REFINITIV STREETEVENTS

EDITED TRANSCRIPT

WFRD.OQ - Q2 2024 Weatherford International PLC Earnings Call

EVENT DATE/TIME: JULY 24, 2024 / 1:00PM GMT

CORPORATE PARTICIPANTS

Mohammed Topiwala *Weatherford International PLC - Director, Investor Relations and M&A*

Girishchandra Saligram *Weatherford International PLC - President, Chief Executive Officer, Director*

Arunava Mitra *Weatherford International PLC - Chief Financial Officer, Executive Vice President*

CONFERENCE CALL PARTICIPANTS

Luke Lemoine *Piper Sandler Companies - Analyst*

James West *EVERCORE ISI - Analyst*

David Anderson *Barclays - Analyst*

Ati Modak *Goldman Sachs - Analyst*

Jim Rollyson *Raymond James - Analyst*

Scott Gruber *Citi - Analyst*

Doug Becker *Capital One Securities, Inc - Analyst*

Kurt Hallead *The Benchmark Company LLC - Analyst*

Saurabh Pant *BofA Global Research - Analyst*

PRESENTATION

Operator

Good day, and welcome to the Weatherford second-quarter 2024 results conference call. All participants will be in a listen-only mode. (Operator Instructions) Please note that this event is being recorded. I would now like to turn the conference over to Mohammed Topiwala, Vice President, Investor Relations and M&A. Please go ahead, sir.

Mohammed Topiwala - *Weatherford International PLC - Director, Investor Relations and M&A*

Welcome, everyone, to the Weatherford International second-quarter 2024 earnings conference call. I'm joined today by Girish Saligram, President and CEO; and Arun Mitra, Executive Vice President and CFO. We will start today with our prepared remarks and then open it up for questions. You may download a copy of the presentation slides corresponding to today's call from our website's Investor Relations section.

I want to remind everyone that some of today's comments include forward-looking statements. These statements are subject to many risks and uncertainties that could cause our actual results to differ materially from any expectation expressed herein. Please refer to our latest Securities and Exchange Commission filings for risk factors and cautions regarding forward-looking statements.

Our comments today also include non-GAAP financial measures. The underlying details and a reconciliation of GAAP to non-GAAP financial measures are included in our second quarter earnings press release, which can be found on our website. As a reminder, today's call is being webcast, and a recorded version will be available on our website's Investor Relations section following the conclusion of this call. With that, I'd like to turn the call over to Girish.

Girishchandra Saligram - *Weatherford International PLC - President, Chief Executive Officer, Director*

Thanks, Mohammed, and thank you all for joining our call. I will kick off our prepared remarks with an overview of performance, the thesis on our capital allocation framework, key highlights, and broad market view. Arun will then cover detail on the results, guidance and liquidity, and I will wrap up with some thoughts on the next phase for Weatherford before opening for Q&A.

As illustrated on slide 3, we delivered excellent margin and cash performance in a quarter that threw out some unplanned events and challenges. In the second quarter of 2024, adjusted EBITDA margins came in at 26%, carving yet another notch on the list of firsts in the new Weatherford. While this was lifted up by some asset sales, it demonstrates the viability of our thesis on continued margin expansion in the years to come. We delivered adjusted free cash flow of $96 million despite this being an interest-paying quarter.

Second quarter revenue grew 3.5% sequentially and 10% year-over-year as every segment improved performance, both sequentially and year over year. We are cognizant that revenue came in at the lower end of expectations, and that was due to four main factors.

Firstly, there has been significant social unrest in Colombia that curtailed activity for the entire sector. Given our strength in this market and the relative size, the impact on us was greater. Secondly, we had some shifts in activity in Mexico that were again broadly felt across the sector. Third, the storm in May in Houston, unfortunately had some adverse impact on a few of our facilities that caused operational disruptions for over a week. Finally, we had some shift in timing on different types of asset sales in MPD across the quarters.

