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WFT - Q1 2018 Weatherford International PLC Earnings Call

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OVERVIEW:

Co. reported 1Q18 revenues of $1.42b and operating loss of $39m.

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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 First Quarter 2018 Earnings Conference Call. (Operator Instructions) As a reminder, ladies and gentlemen, today's call is being recorded. Thank you.

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

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

Thank you, Carol. Good morning, and welcome to the Weatherford International's First 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 result to differ materially from our forward-looking statement. Please refer to our latest Form 10-K, 8-K, 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 first quarter press release and the company's presentation, which can be found on our website.

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

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

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

Thank you, Karen. Revenue in the first quarter of 2018 was $1.42 billion, a decrease of 4% compared to the fourth quarter of 2017, and 3% higher than the $1.39 billion of revenue reported in the first quarter of 2017.

The sequential revenue decrease was due to nonrepeating year-end product sales as well as seasonal declines in the North -- in North Sea and Russia. The year-over-year increase was primarily due to activity increases in the U.S., Argentina and Mexico in the Western Hemisphere and Kuwait, Iraq, Russia and Saudi Arabia in the Eastern Hemisphere. This was partially offset by a decrease in Venezuela as a result of our fourth quarter change in accounting for revenue and depressed offshore markets in the North Sea, West Africa and Asia.

Operating loss for the first quarter of 2018 was $39 million. Excluding unusual charges and credits, segment operating income in the first quarter of 2018 was $40 million, up $123 million or 148% sequentially and up $129 million or 145% year-over-year.

The sequential improvement was primarily due to improved product margins benefiting from a favorable sales mix, lower personnel and other support costs, the timing of revenue and cost recognition related to deliveries in Kuwait, and lower depreciation expenses resulting from asset impairments recorded in the prior quarter.

Year-over-year improvement was led by revenue growth in production and well construction in the U.S. and parts of Latin America, combined with higher activity and improved service quality across all product lines in the Middle East and Russia. Results also benefited from an overall reduction in cost structure as well as lower depreciation due to asset sales and impairments in the prior quarters. These improvements were partially offset by a decline in revenue in Venezuela after our change last quarter in accounting for revenue to a cash basis.

Non-GAAP net loss for the first quarter of 2018, excluding charges and credits, was $188 million or $0.19 loss per share. This compares to $329 million non-GAAP net loss for the fourth quarter of 2017 or $0.33 loss per share, and a $318 million non-GAAP net loss for the first quarter of the prior year or $0.32 loss per share.

In the quarter, we recorded pretax charges of $57 million, which includes $34 million related to the bond tender premium and early redemption costs; $26 million in currency devaluation charges, mostly in the Angolan kwanza; $25 million in restructuring and transformation charges; and $18 million in asset and other write-downs. This was partially offset by a $46 million credit related to the fair value adjustment of our outstanding warrant.

We're now in the implementation phase of our transformation, driving increased efficiency and effectiveness, enabled by standard processes and clear accountability across the entire company.

In the first quarter of 2018, estimated recurring benefits as a result of the transformation were $27 million or $108 million on an annualized basis. Out of this number, $22 million are related to the organization adjustment and the resulting headcount reduction implemented during the fourth quarter 2017. The remaining $5 million are related to facility rationalization and optimized repair and maintenance process and enhanced approach to integrated services and several other smaller improvement projects initiated during the quarter.

In addition, we achieved $41 million in onetime benefits, driven by the sale of surplus or nonstrategic assets, combined with an improved collection process. These onetime benefits contributed to our cash flow in the quarter but did not impact our operating income.

Transformation and restructuring costs during the quarter were $25 million, including provisions for severance, advisory fees and costs related to country exits. We expect the transformation benefit to be 50% to 75% higher in the second quarter compared to the first quarter as we continue to gain momentum.

This quarter, we have supplemented our earnings press release with an accompanying presentation that provides greater detail about our financial results, transformation and outlook. The presentation includes additional disclosures related to revenue by business unit within each hemisphere. We encourage you to review this presentation, which can be found in the Investor Presentation section of our website.

Moving on to our results by hemisphere. In the Western hemisphere, first quarter revenue of $756 million was down only $3 million and up $23 million or 3% year-over-year. Sequentially, the nonrepeating year-end product sales of pumping units in the U.S. and the completion of the pressure pumping and pump-down perforating assets sale in the prior quarter, for the managed part offset by increases in Mexico from higher integrated project activity and increased production and drilling services activity in Argentina.

Year-over-year revenue increased primarily due to a greater adoption of managed pressure drilling and improved utilization of Drilling Tools in the U.S.; incremental revenue from growing demand for pressure pumping services in Argentina; and increased integrated services and projects activity in Mexico. These benefits were partially offset by lower revenue in Venezuela as a result of our change in accounting for revenue to cash basis during the prior quarter.

