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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. Welcome to the Weatherford International Second Quarter 2021 Earnings Call. (Operator Instructions) As a reminder, this event is being recorded. I would now like to turn the conference over to Mohammed Topiwala, Director of Investor Relations and M&A. Sir, you may begin.

Mohammed Topiwala

Welcome, everyone, to the Weatherford International Second Quarter 2021 Conference Call. I'm joined today by Girish Saligram, President and CEO; and Keith Jennings, Executive Vice President and CFO. We will start today with our prepared remarks, then open it up for questions. You may download a copy of the presentation slides that correspond 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 materially differ from any expectation expressed herein. Please refer to our latest Securities and Exchange Commission filings for risk factors and cautions regarding forward-looking statements.

Our comments today also include non-GAAP financial measures. The underlying details and a reconciliation of GAAP to non-GAAP financial measures are included in our second quarter press release, which can be found on our website.

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

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

Thanks, Mohammed, and thank you all for joining our call today. We will start on Slide 3, which highlights our exceptional performance in the second quarter.

We came into the quarter with good momentum, and I'm very proud of our team for carrying this forward and delivering on all our priorities. Overall, we delivered above the expectations outlined in our last call, kept pace with larger, more diversified industry players and made significant headway in our efforts to create a business capable of sustainable profitability and free cash flow generation. Generating $48 million of free cash flow in an interest-paying quarter while driving significant margin expansion is a testament to the laser focus on cost and cash we maintain.

We have talked in the past about our approach being to plan for flat activity and then take advantage of activity improvements, which provide greater fall-through. And our Q2 results demonstrate the positive outcome of that strategy. In addition to the financial results, we had several remarkable achievements in safety, which is at the core of our operating culture. We continued to reduce our total incidents and achieve 0 recordables in June.

As an example of our commitment to safety, I'd like to highlight our Middle East operation, where we delivered 10 years of completion operations and 20 years of liner-hanger operations without any lost time incidents for a major national oil company. Separately, we are honored to receive the Kuwait Oil Company CEO HSSE award for logging and perforation services.

We saw activity increases across all our geozones in the second quarter that drove sequential growth. This includes our North America geozone, which overcame seasonal slowdown in Canada. I am particularly pleased with our EBITDA performance as we delivered an outstanding quarter with EBITDA margins of 15%, an improvement of 280 basis points sequentially. We have previously highlighted that 15% EBITDA is a goal for us over the next several quarters, and while achieving it this quarter proves the feasibility of that ambition. We recognize we still have work to do to ensure its sustainability. We did have some onetime items during the quarter, but even without those, our margins ticked up significantly, and we are on our way to sustainably generating 15-plus percent EBITDA margins.

Most importantly, our cash performance was terrific with the company generating $48 million in free cash flow, putting us on track for another full year of positive free cash flow, which would be a fairly remarkable achievement.

As you are aware, we recently completed the listing of our shares on the NASDAQ Stock Exchange, and we are excited to complete this journey and trade as WFRD. This quarter's results further demonstrate our ability to deliver consistent performance and validate our overall game plan.

I would like to take a moment to convey my gratitude to our One Weatherford team members for all their contributions, commitment and customer focus. Our people are the foundation of our performance, and I am excited about the potential we are unleashing from within our organization. That potential is evident in some of the operational highlights for this quarter.

Turning to Slide 4. An important area continuing to gain commercial traction is managed pressure drilling, or MPD, a discipline we definitively lead in our industry. Weatherford has offered a field-proven market-leading portfolio of MPD technologies and services over the course of 50 years and counting. It started with the first rotating control device, and it continues with automated solutions, such as our Victus intelligent MPD and next generation of automated risers.

There's a growing interest in our MPD capabilities, which combined domain expertise with automation and smart control algorithms to push the boundaries of what our customers can achieve in terms of lowering overall cost and enhancing well integrity. Our new awards, extensions and operational successes showcase our global leadership in this technology.