I realize that this is a lot of information, but we have always believed in transparency. And in a quarter where we did have some softness on revenue, we want to ensure that we are very clear on the why. It is also noteworthy to point out that additional opportunities for offsets on revenue existed, but we remain steadfastly committed to pricing discipline and margin expansion. And given our margin performance, believe that we continue to make the right trade-offs for longer-term value creation.

Most importantly, I am very encouraged by our margin and cash results outperforming despite revenue being impacted slightly. This really demonstrates the potential for longer-term margin expansion that we have. From a regional standpoint, although overall North America revenue was down 6% sequentially, our US land business grew sequentially as production continued to increase with softness in the region mainly due to Canadian seasonality and negative weather impacts.

Our international business demonstrated continued strength up 6% sequentially and 14% year-over-year, led by 29% year-over-year growth in the Middle East, North Africa and Asia region. We have now had 13 consecutive quarters of year-over-year international revenue growth with the Middle East, North Africa, Asia region being a big driver of that, showcasing our continued strength in that region.

I also want to highlight that the Kingdom of Saudi Arabia is now the third country in our portfolio to be over 10% of company revenue. Saudi has grown over 35% year-over-year in the first half, and we remain optimistic about future growth potential for us.

Over the last several years, we have made significant improvements to our balance sheet. As seen on slide 5, we have repaid over $1 billion of debt, reduced interest cost by over $100 million, added and expanded a credit facility, brought our net leverage ratio down to 0.5 times and achieved top-tier ROIC of 27.4%. Our disciplined approach to capital allocation and the consistent deployment of free cash flow to repay debt has enabled us to fortify our balance sheet and position us well for the next chapter in our capital allocation story.

All of you have been asking for a while now on when we will embark on returning cash to shareholders and slide 6 lays out our capital allocation framework which consists of five pillars. We will not change our focus on business investment and reducing gross leverage. We will also look for inorganic opportunities that fit our strategic filters. We announced three small acquisitions in February, and I am very pleased with the progress and execution of our team on the integration plans on all of them.

Our Board has authorized us to now introduce two new pillars to this framework as we launch our first-ever shareholder return program. The program comprises an annual dividend of $1 per share and a $500 million share buyback authorization to be executed over three years. We arrived at this decision after conducting a thorough analysis of our financial position and extensive modeling of various scenarios to determine the optimal and sustainable capital allocation strategy for us.

The determination of the mix of dividends and buybacks was driven by several guiding principles. It was essential to ensure that the dividend was sustainable through cycles, and the buybacks provide a vehicle to ensure that we mitigate dilution and opportunistically return cash to shareholders.

At the same time, we wanted to maintain our capital flexibility to pay down debt further, invest in the business and pursue attractive organic and M&A opportunities. Our focus has always been on creating long-term value for our shareholders, and the process we follow to introduce dividends and buybacks reflects this commitment.

Now turning to our segment overview on slides 8 through 10. The operational and technical highlights showcase advancements in new market penetration, technology adoption, and continued innovation of our product and services portfolio. In Saudi Arabia and Kuwait, our MPD technology gained traction, demonstrating advanced capabilities in precisely maintaining bottom hole pressure, enhancing safety and optimizing drilling performance in challenging environments.

These two illustrations of MPD efficacy give us further confidence in the increased adoption of MPD and the opportunity that affords us. In digital, our ForeSite suite of technology continue to drive value for our customers with the deployment of our first ForeSite Sense Fiber Optic monitoring system installation into a gas storage well for a major operator in the Middle East. We also launched ForeSite EDGE 2.0, our next-generation scalable IoT-enabled automation solution, enhancing customers' advanced autonomous production optimization in real time.

We'll now turn to the market outlook on slide 12. Our market outlook remains largely unchanged. Across all parts of the well life cycle, there is a continued emphasis on technologies to support predictable cost-competitive production and security of supply for our customers.