First quarter segment operating income at $24 million was up $59 million sequentially and up $54 million year-over-year. The sequential increase was due to improved margins resulting from a favorable product mix, lower personnel expenses and lower depreciation and amortization after impairments recognized in the prior quarter.

Year-over-year results increased primarily in the U.S. due to the revenue growth in production and well construction, the decline in operating costs and lower depreciation. These improvements were partially offset by lower revenue in Venezuela after our change in accounting for revenue to a cash basis.

In the Eastern Hemisphere, first quarter revenue of $667 million was down $64 million or 9% sequentially, and up $14 million or 2% year-over-year. The sequential decrease was primarily due to nonrepeating product sales as well as seasonally lower activity in the North Sea and Russia. These factors were partially offset by increased revenue from integrated services and projects in the Middle East.

Year-over-year revenue increased across the Middle East and Russia due to contract gains and increased rig activity. These gains were partially offset by lower activity levels in the North Sea, West Africa and Asia as offshore markets remain subdued.

First quarter segment operating income of $16 million was up $64 million sequentially and up $75 million year-over-year. The sequential increase was primarily due to a more favorable revenue mix, the timing of revenue and cost recognition related to deliveries in Kuwait, nonrepeating startup cost in Asia and an overall cost structure.

Year-over-year operating income increased primarily in the Middle East and Russia due to higher activity levels across all product lines, a reduced cost structure and improved service quality, resulting in greater revenue efficiency.

For the second quarter of 2018, we expect Western hemisphere revenue to increase sequentially, slightly driven by higher product sales in the U.S., market share gains in Drilling Services, some targeted price increases and higher activity levels in Argentina. These improvements will be mostly offset by the spring break-up in Canada, which is expected to be steeper compared to 2017 due to the significantly unfavorable oil price differential.

Western Hemisphere operating income is expected to decline in the second quarter as a result of lower activity in Canada, partially offset by improvements in the U.S. and Latin America.

We expect Eastern Hemisphere revenue to increase sequentially, driven by seasonal activity increases in the North Sea and Russia, project commencements in Asia, higher completions, drilling and dock construction activity in Saudi Arabia, increased activity in Iraq and India as we commence work on new contracts and increased product sales in Oman.

Eastern Hemisphere operating income is expected to improve on higher activity, yielding better utilization and supplemented by pockets of pricing gains as well as benefits from the transformation as we continue to build momentum.

Net cash used in operating activities was $185 million for the first quarter of 2018, driven by cash payments of $174 million for debt interest and $26 million of cash severance and restructuring costs, partially offset by improved collections on accounts receivables.

Total net free cash flow in the quarter was negative $211 million, including capital expenditures of $38 million and proceeds from asset disposals of $12 million. We expect net cash used in operating activities to come close to breakeven levels for the second quarter of 2018, primarily driven by improved results, lower working capital and lower cash interest payments, partially offset by higher transformation costs.

Capital expenditures are expected to be between $80 million and $100 million, and we expect asset disposals outside of our larger divestiture projects to be slightly above the levels achieved in the first quarter.

For the full year 2018, we continue to expect free cash flow to be at breakeven levels, excluding divestiture proceeds.

First quarter capital expenditures were $38 million. This includes capital investments in our drilling rigs business related to 2 repurposed rigs, which we'll start work on a new 3-year contract in Kuwait this month. Capital expenditures in our Drilling and Evaluation segment reflected investments in our new and existing rotary steerable systems as well as wireline equipment in light of several recent contract wins. We expect increased capital expenditures in the second quarter , primarily due to investments in our Middle East drilling rigs as well as accelerated spend for Drilling and Evaluation as we deploy our new rotary steerable technology.

Customer receivables decreased slightly and overall DSO was down slightly at 67 days compared to the prior quarter despite the usual seasonal reduction in collections in the first quarter. Collections have continued to be strong as a result of the improvements around our billing and collection processes.

Inventory levels remained broadly flat as reductions related to sales in Artificial Lift Equipment in Kuwait, Canada and the U.S. were offset by an increase in completions inventory, particularly liner hangers and open and cased-hole completion products as we prepare for future deliveries.

The tax provision in the first quarter of 2018 was $32 million, including tax expenses related to profits in certain jurisdictions, deemed profit countries and withholding taxes on intercompany and third-party transactions. The sequential reduction in tax expense is a result of nonrepeating tax expenses in the prior quarter, resulting from valuation allowances and foreign law changes. First quarter cash taxes were $47 million, reflecting tax payments and settlements for prior periods as well as customer retentions and current tax payments.

During the quarter, we made significant progress in our Land Drilling Rigs divestiture process, and we are currently in advanced negotiations. It is taking longer than expected to finalize an agreement as we want to ensure the deal benefits Weatherford, our shareholders and our customers. We are committed to maximizing shareholder value, ensuring a smooth and swift transition process and making sure the buyer will continue to provide the highest level of service quality to our customers.

While our intent remains to sell the entire Land Drilling Rigs business, a significant amount of interest has been in the geographic subset of the rigs. A transaction for a subset of the business is markedly more complex and requires more time.

