the suite even further to deliver high-frequency data, intelligent alerts and autonomous control.

Also in the Eastern Hemisphere, we have a field trial in the works for an unprecedented solution, a system that transforms the risk-and-reward equation in deepwater. We combined radio-frequency identification, or RFID, technology with our premium completions equipment into one tool, our TR1P completion system. This system enables installing the upper and lower completion in one trip, which can reduce installation time by 35% to 40%.

By using RFID technology, the TR1P system eliminates the need for control lines, washpipe, wireline, coil tubing and workover rigs. The result is 100% intervention-free operations that enhance safety, increase efficiency and improve predictability. The reliability of our TR1P system is bolstered by our 10-year track record for successful RFID activations.

We've also made significant strides for our Eastern Hemisphere customers with our integrated services. Our project-managed well abandonment services leveraged components from the entire Weatherford suite. One such project included drilling rental tools, fishing services, wellbore cleanup and tubular running, among others. In the end, the services enabled plugging and abandoning 13 platform wells in the North Sea 125 days earlier than the customer originally planned.

We've been accumulating these kinds of customer success stories since the beginning of the transformation. Together, the transformation and our technologies create these successes. In turn, these successes increase our EBITDA. This chain of events creates a virtuous cycle for continuous improvements in the future to strengthen our company as a whole.

As for the future, we expect rig counts and overall operators spending to increase again in 2019, similar to this year. Despite recent concerns in the 2019 oil demand forecast, we still foresee a favorable supply and demand backdrop for the global oil and gas market. We're even beginning to see greenshoots in offshore activity in shallow-water and harsh environments. We believe tendering activity for longer-term deepwater projects will have more of an impact on 2020. All of these variables point toward a positive trajectory in 2019, which we think should result in high single-digit spending increases year-over-year by operators.

Now our 2019 market outlook may be a bit less optimistic than some of our peers have expressed. In spite of that, we must remember that the EBITDA growth attributed to our transformation initiatives is somewhat separate from robust market activity. The transformation is really what's going to drive the numbers. That keeps everyone's feet to the fire in executing the transformation, and if the market's better, that will just be icing on the cake.

Since we began our transformation, we've announced several divestitures. Most recently, we announced the divestiture of our Laboratory Services worth $205 million. All in, our cumulative progress will amount to more than $900 million. When we complete all of these sales, we'll have brought our largest transactions across the finish line.

The deals to date have been harder to get done and have taken more time than I would have ever thought given their size. So going forward, we're going to stop prognosticating about timing. We're still aggressively working on the same remaining basket of deals we originally said we would do, but they will get done when they get done. Our main priority is to continue executing on the transformation. I'm confident that we'll achieve our $1 billion incremental EBITDA run rate target in accordance with our original time line.

There's a tremendous amount of opportunity within Weatherford, and I believe we're just starting to see what improvement this company is capable of. We have the right people, processes and technology in place to ensure long-term stability, profitability and growth. In the months ahead, I look forward to realizing our vision for a transformed organization.

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

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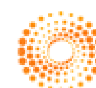

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QUESTIONS AND ANSWERS

Operator

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

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

Sorry you missed your goal on cash flow, but at least you were close. Mark, everybody has looked at the Middle East as nirvana for oilfield services, and everyone's been signing up long-term lump-sum contracts and everything. Why was your service revenue lower in the Middle East? And is this something that is specific to Weatherford? And where do you see that going? Talk to us about Weatherford's operational results and potential in the Middle East specifically, if you could.

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

Jim, it's Christoph. We'll split the answers, and Mark will cover the second half. But one of the main reason is drilling rigs has reduced. And that's several rigs came off contract to go through a normal recertification process, which will take a couple of months. So that's one part of the reduction. The other part of the reduction was a temporary reduction in one country related to some tools, which were not available during the quarter. And I think that explains a little bit the sequential, and Mark will talk a little bit about going forward.

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

Yes. Look, I think the outlook for the Middle East for Weatherford is very similar to our peers. I mean, we still look at it very constructively. As Christoph said, in the quarter, there were some transitory things that happened around rigs and availability of tools. But we have been, over the last couple of quarters, mobilizing into some very large wireline contracts. When we get the Magnus tool up and running, and we're about to run it through its paces on several wells there in the Middle East, we expect a big ramp up. There is big demand from customers, a lot of interest in using that tool. And it should be very well-oriented to working in that particular region. We have been, like others, looking at participating tendering around the margins for some of the LSTK work that's been coming down. We haven't necessarily won any of those contracts. I mean, in part, given our financial constraints, we are having to be smarter about pricing than some of our peers have been. I mean, there's a lot of, obviously, enthusiasm about some of the activity levels, but that's coming at a price. And you've heard some discussions around that, and those contracts have been very, very aggressively bid. I think that's not necessarily a road that we're going to go down. We're going to be smart about what we do and how we tender. But that doesn't mean that there won't be opportunities around the margins, not just with additional contracts, but also working into some of those contracts. We've already seen that, in some cases, our peers don't have all the right tools for those contracts and the commitments. And so they're reaching out to us as a subcontractor. And hopefully, we can work into those contracts well and price them effectively.