We anticipate continued growth in international land and offshore, particularly driven by the Middle East and supported by pockets of double-digit growth in Europe, Sub-Sahara Africa, and Asia. Clearly, there has been a weakening of North America expectations relative to our initial guidance in February.

Despite a fairly significant reduction in revenue estimates for North America, I am very encouraged that we continue to see total enterprise revenue for 2024 in the same range as February due to the strength of the international markets, especially the Middle East. More importantly, we continue to have confidence in delivering approximately 20% year-on-year adjusted EBITDA growth and delivering slightly more than 25% margins coupled with adjusted free cash flow of over $500 million. With that, I'd like to hand it over to Arun.

Arunava Mitra - *Weatherford International PLC - Chief Financial Officer, Executive Vice President*

Thank you, Girish. Good morning, and thank you, everyone, for joining us on the call. Let us begin with slides 14 and 15, where I'll walk you through our consolidated results.

Revenue for the second quarter 2024 of $1.4 billion increased 3.5% sequentially and 10% year over year. Operating income was $264 million compared to $233 million in the first quarter of 2024 and $201 million in the second quarter of 2023. Net income was $125 million compared to $112 million in the first quarter of 2024 and $82 million in the second quarter of 2023.

Adjusted EBITDA of $365 million increased 9% sequentially and 25% year-over-year with adjusted EBITDA margins of 26%, an expansion of 124 basis points sequentially and 314 basis points year over year. The adjusted EBITDA margin performance has been the company's highest in over 15 years.

Now moving to our segment results on slides 16 to 18. Drilling & evaluation or DRE revenues of $427 million increased by $5 million or 1% sequentially, primarily from higher MPD activity partially offset by a decrease in drilling-related services mainly due to project delays in Latin America and seasonality in Canada. DRE segment adjusted EBITDA of $130 million was essentially flat sequentially as higher MPD activity, including used equipment sale, was primarily offset by lower drilling-related services in Latin America due to project delays and seasonality in Canada.

Well construction & completion or WCC revenues of $504 million increased by $46 million or 10% sequentially, primarily due to higher completions and liner-hangers activity in Middle East, North Africa, Asia and Europe, Sub-Sahara Africa. WCC segment adjusted EBITDA of $145 million increased by $25 million or 21% sequentially, primarily due to higher activity in Middle East, North Africa, Asia and Europe, Sub-Sahara Africa.

Production & intervention or PRI revenue of $369 million increased by $21 million or 6% sequentially, mainly due to increased intervention services & drilling tools and artificial lift activity in Middle East, North Africa, Asia and pressure pumping activity in Latin America. PRI segment adjusted EBITDA of $85 million increased by $12 million or 16% sequentially, primarily from higher overall activity and fall through in international pressure pumping.

Turning to slide 19 for cash flows and liquidity. In the second quarter, we generated operating cash flow of $150 million, up $19 million sequentially, and adjusted free cash flow was $96 million, up $14 million sequentially despite higher cash interest, cash taxes, and CapEx during the quarter.

Our net working capital as a percentage of the last 12 months revenue was 26.3%, 117 basis points improvement year over year. This comes on the back of a 10% year-over-year revenue growth, representing significantly better efficiencies. Second quarter CapEx of $62 million at 4.4% of revenue was up sequentially and year over year. Total cash was approximately $920 million, down $17 million sequentially and $2 million year over year.

Furthermore, during the quarter, we redeemed the remaining $82 million of our 6.5% senior secured notes. We now have $1.6 billion in long-term notes in 2030 outstanding. We also increased the credit facility by $40 million to $720 million in aggregate commitments and increased the accordion to have creative flexibility in the future. All of this results in total liquidity available to the company at the end of June 2024 at $1.2 billion.

Our judicious approach to capital allocation has enabled us to pay down approximately $1 billion in gross debt over the past three years and reduce interest cost by over $100 million. Debt repayment and increasing access to liquidity have provided us with increased financial flexibility.