Our first priority is to maximize shareholder return. We have set clear targets for the proceeds, which reflect the value of our rig fleet, our customer relationships, our experience and footprint, and the reputation we have earned over 60 years of operations.

Equally important to the purchase price is finding the right buyer. We're committed to transacting with a buyer who will continue to provide safe, high-quality service to our customers.

We're pleased with the operational progress we have made across our Drilling Rigs business, which resulted in a 41% sequential adjusted EBITDA improvement, several contract wins and extensions and improved utilization. We've made significant investments in our rig fleet, and we're just beginning to see the returns on this investment.

During the quarter, we also launched 2 other divestiture projects which are currently in progress. These other planned transactions are expected to generate approximately $500 million by year-end, not including proceeds from our Drilling Rigs divestiture process.

We remain in compliance with our financial covenants, as defined in our revolving and secured term loan credit facilities as of March 31, 2018, and based on our financial projections, we expect to continue to remain in compliance going forward.

More details on our first quarter revenue, adjusted EBITDA, transformation target and cash flow can be found in the presentation uploaded in the Investor Relations area on our website.

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

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

Thank you, Christoph, and hello, everyone. I'm pleased with the year-over-year and sequential improvements shown in our first quarter results. The past 3 months have involved a lot of long hours and hard work as we finish the bottom-up planning stage of our transformation and move into implementation. I want to thank and recognize all of our employees, who put their shoulders to the plow. It has not been easy and we still have a long way to go, but our transformation work is starting to make an impact on our bottom line as well as our processes and our culture.

As Christoph noted in the first quarter, we realized $27 million of recurring cost savings or $108 million on an annualized basis. This gives us 10% of the way to our goal of $1 billion in run rate profitability improvements by year-end 2019. Additionally, we generated $41 million of onetime cash benefits. We expect these improvements to accelerate in the coming quarters as we continue to execute the nearly 1,600 transformation initiatives the organization is working on.

Something we've heard a lot over the last 3 months is " Where is the $1 billion coming from? How does it break down across the company?" We want to be as clear and transparent as possible with you, so we provided a complete breakdown of the estimated recurring savings for each work stream across the organization. You can view these numbers and their proportional share of the pie in the presentation we released today, simultaneous with our first quarter earnings.

I also want to give you a few tangible examples of these initiatives, so you can get a flavor for what our transformation program looks like at the ground level on a day-to-day basis.

The 2 areas with the largest impact are within the sales and commercial work stream and within the procurement work stream. Sales and commercial opportunities represent slightly less than 1/3 of the total targeted improvements, and we're approaching this market in several ways.

First, we've greatly expanded the account management structure and established a more proactive process of managing our customer relationships. Previously, salespeople were assigned to a specific product line, and were only rewarded for selling particular tools or services. With our new sales organization now in place, we've created incentives for cross product line selling. We're moving from a transactional, product-based mindset to a solutions mindset, all while maintaining the genuine and collaborative relationships that always set Weatherford apart from our peers.

We're also working on targeted pricing improvements, especially in areas where our prices have been well below market. Our customers recognize the value we bring to their operations, and we should be securing work in a way that reflects the strength of our technology and service quality.

We've implemented new processes to ensure we obtain a fair price that accounts for our true cost of delivery, particularly where design iterations and bespoke manufacturing are involved. Winning contracts that cost us more than we make are not really wins. Our focus now is on returns and profitability.

Another area where we have increased process discipline is making sure everything we provide to the customer gets put on the invoice. This includes all the contracted products and services we've delivered as well as upgrades and changed orders. It's a fairly basic thing, but our internal diligence suggested that we were leaving a lot of money on the table. So new procedures are being put in place to ensure we don't do that going forward.

The impact of these new processes and our more results-focused mindset will be evident in the coming quarters.

Another large chunk of the transformation impact will come from procurement improvements. During the assessment and planning phase of our transformation, we calculated that Weatherford has 32,000 suppliers. Compare that to our approximately 28,000 employees, we have more than 1 supplier for every employee, and that doesn't make sense.

So we've already taken some early action to begin narrowing down our supplier list to the vendors who can offer us the most competitive deals, the kind of deals we should be giving given our position as a large multinational company. We weren't really negotiating as a single large company before. Moving forward, we're going to leverage that advantage.

Our segments and product lines work stream is perhaps our broadest in terms of the number of people it touches. There's a lot to get done, and we're eating the elephant one bite at a time. One example of the initiative that makes it -- that's making a difference in this work stream is product rationalization. Just as we found we have far too many suppliers, we counted 1.2 million SKUs or product numbers across the company. We're actively reducing this, separating out products that don't meaningfully contribute to revenue generation. In our Artificial Lift business unit, for example, we've already reduced our SKUs by more than 120,000.

In our General & Administrative or G&A work stream, we are taking advantage of new digital and IT solutions to streamline, automate and outsource some back office functions. For example, we're in the process of transitioning all of our back office transactional activities to share offshore services environments.