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

Okay. Well, the technology development that you guys are coming up with are interesting because most people don't think of you guys, as Weatherford, as particularly leading in technology. And it's getting obvious that you do. You mentioned in the press release that you displaced an incumbent in Brazil in a tubular running contract, and that you've been awarded work on 14 deepwater rigs. I remember back when the deepwater rig count was huge and well construction was lucrative. You say you're seeing greenshoots that grow here in 2020 for deepwater. But 14 deepwater rigs, how many deepwater rigs are you working on in total around the world now? So we can get an idea of the increment that, that is.

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

Well, Jim, I don't know that I have the answer to that question. I mean, it's not as many surely as we would like to. But we continue to hold in and do fairly well. I mean, obviously, Weatherford well construction technology, particularly around tubular running and managed pressure drilling, are considered sort of best-in-class. And we continue to work in that environment. We've got the new AutoTong technology we call VERO. That's

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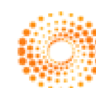

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been introduced and having a lot of customer interest in that technology. And so we're excited about it. It's just as we look forward, recognizing that the economics still aren't there, in our view, to justify significant increase in the deepwater rig count. We think that later on, in 2019, we're going to start seeing a wave of tendering activity getting ready for deeper spending in 2020. It seems to what customers continue to signal to us. And so we're trying to make sure that we're ready, continuing to introduce new technologies in this space to stay kind of at the front of the pack. And at the margin, being able to pick up contracts where we might have lost them as a result of some pricing moves on customers, but now they're coming back for quality and hopefully, fill in some of the gaps along the way.

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

That gives you an extended runway. I like that.

Operator

Our next question comes from James West from Evercore ISI.

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

Mark and Christoph, obviously the cash conversion is key here. DSOs, DSIs, getting those down is key. I know you're talking about cash generation in the fourth quarter. Is that baked -- given what you're seeing in your inventories, et cetera, is that kind of baked in now at this point? I mean, you're getting a lot better at getting closer to that. But having free cash flow, is that kind of a foregone conclusion for 4Q?

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

I'm not sure how you define foregone conclusion, but for us, that's our estimate, James. So maybe I'll go back a little bit. We, in Q2, we had a significant miss on working capital because of a lot of seasonal effects coming out of the Middle East. Those 2 partially have reversed in Q3, so we've called up some. We had a little bit more than normal delays in the Western Hemisphere, and that's due to some integrated projects, which have a different billing profile, and some effects in Canada, which had very low billing in the -- lower revenue in the second quarter, which means there is less collection in the third quarter. As we go into fourth quarter, we will probably reduce our DSO, as I've talked about. So that will have a positive effect. We will further improve on our inventory. And I think I've prepared -- said that in my prepared remarks, based just upon the various action items we have already taken. And we will see a slight improvement on our accounts payable. So that will all help into Q4 and plus our forecasted EBITDA and CapEx levels and slightly lower cash for taxes and interest. Going into 2019 -- and I don't want to go too far out, but whatever you mean foregone conclusion, for us, this is imperative. Going into next year, we will generate positive cash flow, and there might be some seasonal differences in one or the other quarter. But for the entire year, we will generate positive cash flow in 2019.

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

Let me see if I can back up, James, for a second, if you'll indulge me, right, to give a little bit of color, commentary and remind folks what I've been saying. In order for us to be cash flow positive from EBITDA, we need to be generating nearly $1 billion, around $1 billion of EBITDA. That's because of our -- between the interest burden of nearly $600 million, CapEx, cash taxes, all those things sort of are roughly $1 billion of fixed outflows that we have to cover. And they are what they are. I mean, we'll delever at the margin, but they -- as the market improves, it's very difficult to bring CapEx down. Selling the rigs and getting that close will help in that regard. But roughly $1 billion has been that number, that bogey that we're aiming for. We knew coming into the year, as we've tried to guide The Street, that we weren't going to necessarily get all the way there even though it will be a substantial increase over 2017, that we would probably still fall somewhat short in 2018 for generating breakeven cash flow. And the intent always was to get a couple of hundred million dollars out of working capital to fill the gap. And most of that had to come from inventories because that's where the real excess lies. I mean, our DSO statistics, I think, are the best of the peer group. Our payables are in line with others. And given where our credit is, I mean, you can't see that as a tremendous source, but clearly inventories. The thing that we've been having difficulty overcoming this year has been that working capital, particularly inventories, have been intransigent. It's just been difficult to get out. It has been