However, as highlighted in the previous calls, while our net leverage levels remain best-in-class, we remain focused on addressing our overall gross debt levels with an intent to get gross leverage below 1x, while maintaining liquidity of approximately $1 billion to operate the business and manage event risk.

As Girish highlighted, we are delivering on our intent to begin our shareholder return program and are initiating a regular quarterly dividend of $0.25 per share to be paid on September 12, 2024, to shareholders of record on August 13, 2024. This equates to approximately $73 million per year based on the current share count.

This, along with the $500 million share buyback authorization form the final pillars of our capital allocation framework. This marks a significant turning point for our company and reflects our commitment to building shareholder value on a through-cycle basis.

To summarize, our balanced capital allocation approach to investing in technology, organic and inorganic growth, debt management and shareholder returns underscores our focus on sustainable value creation.

Turning to our third quarter and full year 2024 guidance on slide 20. We remain optimistic about the financial performance and market outlook for the year. Second half revenues will be up mid-single digits versus the first half. But the sequential increases will be more pronounced in the fourth quarter. We do have some potential timing shifts between September and October, and hence, our revenue range for the third quarter is between flat and up low single digits sequentially and mid- to high single digits on a year-over-year basis.

Across the segments, our total year guidance remains the same. However, there is a potential for some mix shift on the latter part of the year, but we do not expect that to have an effect on margin performance. We still expect DRE to lead revenue growth for the year. And given the well life cycle, this is a positive as we continue to see strength in the upfront drilling programs with growth to follow in completions and production.

Adjusted EBITDA margins for the third quarter are expected to be approximately 25%, an expansion of 150 basis points year over year. The sequential drop is a function of the acceleration of MPD asset sales from Q3 into the second quarter and shifts in the mix. CapEx is expected to be in the range of $70 million to $80 million for the third quarter and approximately 5% of revenue for the full year.

Adjusted free cash flow is expected to be approximately 50% higher than the second quarter. Our free cash flow in the second half of the year will be significantly higher than the first half with conversion to be expected over 40%. This will enable full year adjusted free cash to be above $500 million despite higher CapEx, cash taxes and continued net working capital investments. Thank you for your time today. I will now pass the call back to Girish for his closing comments.

Girishchandra Saligram - *Weatherford International PLC - President, Chief Executive Officer, Director*

Thanks, Arun. I want to close our prepared remarks with a glimpse of the future. The last four years have been nothing short of a remarkable turnaround, driven by the passion, commitment, and execution by this incredible One Weatherford team.

From a company that was teetering on the edge of second bankruptcy, never having delivered two consecutive years of free cash flow and with single-digit EBITDA margins to where we are today, announcing a shareholder return program, EBITDA margins of 26% and the fifth consecutive year of strong free cash flow generation, it has been a privilege to get to be the guy who speaks about what this team delivers, and I could not be prouder of how far we have come.

What is far more exciting though is where we see ourselves going. With the same rigor on operating intensity, but fueled with the capability of more differentiating technology, larger scale and inorganic opportunities, we believe we have the opportunity to deliver EBITDA margins in the high 20s in the next three years. With a laser-like focus on net working capital efficiency and a further improvement in interest burden, we should be able to deliver free cash flow conversion in the 50% range over the same period.

Our internal investments will be aimed at delivering return on invested capital that approaches 30%. All of this will enable significant cash generation, providing an opportunity to return around 50% of that to shareholders through the framework we have outlined, leaving sufficient dry powder for an organic place that will reinforce this entire thesis.

We believe that the international and offshore cycle remains vibrant, and we are excited about partnering with our customers and delivering value to them and to our shareholders as it unfolds. And now operator, please open the call for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Luke Lemoine with Piper Sandler.

Luke Lemoine - *Piper Sandler Companies - Analyst*

Hey good morning.

Girishchandra Saligram - *Weatherford International PLC - President, Chief Executive Officer, Director*

Good morning, Luke.