In the area of manufacturing, we've already made a lot of progress in rationalizing our footprint, some of which I've shared with you on previous calls. However, there's more we can do beyond just closing and consolidating facilities. Our manufacturing team is also determining what types of equipment we should produce ourselves versus what we should procure from outside vendors. We're doing this with a clean-sheet mindset, not seeing through the lens of what we do today but rather thinking about what we should be doing and what makes the most sense in the current environment and what will bring the greatest benefits to the company in the long term.

Logistics and distribution is another topic I've given a fair amount of attention to on past calls, and it remains an area of focus as we look to redefine our supply chain processes. One initiative that's making a difference is that we're now cross-docking Houston area shipments for the first time. We're also shipping more equipment by land and sea rather than by air. While logistics is the smallest of the work streams in terms of direct financial impact, the strong distribution network is a key attribute of an efficient and well-run organization.

Simultaneous to the transformation efforts aimed at long-term, sustainable changes, we're also taking specific actions designed to produce onetime cash benefits. We estimate these onetime benefits will generate approximately $500 million, with $300 million impacting 2018, and an additional $200 million coming in 2019. These onetime benefits should more than offset the costs associated with the transformation and provide an influx of cash that will help us get to breakeven free cash flow for the year 2018 and cash positive in 2019.

I truly believe the efforts I've just spoken about are what will transform Weatherford. Yes, the ultimate goal of the program underway is to improve our profitability and cash flow. But at its heart, this is a massive integration project. Therefore, all the initiatives we're working on are specifically and rigorously designed to standardize, simplify, where possible systematize, but in all instances, codify our processes across the organization so that the achieved financial improvements are sustainable.

However, I also understand you are anxious for news about our pending transactions, especially our Land Rigs divestiture. I've spent the past year pushing for quick action across Weatherford and instilling the organization with a strong sense of urgency. We have already committed to getting the rig deal done even before I got here, and my expectation has been and continues to be that we will follow through on that commitment. I personally thought we'll have it completed by this point, but the bottom line is that we aren't there yet. I'm not happy about how low it's taking to get this rigs deal closed, but we have to do it properly. The cash proceeds are important, if for anything, but to create some additional debt maturity runway, but they aren't the only factor to consider. How we get the deal done and who we get it done with matters, both to us and to our customers.

Any transaction involving rigs is complex. International rigs, even more complex, and there are also intricacies associated with the region, in which most of our rigs are concentrated. All this means that the negotiation and due diligence period is extended. It doesn't mean we're not going to get the deal done. We're committed to finding a smooth landing that checks all of our boxes and, thus, right for our customers.

It's important to emphasize that while we're devoting significant time and effort to our transformation and divestiture goals, we're also still getting business done operationally. In fact, our service quality and execution is improving steadily, and we're getting a nice tailwind and in the form of an improving market. That upward trajectory can be seen across our first quarter contract wins and field achievements. We have a strong win rate for surface rod lift units in the United States, with orders up significantly year-over-year. This reflects increased adoption of both our Maximizer conventional beam pumping units and our Rotaflex long-stroke pumping units. In the Permian basin, customers are increasingly choosing alternatives to ESPs as we have demonstrated the reliability and the effectiveness of other forms of lift over the long term in unconventional wells.

There are few factors working to our advantage here. First, of course, is the strength of the U.S. unconventional market. Second, we have the confidence of our customers. U.S. operators recognize the strength of our portfolio, and we've demonstrated to them the value of our integrated approach. So by leveraging our expertise in lift hardware, optimization software and field services, we can enhance decision-making across the production lifecycle, from initial lift selection to lift transitions to preventative maintenance.

Looking outside the United States, at the start of the year, I shared that I expected improvements in international land markets, and that's proving true so far for Weatherford. We want several sizable tenders in the Middle East and North Africa during the first quarter. One notable area of growth is wireline. We recently marked our reentry into the Algeria wireline market, with a large multiyear contract win. We also deployed a significant number of wireline units across the Eastern Hemisphere in the first quarter as we commenced our continued work on land and offshore contracts. We're in the process of readying more units for mobilization as activity continues to increase.

Just as we've continued winning and executing work, we've also pressed forward with technology development and product commercialization. Later this week, we'll be formally introducing Magnus, our new push-the-bit rotary steerable system, to the broad market. In fact, it's currently drilling ahead on its first commercial run as we speak.

The Magnus RSS combines reliable, high-performance drilling with precise directional control. Its push-the-bit design will enable operators to drill in nearly any scenario, with a single cost-effective tool. The impact of the Magnus system will be felt across our Drilling and Evaluation global business unit because of its ability to pull through additional logging while drilling work in key markets. It's a real game changer for us in this way.

Looking ahead to some other technologies we'll be releasing this year, there are a couple of the common things, collaboration and integration. We're increasingly partnering with customers to jointly develop technologies that solve specific field challenges.