In Brazil, we won our second consecutive drilling contract for a major operator's deepwater campaign, and this marks the first award for our next-generation automated MPD riser system. In addition, we are mobilizing other MPD systems for 2 offshore drilling contractors there.

In Asia, an IOC contacted us after attempting to drill conventionally for 13 days and falling a 1,000 feet short of target depth. MPD enabled the customer to not only reach total depth but also drill ahead with another hole section for an additional 1,200 feet. We also deployed a Victus MPD solution from a swamp barge for the first time, enabling the operator to reach planned depth in a high-pressure exploration well with a narrow drilling window.

In North Africa, an operator awarded us contract extensions for a full spectrum of MPD services, including Victus intelligent MPD and an automated deepwater riser package. This allows us to expand our capabilities to a deepwater gas field in the Mediterranean sea. And for another customer, we used the nitrogen cap drilling variant of MPD to save 42 days of rig time while also delivering more than 20% production improvement compared to offset wells.

As operators face similar drilling challenges across the world, these successes offer powerful validation of MPD technology and the value it brings by addressing challenges beyond the scope of traditional drilling applications.

Now turning to Slide 5. In addition to MPD, there are several other core oilfield service technologies that continue delivering success this quarter. These include products and services within our wireline drilling services and artificial lift product lines. Our teams accumulated notable wins in multiple geozones, including displacing competitors leading to major contract wins. These technology achievements demonstrate that we are leading not only in our market-leading product lines but also highly competitive in our other core areas.

In drilling services, a customer in Russia awarded us a 2-year contract, which adds to our scope of work with the customer, expands our presence from 8 up to 15 rigs and introduces the Magnus rotary steerable system to new wells. And then for an operator in the Middle East, our drilling services achieved a new field record for rate of penetration and saved the customer 47 hours of rig time, leading to additional work being awarded to us in the offshore field.

In another core area, artificial lift, an operator in the U.S. awarded us a fully integrated production pilot program for 8 wells in the Permian Basin. We displaced the incumbent by recommending a rod-lift solution complete with Rotaflex long-stroke pumping units, ForeSite Edge and COROD continuous rod to deliver savings in capital and operating expenses.

We also see progress that aligns to our strategic vectors of digitalization and energy transition. According to a contract signed last year with KOC in Kuwait, we launched the first phase of our rig site data management and visualization solution by implementing the CENTRO software platform and installing a real-time drilling decision center. We also secured multiple contracts to supply production automation solutions for operators in Europe, Asia and the Middle East. In fact, an operator in the Middle East will exclusively deploy ForeSite Edge production automation controllers on wells equipped with multiple lift systems across its fields.

Additionally, we continue to build a successful track record for our Firma plug and abandonment solution. In Europe, we replaced a competitor to design a custom solution, leveraging technologies from our Firma portfolio and successfully delivering 27 wells ahead of schedule. As plug and abandonment activity grows in the coming years, we believe that positioning ourselves as a service company with a complete solution will enable greater traction and growth in this important activity to ensure sustainability of abandoned wells.

Turning to Slide 6 for our view on the market. Like most industry players, we believe the activity increase is seen in the second quarter will translate into a broader upcycle for the industry. However, we believe that there will be significant differences geographically, driven by the pace of vaccinations and economic rebound in the face of the virus variants. Despite the growing incidence of cases, we are now more confident in our 2022 growth scenario following continued moderate increases in activity in the second half, and Keith will talk more about that in relation to our outlook.

In North America, activity was up during the second quarter, with the increase in U.S. activity partially offset by a seasonal decline in Canada. With us exiting the drilling services and wellhead product lines in the U.S., our focus remains on profitable growth in North America as we work toward delivering on margin improvement, an area where we are already seeing improvements.

On the international side, we are observing an increase in tendering activity, primarily in our Middle East, North Africa and Latin America geozones. With over 75% of our business coming internationally, we are very focused on our major countries and supporting customers with their plans as they gear up for production increases. As the OPEC+ cuts phase out, we are hopeful that the increased production will translate into more drilling campaigns. Additionally, with current commodity prices, we are seeing an uptick in offshore activity where we have strong technological differentiation.