Arunava Mitra - *Weatherford International PLC - Chief Financial Officer, Executive Vice President*

Good morning, Luke.

Luke Lemoine - *Piper Sandler Companies - Analyst*

Girish, you hit another 15-year high here with 26% EBITDA margins despite the four factors you mentioned along with the Canadian breakup. Can you help us just bridge the 2Q margins to 3Q margin guidance along with some of the main drivers? I know you already talked about kind of where you see the margins heading over the next few years in the high 20s. But if you kind of just talk about 2Q to 3Q a little more, that would be helpful.

Girishchandra Saligram - *Weatherford International PLC - President, Chief Executive Officer, Director*

Yeah. Sure, Luke. And I appreciate that it feels a little incongruous. Sort of the irony is if we had come in at about 25% in Q2, it would have been a lot simpler. But look, I think a couple of things.

One, as we mentioned in our prepared remarks, we had some MPD asset sales that happened in Q2 that won't repeat the same way in Q3. So that creates a little bit of margin pressure just the way those transactions are structured. So that is one piece.

The second piece is we've talked for a very long time about the infrastructure improvements that we continue to make into the company that are paying off. We've got a little bit higher element of that coming into Q3. And the third element really is mix. So we've got some mix changes that are happening between Q2 and Q3, a little bit more pressure on margins from that standpoint.

But look, I think what is really important to also consider is just the overall progression of margins. At 25% in Q3, it's still 25%, those are very, very strong EBITDA margins, and we expect to again see an uptick in Q4. So the total year will now be slightly ahead of 25%.

Luke Lemoine - *Piper Sandler Companies - Analyst*

And Arun, you alluded to some of this with the 3Q revenue guide. This applies 4Q will be up fairly substantially to put the full year in line with guidance. I know you'll give us the 4Q outlook on the next call, but can you just give us a high-level overview of some of the drivers in 4Q versus 3Q for revenues?

Arunava Mitra - *Weatherford International PLC - Chief Financial Officer, Executive Vice President*

Look, typically, what happens, Luke, in the fourth quarter is we get an uplift in product deliveries. We have built up inventory for the first half. And you would see us scaling back on the inventory as we ship products out. So the way things evolve, there could be some shifts between September and October. And that is why we mentioned what we did. If product deliveries were to move out from September into October, there could be some revenue shifts between Q3 and Q4.

Luke Lemoine - *Piper Sandler Companies - Analyst*

Okay. Got it. Thanks very much.

Arunava Mitra - *Weatherford International PLC - Chief Financial Officer, Executive Vice President*

Sure.

Operator

James West, Evercore.

James West - *EVERCORE ISI - Analyst*

Hey, good morning, Girish, Arun.

Girishchandra Saligram - *Weatherford International PLC - President, Chief Executive Officer, Director*

Good morning, James. How are you doing?

James West - *EVERCORE ISI - Analyst*

Good. Well, congratulations on hitting a big milestone here with the shareholder return framework. I know it's been a road to get here. So I'm sure you guys are very pleased to be here at this point.

Girish, I wanted to ask about MENA, so Middle East, North Africa, kind of land markets. I know there's a lot of tendering activity in KSA right now, in the UAE and you guys have historically had a very strong position in those markets.

Could you talk a bit about kind of what trends you're seeing? And when -- assuming that you capture your fair share, which you typically do, when that starts to show up, the incremental work starts to show up in revenue and earnings?

Girishchandra Saligram - *Weatherford International PLC - President, Chief Executive Officer, Director*

Yeah. So James, look, I think great question. First of all, I think you're spot on. We continue to see strong activity, and its reasonably secular, I would say, across most of the countries. We've talked a lot about the Kingdom of Saudi Arabia, but we see it in Oman, in Kuwait, in the UAE, et cetera. So multiple different countries. And so we are -- that's why we are so optimistic about the vibrancy of the cycle.