Our model for this is the HeatWave extreme logging-while-drilling services, which we developed jointly with Chevron. We recently won an OTC Asia 2018 Spotlight on New Technology Award for our HeatWave technology as well as for our WFX0 open-hole gravel-pack system.

Ultimately though, we're not developing new technologies to put awards on shelf. We're not innovating just for the sake of innovating. And we're not interested in building a portfolio of widgets. We're focused on providing complete, end-to-end solutions that leverage our technology portfolio and expertise in a way that solves the customer challenge without them having to do any heavy lifting. When we do that, we're able to provide greater value and, therefore, justify our higher price for our services.

The strategies and processes we're putting in place at Weatherford are designed to create sustainable value regardless of market conditions. We want to remain cognizant of overall market trends but not be overly reactive or dependent on them. This is key because as long as the U.S. unconventionals are driving the global supply and demand balance, I believe we're going to continue to see some wavelike fluctuations in rig count and activity.

We expect short-cycle investment to drive land market activity in 2018 and 2019, and we're targeting specific incremental opportunities in the U.S. and Argentina unconventionals as well as in Russia and the Middle East.

Of course, the largest single market opportunity will continue to be in the United States, specifically in West Texas and Oklahoma. We expect a considerable amount of customer spend to be devoted to this area over the next few years. We also expect continued activity growth across international land markets, especially in the Middle East and Russia, and Weatherford is exceptionally well positioned to benefit from this growth.

One of the drivers behind our transformation was to get our company back to a place where we have the flexibility to seize opportunities, to go beyond doing what we have to do to keep the business going and start doing the things we want to do to grow the business. That goal is now in sight.

I'm incredibly proud of what we're doing at Weatherford today. We're coming out of the gate with 10% of the $1 billion targeted recurring improvements realized in the first quarter, and I'm fully confident that we'll continue to build momentum. We're committed to keeping all of our stakeholders, our investors, our employees and our customers informed of our progress.

I hope the amount of detail that we're sharing will assure you of the incredible discipline around this process. We're not just talking about change, we're putting it into action according to a very detailed and structured plan. We have set a measurable target of $1 billion, and I assure you that this is an achievable goal.

The ultimate goal of our transformation is to generate sustainable value. We will continue to drive towards our goals, and we'll report back to you on our progress via the scorecard each quarter until we reach our target.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question today comes from Angie Sedita from UBS.

Angeline M. Sedita - *UBS Investment Bank, Research Division - MD and Equity Research Analyst - Oilfield Services and Equipment Sectors*

I think the slide deck was -- is great. It's a lot of detail that we would all like to see and very helpful to our processes, and so I guess we'll start off there. Number one, on the annualized cost savings that you mentioned, right, $108 million annualized so far. Is there any rough -- I know it's early, but any rough runway rate we can think about towards the end of 2018? And then with that, on the sales and commercial, is it fair to think that it's revenue, obviously, versus cost?

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

Angie, this is Christoph. So as I said in my prepared statements, we expect Q2 to ramp up between 50% to 75%, and then for the rest of the year, we build momentum going forward. And I think we also said before that for the year, we expect a total number of about $200 million to $300 million of recurring savings in our results.

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

Realized savings.

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

Realized recurring savings in our results. So that will lead you towards the end of the year to a run rate, which will be around the $500 million margin. Now to the second part of the question, which is where does it come from. In details, it progressed forward. I think you've seen the first quarter numbers. In the second quarter numbers, we will see an acceleration in the sales and commercial work stream. We'll also see an acceleration in the procurement or external spend work stream, and we also see some effects on the G&A side. So we have a detailed plan by month, by quarter and so on. I think the call is not the right form to discuss the detail, but kind of that gives you, I think, what you're asking for.

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

But I think also to your point, the sales and commercial really represents revenue opportunities that will translate into profit improvement. Some of those relate to pricing initiatives, looking -- as I've talked about in my comments, areas where we felt like we needed to do a better job of pricing effectively when we do bespoke manufacturing or unique configurations or making sure that our product categories are priced correctly versus the costs that we're incurring. And some of those will relate to their incentives that are set with the sales organization on specific opportunities that they're pursuing, now that they're more actively cross-selling products and services across the various accounts.

Angeline M. Sedita - *UBS Investment Bank, Research Division - MD and Equity Research Analyst - Oilfield Services and Equipment Sectors*

Okay. Okay, very helpful. And then Mark, maybe you could talk a little bit about the international markets as far as your strategy, specifically around the lump-sum turnkey contracts in the past that's been something that Weatherford did focus on with your strategy, this cycle on lump-sum versus discrete services.