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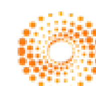

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Client Id: 77

sitting in the wrong place. It's the wrong stuff built for deepwater, whatever. And as a result of turns, we then have to do some extraordinary things. Now the transformation team has been working, working very diligently to start getting that. And we turned the corner in the third quarter after July. And now the inventories now are coming down, roughly about $15 million to $20 million a month. And we project that, that will continue, but it's been, I'll tell you, it's been rough sledding to get there. What we didn't see and what was kind of worked against us this year was that, particularly on receivables, that our DSOs increased, partly as a result of some customer actions. And I think as we approach the end of this year, we're seeing North American customers paying somewhat more slowly than they had been, and some other things. And so we're continuing to focus in zeroing on work on that, but we have to get more of our working capital in Q3 in order to be cash flow breakeven for the entire year to have a shot. And I think as we look at Q4 and the market beginning to soften a little bit, we're -- even though that may help at the marginal working capital, we're a little nervous that, that will make it -- we're not going to be able to accelerate, pulling working capital down more than we did in Q3. And so that's where you're getting that forecast. I mean, the transformation is working. We're improving our earnings along the lines that we believe that we would. The working capital opportunity remains. We still think we can get it, but the pace of getting that out has been slower than we wanted. And it's going to sort of back-end load the opportunity into 2019.

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

Okay. Fair enough. And then Mark, on your 2019 outlook in the Middle East, you mentioned you'll see revenue growth maybe less than some others. But with the transformation, it seems to me just simple back of the envelope math that your EBITDA growth should outpace the rest of the -- at least your kind of large diversified peers. Is that a fair statement?

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

That's a very fair statement. Absolutely. Absolutely.

Operator

Our next question comes from Sean Meakim from JPMorgan.

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

So with the comments regarding the asset sales and not committing to further time lines, being patient for proper valuations, all that seems totally fair. But does that suggest that the work you've done so far and maybe the market for those assets hasn't been as robust as you'd thought? Or can you maybe help us to understand what the reasons for the shift in mentality here?

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

Sean, it's Christoph. It's essentially 2 points, right? The market's been actually good for our laboratories business. We had a lot of interest in that. To get to the very end took time. And one of the things is once you go out publicly and commit to something, that plays into negotiations. And we simply don't like that. So that's the reason why we want to take that time line off. As Mark pointed out and I mentioned as well, we will continue to work on the targets we had identified, but we don't commit to timing and amounts. We want to do that at our pace and to make sure that we really achieve the best outcome for our group. Now the M&A market, as you know, for certain businesses, it's not the best, particularly around North America for non-differentiated businesses, and so -- and there is many IPOs on the market as well who don't launch. So from that perspective, I think that needs to be taken into consideration. But for the various businesses we have, I think we're quite focused to get that done at our time.

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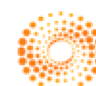

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Mark A. McCollum - *Weatherford International plc - CEO, President & Director*

Yes. I mean, bottom line, look, our transparency in commitments around dates, actually, this is a buyer's market for M&A. And just bluntly, they've been used against us a little bit, at least we perceive that. And so we're taking that stick out of buyer's hands. We're going to do the right deal. We're going to do it for the right values given what these businesses do and perform. And we'll deliver when they -- when we get them done. So we're still working on same process. Internally, nothing's changed. The only thing that's changing is my laying out a specific time line commitment.

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

Got it. That's very helpful. Thank you for that additional detail. I don't think I heard anything about the $500 million of the onetime cash benefits that you identified. I think maybe we were trying to get to somewhere like 60% of that by the end of this year. Can you give us some update on that portion of the transformation?

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

Yes. That was what I was speaking to. I mean, the lion's share of the onetime cash benefit came out -- it is coming out of working capital. Roughly $350 million, I believe Christoph -- of the $500 million is working capital reductions. And that's been the bugaboo for us this year in terms of getting things out of inventories. In the other categories, such as some of the miscellaneous property sales, some of the excess land as we consolidate field camps or manufacturing, those are going right along just as the time line. And I think for the year, all total within the transformation, we will get a good portion of those completed. It's the working capital area that, for the year, I mean, as I've said, we were expecting to get several hundred million dollars out of working capital as a source of cash this year. And you can look through 3 quarters that were not -- we were certainly short of that goal.

Operator

Our next question comes from Bill Herbert from Simmons.

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

I have 2 questions here for Christoph. Christoph, so with regard to your guidance for fourth quarter in terms of Q4 witnessing a similar sequential rate of improvement as in Q3, was that for operating cash flow or free cash flow?