Now on kind of when it shows up, I would say, look, we're already seeing a lot of that. We talked about the Middle East revenue growth. So a big part of that is because we've been able to do well both from a pricing standpoint as well as from a share standpoint. So I think that's important to highlight. We've been able to get both of those elements simultaneously, that's showing up now.

We will continue to see that. I think just the nature of the math is going to suggest that the percentage might actually decrease a little bit because we have grown so much around that. But dollar-wise, we still think there is a lot of activity to come in the next few years.

James West - *EVERCORE ISI - Analyst*

Okay. Got it. And then as you've gotten to this point with the balance sheet in great shape now, you guys have started to do some bolt-in -- bolt-on acquisitions here. Does the M&A strategy shift at all? Is it going to be still kind of small technology tuck-ins? Or do you start to look at bigger opportunities?

Girishchandra Saligram - *Weatherford International PLC - President, Chief Executive Officer, Director*

Yeah. Look, I think the filters stay the same. I think we are certainly more open to variation on scale. So it was really important for us to make sure that we had the operating muscle first of all, internally to execute. I think we have gotten very confident and comfortable with that, though we never take it for granted.

And then secondly, we wanted to make sure we actually knew how to go ahead and do these acquisitions. So the capability that we have now developed over the past several months with doing diligence and integrating small acquisitions, we feel comfortable that we can scale that up. But what will not change is the strategic filters that we look at, which is really making sure it's something that gives us a strategic advantage.

It is ultimately margin leveraging through synergies ultimately. It's deleveraging ideally for the company, generates cash and really ultimately creates longer-term value. That will not change. But yeah, look, I think we're open to multiple different ideas, but it's got to fit that filter.

James West - *EVERCORE ISI - Analyst*

Okay. Got it. Thanks, Girish.

Girishchandra Saligram - *Weatherford International PLC - President, Chief Executive Officer, Director*

Thanks, James.

Operator

David Anderson, Barclays.

David Anderson - *Barclays - Analyst*

Hi, good morning, Girish. How are you?

Girishchandra Saligram - *Weatherford International PLC - President, Chief Executive Officer, Director*

Good. How are you doing?

David Anderson - *Barclays - Analyst*

I'm doing great. So look, if we look back the past few years, the margin expansion story really stands out here. A lot of it's been so-called self-help as you've reset the cost structure, improved operations. Now it doesn't sound like we're seeing much in the way of pricing increase across the market. Let's assume we don't get any from here. You highlight -- you were targeting kind of high 20s EBITDA margins from here.

So what's going to be the bigger driver of margin expansion kind of in '25 and beyond? Is it going to be mix from increasing revenue from, say, TRS and MPD as offshore ramps up? Or is it more likely to come internally as you consolidate repair and maintenance facilities and make improvements to the supply chain? So I'm just kind of curious, is it market? Or is it internal in order to achieve those targets?

Girishchandra Saligram - *Weatherford International PLC - President, Chief Executive Officer, Director*

Yeah, sure. Great question, Dave. Look, I think a couple of things. First of all, let me start with -- I would actually submit that pricing has been an important factor in the growth both on the top line as well as in terms of the margins that we have seen. Look, one of the things we pointed out in our K earlier this year was, as you look back at 2023, order of magnitude, about 20% of our increase actually came from pricing. So pricing, I think, has been a very big factor. And as we also pointed out in our prepared remarks, that's something that we are very, very committed to and want to make sure that we don't sacrifice margins for the sake of volumes.

Now as we look forward, though, I think there's a couple of different things. I don't think mix will be that much of an element. There will be quarterly variations due to mix, but it won't be really a fundamental driver of longer-term margin shift. What it really comes down to, in my mind, is three key elements.

The first is technology introductions. And with technology introductions, what we get is, a, the ability to get incremental share leading to better fall-throughs, but also with that comes increased pricing. So we demonstrate more value.

The second piece is over the -- we've talked about our fulfillment efforts, which you can call as part of the self-help. We really expect that in '25 and '26, that's when they will really start to pay off and we should see more benefit coming through the bottom line from that, more -- better utilization of our assets, better cost absorption in our fulfillment facilities, lower cost of goods sold, et cetera, those kinds of things will really start to percolate through.