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

That's a great question. So I think that in the past, Weatherford had been a bit fairly aggressive about doing turnkey type projects. We're probably one of the first companies to actually step out into that process, both in Mexico and Iraq. Some of those did well, and some of those did not do so well as you know. And after that point, I think the company decided to retrench some. We are still actively engaged in the integrated service projects and not shying away from those. We have actually active projects in Mexico, in Russia, in Oman and elsewhere, and those projects are actually ramping up. We're continuing to gain, and we're actively involved in the tendering process. Of course, one of the things that I want to make sure that we do as part of our transformation is as we standardize and sort of stabilize processes around, one of the things we also want to do is to sort of ensure that we have a good process wrapped around the execution of these projects as well, so that we -- because they really lean heavily on your ability to deliver effectively, our service quality is going up dramatically over this past year. Particularly in the Eastern Hemisphere, those guys have done a super job of improving our quality results, and so I feel confident that we're at that point we can deliver well. We just need to make sure that we -- as we go into the competitive bidding process, that we sharpen our pencil to make sure that as we price the risk, analyze the risk, understand what it's going to cost for us to deliver, that we do so in a way that will make -- ensure that we can generate the returns of profitability that we need to provide shareholders.

Operator

Our next question comes from James Wicklund from Crédit Suisse.

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

Between the comments that you guys made and the presentation you've put out, we're all hard-pressed to come up with any good questions, to be honest with you. Which is really nice, and I appreciate it. One quick clarification. The improvement in Q2 EBITDA is off the base of the $151 million in Q1.

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

That is correct, James.

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

Okay. I told you I was hard-pressed. The second one deals with international. Mark, you talked about contract wins in Asia, in the Middle East and you're having to mobilize some spend equipment -- spend money to get ready for those projects. And you talked about a targeted pricing internationally. Almost everybody so far has talked about how there is no pricing or pricing is declining dramatically internationally, and you seem to be bucking the trend. Is this because these are new projects and new wins and not legacy? And does that give you a head up -- heads up? And can you talk a little bit about what those are? Especially in Asia, we really haven't really heard much about that.

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

Yes, I think, Jim, always, folks' commentary about pricing tends to be which side of the elephant they're looking at, whether they're on the winning side or they were on the losing side. Typically, when we lose something, it's because of pricing; if we win, it's because of our exceptional technology promise. But I think that bottom line for us is that we have -- we effectively, last quarter, felt that we have sort of reached an inflection point in our universe of projects across the international front, and that -- while there's still some, here and there, there's some pricing pressures, we're also seeing the opportunity to start to move pricing and some of the contract wins that we're having. And so that we feel pretty good about it, at least, we're at an inflection point. I'm not suggesting in any way that we think that there's going to be a material ramp in pricing coming in the next year, but I don't think that there is, at least from our viewpoint, significant continued risk of pricing deterioration in the international space.

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

Maybe I'll answer that script. But we have -- when we look at the tendering results and the bids we are negotiating, it's a bit of a mixed bag for us. We do see tendering coming in at a competitive price. We do see demands for lower price. But we've also seen some price increases for customers coming back to us, asking for better service quality and improved deployment of technology. And there, we have managed to increase rates. And we've also seen it on drilling rigs as well. We have increased rates on some of our drilling rigs lately. And so in that sense, it's a mixed bag, which is better compared to a year ago, where it was all downward. And your second question, on Asia, those are predominantly completions projects, but we are ramping up. And these are offshore completions projects. We had a little bit of delays with some of them from our side, and those are ramping up into Q3 -- Q2 and Q3.

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

We were also -- we're ramping on a lot of wireline work around the world. We're like others having to sort of continue to build tools at a rapid pace to meet the demand that's growing.

Operator

Our next question comes from James West from Evercore ISI.

James Carlyle West - *Evercore ISI, Research Division - Senior MD & Fundamental Research Analyst*

Mark, so we've been talking about asset sales for a better part of the year now. At this point, can you sort of lay out a timeline for us, both on the land rigs and the 2 other divestitures? Because I think at this point, it's something that's not been done.

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

Well, I said in our remarks, James, that obviously, I'm not happy about not getting things done. We got the pressure pumping deal done, which is part of what (inaudible). So that has been accomplished. On the 2 others that we launched this quarter, we had said that there was a basket with possibly 4 different transactions that we were going to pursue over the course of 2018. Our commitment is still try to get those done during the course of the year, but I'm not going to commit to a timeline inside of that. On the rig deal, look, I've used terms like imminent, it's one of the things where it's frustrating because you're working on a to-do list, in negotiation and communications and things like that. It's not a long list, but it's a formidable list. And so we're just going to continue working. I sit here and look at it, it's stunning. It's going to be stunning, but I'm not going to give you a specific date.

James Carlyle West - *Evercore ISI, Research Division - Senior MD & Fundamental Research Analyst*

Okay, we just had -- I think your shareholder base, those are becoming -- the frustration is building, and we hear a lot of talk, it's just a question of we've had some action here, so it's good to hear that you're making progress, but maybe great to see...