With that, let me turn it over to Keith to provide our financial update.

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

Thank you, Girish.

Please turn to Slide 7 for a summary of our second quarter results, which reflect the ongoing improvements in our operating earnings and liquidity. Consolidated revenues were $903 million, 9% better sequentially and 10% better year-on-year, driven primarily by 12% sequential increase in service revenues. Product revenues increased by 2%, as our production-oriented business products kept pace with energy output levels.

The sequential improvement in performance was seen across all geozones except for Canada, with seasonally lower activity. The second quarter top line performance primarily resulted from increased activity in integrated services and projects activity in Mexico, increased activity across all product lines in the Middle East and Asia and in the completion and production or C&P product lines in Europe, sub-Saharan Africa and Russia.

We are pleased to report second quarter positive operating income of $25 million. The operating income result was helped by approximately $10 million of discrete onetime credits and customers pulling forward contracted services. Adjusted EBITDA for the quarter was $136 million, which equates to adjusted EBITDA margin of 15%, an improvement of 280 basis points sequentially and 544 basis points year-over-year. Without the $10 million of discrete onetime items, adjusted EBITDA margin is 14%, still a substantial improvement. We delivered solid cash performance with free cash flow of $48 million in a quarter burdened with a larger portion of our interest obligations.

Slide 8. Now let's look at our geographical breakdown, starting with the Western Hemisphere.

Western Hemisphere revenues of $425 million in the second quarter increased 9% sequentially and 37% year-on-year. North America revenues of $220 million increased by 3% sequentially, primarily due to increased activity in the United States from our Drilling, Evaluation and Intervention business, or DEI, despite the headwinds of seasonally lower activity in Canada due to the spring breakup.

Second quarter revenues in Latin America of $205 million increased 16% sequentially, driven by increased integrated services and project call-offs in Mexico.

Adjusted segment EBITDA of $58 million increased $6 million and associated margins of 14% improved 30 basis points sequentially and improved almost 1,200 basis points year-on-year. The growth in adjusted segment EBITDA was primarily driven by increased activity in sales in the DEI product line in the U.S. and Latin America.

Slide 9. Second quarter Eastern Hemisphere revenues of $478 million increased 8% sequentially and decreased 6% year-on-year. Middle East, North Africa and Asia revenues of $289 million increased 8% sequentially with increased sales in all product lines. Europe, sub-Saharan Africa and Russia revenues of $189 million increased 8% sequentially primarily due to increased activity in the C&P product line.

The year-over-year decline in revenues was related to the delayed pace and timing of the lockdowns in the second quarter of the prior year. Adjusted segment EBITDA of $93 million is a 41% increase sequentially, and the associated margins of 20% improved 460 basis points sequentially and decreased 10 basis points year-on-year. The sequential growth in adjusted segment EBITDA was primarily due to increased activity across Europe, Africa and Russia, a favorable mix of services and product sales growth in the Middle East and Asia.

Turning to Slide 10 for a summary of our liquidity. We continue to maintain a disciplined focus on operating with a mindset of generating cash flow. This is being demonstrated through the results of our underlying business and cost improvement initiatives. In the second quarter of 2021, we delivered unlevered free cash flow of $165 million, an improvement of $57 million year-on-year from a 72% increase in adjusted EBITDA.

Free cash flow was $48 million, which improved by $50 million year-on-year and only down $22 million sequentially after $117 million in interest payments. We had an increase of total cash of $44 million, ending the quarter with approximately $1.4 billion. Free cash flow in the first half of 2021 was $118 million, an improvement of $122 million compared to the first half of 2020.

Capital expenditures were $9 million in the second quarter of 2021 compared to $15 million in the prior quarter and $35 million in the second quarter of 2020. Our capital expenditures were relatively low this quarter as we remained focused on asset redeployment, increasing utilization and re-prioritizing our growth capital agenda.