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

Free cash flow.

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

Okay. So we're modestly free cash in Q4 then is ultimately what the conclusion is, correct?

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

Correct.

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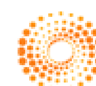

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William Andrew Herbert - *Simmons & Company International, Research Division - MD & Senior Research Analyst*

Okay. Great. Secondly, with regard to the expected cash inflows from the asset sales in Q4, what's that number?

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

We just said we were just going to go for it and put exactly the timing on that. So what we said that the majority of the ones we have announced will close before year-end and...

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

Well, that's what I'm talking about. I mean, so I'm not asking about the ones that are in purgatory due to the buyer's market. I'm asking with regards to the ones that you basically announced deals on, so I can get to, basically, a pro forma debt number.

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

Yes. The number we announced for rigs, the $287.5 million. We'd announced labs at $205 million. Those, as what we said, the majority will close for sure at year-end. There is a little bit of fees attached to that, and that will be the number.

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

Is there any tax leakage on those or no?

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

No.

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

Great. Last one from me, pro forma DD&A to reflect these assets at sales going forward?

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

We'll talk about that in the modeling later on, if you're okay with that. I guess it depends a little bit on when the rest of the rigs will divest. And based on that, the DD&A will change obviously.

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

Okay. Sorry, one quick one from me. Pro forma capital spending on a quarterly basis, if you think about just conceptually 2019 with the sale of the capital-intensive land rig business or at least part of it, what does that go to?

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

Yes. You can think about on an adjusted revenue basis. So if you take the rigs business out, it's about 4%.

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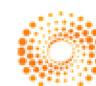

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Operator

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

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

Just one question from me. As I think about the Q4 revenue guidance of flattish sequentially, I'd like to think about the business units that drive those revenues. So any incremental color you could provide in terms of which of the 4 business units you expect to see the most seasonality offset by the product sales? I'm just trying to, again, think about the Q4 top line guidance in the context of the 4 business units.

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

Yes. Byron, there's a couple of points we guided towards in our prepared remarks. So we'll have -- Latin America will have a full quarter of inflationary effects. That is one element. So essentially, it's mainly Argentina with the lower vessel. It does not necessarily affect all the bottom line from that side, but there is a little bit inflation in costs as well. Other things, seasonality in Russia is the other part. Q3 was the highest quarter. Q4 usually drops off a little bit. And then on the U.S. side, as we said, with the exhaustion of E&P budget for this year and holidays coming up and some weather delays, there will be a little bit of reduction in the U.S. as far as we can see. That will be offset by some year-end product sales in the Eastern Hemisphere mainly as we've seen last year as well. So these are the pieces of the puzzle.

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

From a product line standpoint, right, those year-end product sales completions, there -- some of the transitory things that we talked about that should sort of slide in the fourth quarter will be in the production segment and possibly a little -- just maybe to a lesser extent but still there in the well construction, managed pressure drilling, we have some things lined up. So those will benefit. And of course, on the completions side U.S., we may see a little bit of softness around segmentation products and plugs, packers, things that are all lined up with some lower spending on the -- of the overall convention in the completion side.

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*

I had a follow-up question for you on the free cash flow outlook going out into 2019. I appreciate the commentary that it's moving in the direction that you wanted to. I was wondering if you'd be willing to share kind of a target range on free cash flow on '19.

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

I think it's pretty simple, Kurt. It's breakeven. That's what we are going to -- Mark went through that we need $1 billion on EBITDA in order to be cash flow positive throughout the year. And I think that we'll head towards that. And we'll see with growth and revenue growth, that will eat a little bit of that. So we need to do actually slightly better than the $1 billion for next year.

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

Right. But that's the key difference between '18 and '19. Because if next year and coming in and sort of shooting on that EBITDA, that breakeven EBITDA or better, it's not coming by having to sort of work the margins or working capital. Our expectation is it's coming from EBITDA. And we're

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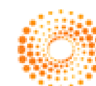

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going to -- we're internally working through the transformation to drive enough of that so that even possibly with investing a little bit back into working capital, for revenue growth purposes, we can still achieve that mark.

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

Okay. I appreciate that color. And then secondly, I think Christoph, you mentioned that the interest expense will be down on a sequential basis. Can you just give us a handle on what's driving that?

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

It's simply the maturities of the bond -- or sorry, the interest dates on the bonds there. We tried to flatten it out through the year, but it was not -- it's not perfect. Q4 is a little bit lower than Q3. Q1 is usually the highest on the interest side, and Q2 is the lowest. So that it's simply, whenever the coupon are due.

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

Well, thank you all for joining us on today's call. I will now turn the line back over to the operator for closing comments.

Operator

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

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