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

Yes, I think it would be a mistake on your part or others to think that because it's not done, there's been no action. Because we spent a tremendous amount of time and resources, and we're trying to get this thing accomplished. We have talked about it, it's a very complex. And the fact that when stepped away from the -- our list -- as the possibilities of doing a partial deal versus a full deal is just -- that actually exponentially compounded the complexity.

Operator

Our next question comes from the line of Sean Meakim from JPMorgan.

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

So Mark and Christoph, the guidance on 2Q operating cash flow, and your breakeven free cash flow for the year is all pretty straightforward. I guess -- so you're expecting sequential improvement in the P&L. But based on all different drivers in the slide deck that you laid out, it sounds like parsing out, counting on any macro help to drive that, and I guess, I just -- as we think for the year, what are kind of the major moving pieces that we should be thinking about to drive those assumptions? For example, the $41 million benefit a quarter, is that embedded within EBITDA? Or would that be exclusive of the EBITDA result that we saw this quarter? Just trying to get some additional pieces around working capital, legal costs, and some of the other cash components to drive your assumptions.

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

Okay. Sean, I'll take that. So to -- I think, first, the Q2 comment, the -- getting towards breakeven operating cash flow, the components driving that are improved results, our improved working capital and our lower-interest cash cost in the second quarter. Even Q1, as I indicated last quarter, we said it clear to everyone, our Q1 will be negative and will mirror, similar to Q1 2017, and that's exactly what was happening. Into Q2, that will improve. Getting towards the rest of the year and answering this other parts of your question, the onetime benefits, the $41 million we had in Q1 and we expect getting close to $300 million for the entire year, those are not impacting the EBITDA. These are onetime cash benefits we get from a disposal of an asset from improved working capital management and the likes. So we will see those an improved -- in the improved cash flow for the year but not in the EBITDA. So driving towards a year of breakeven free cash flow, which is what we committed to, it will require several things. And I think all of them, very important to understand, do not require market tailwinds in addition to what we have today. We've done a forecast, which was, I think, conservative. And we have assumed transformation benefits compared to what I said to Angie before, about $200 million to $300 million in our results. We assume some improvements on the cash flow side through working capital or these nonrecurring benefits, and that will result in the free cash flow for the entire year. I hope that I answered -- covered what you were looking for?

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

There are a lot of moving pieces there, so I appreciate you taking a moment a bit here. There are some helpful clarifying points in that answer. The other thing I wanted to touch on was the completion tools business in North America. That's a business that I don't think what you've included in your original strategic review, it was planned to be divested by the end of last year. So now that it's kind of back into the fold, it would be great just to get a sense for how you see that being in the portfolio, the opportunities for it, and just the opportunities that you see for that business, specifically given that there's a pretty compelling portion of your North American business.

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

No, it is. Sean, this is actually a very great business. And so after the pressure pumping deals, the one-stop transaction fell apart, we kind of refocused on that business. They've been operating sort of full-out manufacturing. They're essentially selling everything that they're manufacturing in terms of the frac-based completions. And we have been putting money back into some technology development around small diner and composite plugs. We're working feverishly to also develop our own dissolvable plugs and we continue to see a lot of opportunity in that space. Part of our plan, manufacturing has also increased capacity there to try to continue to meet increased demand that we see coming. So it's a focus. It was a little bit off in the first quarter, in part because it was impacted a little bit early as a result of some of the other logistics issues and the frac environment, have a little bit of spillover. But not that much, but probably more impacted by the Canadian weakness because we have very strong franchise in Canada that's being impacted by oil price differential. But I think going forward, we're -- it's going to be a meaningful contributor, but we're going to have to scale-up a little bit to meet the potential demand that is coming our way.

Operator

Our next question comes from Bill Herbert from Simmons.

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

Mark, if we could get back to the land rigs here for a moment. You made a comment that basically, it's a complex process and you're trying to check all the boxes. So other than consideration received and price received, what are the boxes that you're trying to check?

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

As you're shifting -- depending on what country you're in, legal entities matter. There's -- a lot of the -- particularly in the Middle East, you have qualifying entities that as far -- that customers have taken several years to get them across a hurdle in terms of making sure that they're qualified to perform services based on their history experience, so getting that done and getting that box checked takes time. The fact that we have been involved with certain analysts, TK-type contracts and the rigs, what they're doing, associated with that, has some implications too in terms of how you transition contracts over in the bars. So those were all some of the issues. So there's legal, there's legal hurdles, there's some, I would call, customer qualification hurdles, there are contract hurdles, all of which had to be clear. And trust me, sort of reflecting on your earlier question, it's not like we don't want to do this deal. We want to get this thing done, and we're moving as expeditiously as we can. And if we could close, we would have. We just haven't gotten into a point where all the boxes can get checked to get it done yet.

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

And with regard to the open issues intended to the land rigs, is price still a sticky point? Or is it mostly this other kind of legalistic checking-the-box issues that precludes you, or has precluded you from doing a deal rather than consideration?

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

Price has not been an issue. In terms of those that we're at the finish line with, price is not the issue.