We expect to return to more normalized levels of capital expenditures in the second half of 2021, prioritizing our market-leading products and technologies. As we have previously discussed, it is important to note that we have an asset base that was sized for a significantly higher activity levels. As a result, we capitalize on this capability in the first half of this year to significantly increase service revenues by using existing assets without needing to overinvest in new CapEx.

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

On July 1, the Standard & Poor's or S&P credit rating on our senior secured notes and senior secured letter of credit agreement was upgraded to a single B with a stable outlook. The S&P credit rating on our exit notes was also upgraded to CCC+ with a stable outlook.

We recognize the challenges of our capital structure and addressing this remains a priority for us. We are encouraged by the improving tone in the current banking and capital markets that are reflecting the improved macro backdrop for oilfield services and believe they are now beginning to provide the potential for constructive changes.

On June 1, NASDAQ approved our application, the SEC declared our previously filed registration statement effective, and we became subject to the reporting requirements of the Exchange Act. Our ordinary shares began trading on the NASDAQ Global Select Market on June 2, 2021, under the ticker symbol WFRD. We are pleased to fully return to the public markets. We believe this was the right time to list and that doing so will enhance long-term shareholder value.

Turning to Slide 11. I will share a few qualitative thoughts on both the second half and the third quarter of 2021. We are forecasting the business environment for the second half of 2021 to maintain the activity levels experienced in the first half of 2021, and we now expect our second half revenues to increase by mid- to high single digits from the first half 2021 results.

Adjusted EBITDA margins should improve further between 100 to 150 basis points above the first half with our continued focus to drive margin expansion from variable cost management and organization simplification.

As activity levels improve and we approach the seasonal increase in demand for products, we expect net working capital to be an outflow, particularly as receivables begin to reflect revenue growth, net of pass due recoveries. If we experience material growth in activity in the second half of 2021, a supporting level of working capital investment may be required.

For 2021, our unlevered free cash flow is expected to improve slightly year-on-year. For the full year of 2021, we expect to reinvest approximately $100 million to $110 million into our business through capital expenditures.

We expect third quarter 2021 consolidated revenues to increase sequentially by low single digits above the second quarter of 2021, reflecting some of the acceleration into the second quarter we experienced in June. As we continue to manage inflation pressures, adjusted EBITDA margin is still expected to be in line with second quarter 2021 levels, excluding the $10 million impact of discrete onetime credits. Third quarter unlevered cash flow is expected to decline sequentially, largely due to the pickup in capital expenditures and required working capital investments. If this level of activity continues, we anticipate we will deliver a second consecutive year of positive free cash flow. Thank you for your time today. I will now hand the call back over to Girish for his closing comments.

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

Thanks, Keith. Our results in the second quarter were terrific, but we are firmly focused on the future and the work ahead of us.

Turning to Slide 12. I want to provide you with an update on the 4 key focus areas for 2021. North America performance is an area that deserves acknowledgment this quarter, especially related to expanding margins. Despite the seasonal slowdown of activity in Canada, we saw an overall increase in North American revenues and margin.

Continuing on, variable cost management is gaining momentum, as we continue to find opportunities to reduce our variable spend and are beginning to see positive impacts of that to our bottom line. We are focused on our maintenance and repair costs across our global network, labor utilization improvements, procurement efficiencies and other significant opportunities.

Regarding organizational simplification, we have made meaningful progress aligning our company structure to market conditions. We believe that we still have opportunities for improvement as we should see our SG&A as a percentage of revenue continue to decrease over the coming years, driven both by top line increase and further structural simplification.

In the area of inventory rationalization, we again made incredible progress on our 2021 goal of improving day sales of inventory by 10 days, as DSI improved sequentially by 7 days.