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

Got it. Okay. And then assuming that we get this transaction done, well, asking the question differently, you have a targeted $80 million to $100 million for the capital spending, if I heard Christoph correctly for Q2. Of that $80 million to $100 million, how much of that is related to land rig, related to capital spending? And how much does your annualized capital spending go down once you sell these land rigs?

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

Yes. Bill, I think we've said that the last time around the -- our annual CapEx for land rigs is somewhere in the range between $80 million to $100 million. It depends a little bit on the timing of certain customer contracts and when it kicks in and when the rigs finish, and then some spend needs to happen. We have -- I think we said we spend in Q1 close to 10 of that. Q2 won't go up because of the land rigs, and the 2 which started, actually, started already in Kuwait very recently, so we'll have some increased spend there. And then the rest will come end of Q3, beginning of -- and in Q4. So that kind of give you the boundaries of the CapEx for the year. So we've said, I think last quarter, I think we've talked that without land rigs, the annual CapEx will be somewhere in the range between $200 million to $225 million. And that will stick with that.

Operator

Our next question comes from Kurt Hallead from RBC.

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

So Mark, remember a conversation we had not too long ago, kind of talking about the transformation plan you guys have in progress. And I remember you mentioning something along the lines improving the profitability is just a much important and longer-term driver for Weatherford than just asset sales. So given one of the preceding questions and answer this on that asset sale dynamic, I was wondering if you might be able to just give us your thoughts on the improving of your profitability relative to those asset sales and why you think the improved profitability is much more important at the end of the day.

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

Well, thanks for that question, Kurt. When you understand the dynamic of selling businesses, yes, we get cash proceeds and -- but you're also losing EBITDA every time you sell a business. That's contributing to our cash flow, for paying the interest cost. And so yes, I might be able to bring the debt total down by the proceeds of the business. But ultimately, by losing that EBITDA, I don't improve my coverage statistics, which ultimately is probably the more important marker for understanding where we are in terms of our relative debt position. On the other hand, the transformation itself and the work that we've got to do there can dramatically, not just change where -- not just breakeven on cash flow, but actually getting us in a position where we can -- we're generating cash on a consistent basis and using that cash to, therefore, not only improve the coverage ratio automatically, but then also, I guess, to provide cash to create an actual delevered process. I mean, all these transactions that we're talking about, or the assets designed to create the additional runway, and we're going to follow through on the commitments that we made. In the end, you're absolutely right, the real value creation ancient here for shareholders is going to be around getting this transformation program done. And what we're trying to express to you, not only the confidence that we have, I guess, in this presentation, but also behind the scenes, with -- there is a tremendous amount of detail. We've got 1,600 initiatives that people are working on there. 900 people across the organization who own these initiatives that have teams underneath them that are working against deadlines, step-by-step, including changed management steps and initiatives that are embedded in those programs to make sure that not only do they get this work done to improve our profitability, but that all of the work that they do, process changes are codified, and we standardize around, so that it's sustainable. And we can bank on this in the future. The organization is pretty engaged. They're very positive about this process. We're already seeing some early fruit. There is a fairly rigorous program management process behind the scenes that creates cadence for executing this initiative. We feel very good about getting this thing done, very good. And so what we really need is just -- we'll just continue to show you as our stakeholders the result of this transformation quarter-by-quarter. And I think you'll see from our future report cards that this is -- this really is going to make a significant difference in value.

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

And then I think, on the profitability, can you remind us, is that predicated on any assumption of improved activity?

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

No. The fact is, in an earlier question, I think as Christoph was getting to the important fact, we've sort of felt like that the market was going to be somewhat, I'd call it, wavelike, but up and down a little bit, very sort of U.S. dependent, which is not our strongest market anyway. But we intend to strengthen that market, over time, but -- so we're -- from an activity level, we're -- it's relatively benign over the next 2 years. So all that means is that the improvements in EBITDA that we're driving toward to achieve our earnings and cash flow targets are really designed around transformation. And this transformation, all the analysis, the targets were set, assuming a relatively static market environment that we were sort of sitting in, in third quarter and the end of last year. So not banking on the market we have to get us there. This is all going to be organizational heavy lifting, organizations after it now ready to do it. Everybody is all in here, and we're confident we can execute.

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

That's great. I know we're bumping up time, just one more quick question for Christoph. So Christoph, we met things out the -- for second quarter, you talked about improvement in EBITDA sequentially. Do you mind putting that within -- in a range, maybe percentage increase, 10%, 15% increase versus first quarter, is that how we should be thinking about it?

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

Yes, but you have to consider Canada, the spring break happened, as Mark pointed out, we are very -- we have a strong presence in Canada. And the break up this year will be deeper than it was last year. Many people are laying off again, people in Canada. So there will be a slight offset there. But overall, at the lower range, what you were saying, I feel comfortable.

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

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

Operator

Thank you very much. This does conclude today's conference call, and you may now disconnect. Have a great day.