Our achievements from the second quarter serve as evidence of a strategy that is taking hold and beginning to yield results, specifically generating positive free cash flow, increasing EBITDA and growing revenue. We followed through on the plans we previously shared, and this quarter is a testament to our ability to execute. Once again, I want to thank our employees for their determination in actualizing our goals. That said, success truly for us is a journey, not a destination.

While we take enormous pride in our second quarter results, we recognize that we still have work to do to ensure that the improvements are institutionalized. It is through a process of learning, growing and improving that Weatherford will reach its full potential. Thank you for joining us today.

And with that, operator, let's please open it up for Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Ian MacPherson from Piper Sandler.

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

Congratulations Girish and Keith on the really strong quarter. Even if we -- I wanted to ask for clarity on the beneficial one-offs that bridges from 15.5% to 14% margin for Q2. And then maybe just ask for a little color on what areas of the business surprised relative to the more conservative guidance for the quarter and where you think the sensitivities are for possibly better performance in the back half as well. I know that MPD sort of kicked off your qualitative discussion, but maybe other areas as well that you're excited about.

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

Okay. Good morning Ian. Great questions. So first, the $10 million of onetime credits can be broken down into 2 main parts. We had a workers' comp settlement that came in to North America, a large amount. And then secondly, we settled some lost-in-hole disputes with some customers that were above normal levels because these are still ongoing things, but it was a significant amount and also some damage beyond repair amounts. And so we thought it best to -- because those -- they go through revenues, the lost in hole and the damage beyond repair at 100% fall-through. And so we thought it best to exclude that from the baseline as we move forward.

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

Ian, let me take a little bit on the second part and then Keith can join. And first of all good morning, I appreciate your comments. Look, I think just generally, in terms of activity and what's happening, we have talked in the past. Again, we are planning for flat, but we have always said we are poised to take advantage of increased activity, and that does give us higher fall-through. So that's really a little bit of what happened.

Where we are seeing potential in the second half? We'll just sort of have to see how it fully translates. First of all is, some of the MPD stuff that we talked about and TRS. So the 4 businesses that we've talked a lot about, managed pressure drilling, tubular running services, our intervention businesses with fishing and re-entry and then cementation products, these are really businesses that we have market-leading positions in. And as drilling campaigns take on greater hold, as we see more production increases, we think they will give us an opportunity to gain some more share and give us potentially a little bit more lift. But we want to really be tempered on our focus because we still have a lot of operating elements that we need to address. So we are firmly focused on that, but we are encouraged by the activity swings that we're seeing.

From a geography perspective, as we mentioned, Middle East really continues to be probably the highest area of tendering activity as well as a couple of other regions internationally. We expect North America growth to taper off a little bit to a certain extent, but again, seeing a general rebound and just hope that the pace of vaccinations really keeps pace and the economy keeps opening up.

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

That's great. It sounds like just doing the math that if you're going to be a comparable 14% margins in Q3, your back half guidance probably puts you exiting the year closer to 15%, maybe between 14.5% to 15% margins in the fourth quarter according to plan. And I just wanted to sanity-check that assumption. And then also just think about what the leverage for margins is into next year, assuming -- maybe excluding any possibility of net pricing leverage, but just the sort of volume metric, leverage to your margins going into next year based on -- it seems like we've pulled forward that 15% ambition relative to what we were thinking earlier this year. So maybe just recast that trajectory if we could.

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

So in terms of the exit at 14.5%, I think your assumptions and algorithm works and that's where we're targeting to exit the year. In terms of fall-through, it's hard to say, as always, in terms of how we think about that. So if we think -- we've been seeing good fall-through from the service side of the business as we practice cost control beneath that, but all depends on how that new business comes. If it comes in certain geographies where we have to scale up, then the fall-through mix is much different than if it comes in a geography where we are already contracted and have people on the ground. So it's hard for us to give that viewpoint on 2022.

So at the moment, the way we're looking at 2022 is, we are looking at it as a modest step-up from where we are going to exit second half of 2021. And so as we get closer to it, go through Q3 and get into Q4, we'll come back and give a better view of where the contracts are and what activities we're seeing for 2022.

Operator

(Operator Instructions) Next question comes from Philipp Duffner from Aurelius.

Philipp Duffner

I've got 2 questions. One was on the North America sequential growth. So in comparison to your main competitors, it was relatively weak, and you were probably stronger in international markets. In North America, is that because you're overexposed to Canada in comparison to the big 3? Or is there another explanation for that?

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

Yes, first of all, thanks for joining. A couple of things. We've talked a lot about North America previously. And it's very important to note that our business is fairly significantly different from our overall portfolio as well as with some of our peers and competitors. Over the past year or so, we've really changed our profile in North America. And we are no longer playing in drilling services in the U.S., which is a very significant part of the portfolio for a lot of people. We have completely gotten out of the frac business. So that's not a part of the portfolio. And we have changed our business model on wireline fairly significantly as well.

So these businesses that really -- or product lines that really come in with an increase in rig count and immediate drilling, we don't play a part in. So that's part of the -- or a big part of why you see a fundamental difference in our growth rates. Separately, we've also talked about -- for us in North America, we are very focused on really making sure that we are not just chasing volume, we have an operational set of actions we are working through, we are seeing that margin improvement come through as a result and are really going after growth that falls through to the bottom line.

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

And you're actually very right on our exposure to Canada. So for our business, we did take a step down from Q1 to Q2 because of the seasonal breakup in the weather, and so that affected and blunted some of the growth that we did see in the underlying U.S. business and brought the average down.

Philipp Duffner

Got it. And my second question is on the CapEx. If I recollect, you probably performed better on CapEx in H1 than what you were guiding to. And obviously, you are right now guiding to a very substantial, let's say, pickup in CapEx in H2. You mentioned some of the reasons for that. But could you just maybe go through that in some more detail why there will be a pickup and why it was so low in the first half? And is there a potential to outperform that guidance?

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

I would say that the first half was as we described it. We focused on redeploying assets. We focused on asset utilization. And we were spending a fair bit of time looking at re-prioritizing our growth CapEx agenda. So Girish and I have been here now almost a year, and so it took us a while to understand the business a fair bit in terms of where we want to place our bets. And so we were harvesting some efficiencies. But as we go forward into Q3 and Q4, now we're going to put some growth CapEx back to work into primarily behind our market-leading product lines.

We also have more activity out there. And also, as you think about it, for example, product lines like wireline, right, there are new standards in the marketplace where you have to have tools that are of a certain age before they go down hole and so forth. And so that's going to require CapEx.

So if you think about how we talked about CapEx in the past quarters, we talked about it being somewhere in the range of 3% to 7%. So we printed only $9 million in Q2 on $900 million of revenue. That's one. That's reasonably low. But we were going through a re-racking. So I would say that over the ramp-up of this cycle, you could probably see us move back toward 3%. I would say it would get to 7%, but it all depends on what happens in the business.

Philipp Duffner

And then maybe just one last question on the capital structure. Is there any update on the ABL discussions and [one out there]?

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

Sure. I can say that the tone in the marketplace has improved. I think if you look at the trading of our bonds, we've been trading all the way up to 105 implying -- improving yields that are reflecting the improvements in our businesses. I think if we think of the dialogue we've been having with the banks, I think they have been a lot more constructive. And so at this point in time, we're going to continue those dialogues and then kind of figure out where we go from here. The market, I think, has also opened up on the debt market side. And so we're thinking about what's the holistic solution that we could do in terms of putting an ABL back and does that open up an opportunity to maybe refinance or address the tower in 2024. So all these things are in dialogue. And as soon as we have a direction or a decision, we'll come back and communicate to The Street.

Operator

(Operator Instructions) There are no more questions in the queue. This concludes our question-and-answer session. I'd like to turn the conference back over to management for any closing remarks.

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

Great. Hey, thanks, everyone, for joining, and I look forward to speaking to you again in a quarter. Thank you.

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

Thank you.

Operator

The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.