And the third piece, look, I still believe as much as we have -- the team has done an outstanding job on improving the operating efficiencies in the company, I still believe that we've got opportunities on continuing to improve our overall structural cost in the company. And that's going to be a big focus for us in the coming years. So that's really how I see it unfolding, which is what gives us confidence on laying out this longer-term target.

David Anderson - *Barclays - Analyst*

Great. Very clear. Thank you. I want to go back -- I'm sorry, really strong quarter. I know we don't necessarily know exactly on Middle East, but Middle East, North Africa, Asia, up 9% sequentially is leading kind of all the other peers who reported so far. It seems pretty broad-based. You highlighted Saudi up 35% I think through the first half of the year, I think Kuwait, Abu Dhabi as all mentioned.

I'm curious as to how much of this is being driven from natural gas, which is becoming a bigger and bigger story out of the Middle East and then -- and sort of separately but related, is the growth here that we're seeing, is that a result of new contracts turning up? Are these existing programs that are ramping up? Or are you simply just gaining share in your core services, which you did allude to a little bit.

Girishchandra Saligram - *Weatherford International PLC - President, Chief Executive Officer, Director*

Yeah. So look, I would say from an incremental standpoint, I think natural gas is certainly a factor in it as we are seeing more of a shift in the broader region towards that, both onshore and offshore. So that's certainly playing a big factor and especially offshore, look, when it comes to some of our specialty services around MPD, TRS, et cetera, that creates additional value that falls through.

In terms of the contracts themselves, Dave, though, look, I think, again, it's a little bit of a mix. A big part of it is the two new contracts that we won and announced towards the end of 2022, and that really ramped up over the course of last year and this year, which is our LSTK contract in Saudi and our integrated projects contract in Oman. So they have certainly been a big factor of the incremental growth that we have seen.

But at the same time, as I pointed out in, I think, the earlier question, we are seeing on the contracts that we're bidding on, we are so far being able to get both pricing and share, and we're not going to make a trade-off on getting just more share without getting price. So that's something that we are very focused on and the way to bridge that gap we believe is through technology differentiation and find something that actually fits customer value requirements.

David Anderson - *Barclays - Analyst*

Fantastic. Thank you very much.

Girishchandra Saligram - *Weatherford International PLC - President, Chief Executive Officer, Director*

Thanks Dave.

Operator

Ati Modak, Goldman Sachs.

Ati Modak - *Goldman Sachs - Analyst*

Hi, good morning team. Can you talk about the debt paydown cadence we should expect and what timeline you're thinking about in terms of achieving the interest coverage parity?

Arunava Mitra - *Weatherford International PLC - Chief Financial Officer, Executive Vice President*

Look, as we've mentioned, you should continue to see -- you will continue to see debt paydown. But we will do it in a manner which makes sense, Ati. And the other thing about debt is also the cost of debt. As we have mentioned, it is not only getting to a gross leverage of less than one, but it is less than one at the right cost. So while we've not definitively laid out a timeframe, you should expect to see us continuing to do both i.e., pay down debt and keep working on the cost of debt.

Ati Modak - *Goldman Sachs - Analyst*

Got it. And then as we think about the potential sizes of M&A and the cash component, how rigid is the $1 billion in liquidity. Is that cash and revolver? And how do you expect to manage that over time as you pursue M&A?

Arunava Mitra - *Weatherford International PLC - Chief Financial Officer, Executive Vice President*

Look, we believe at this point that $1 billion is what we want to have approximately while we do every other thing, right? Run the business, manage risk, and also indulge in other capital allocation topics. So I would expect to be around $1 billion, including RCF at all times.

Ati Modak - *Goldman Sachs - Analyst*

Thanks. I'll turn it over.

Operator

Jim Rollyson, Raymond James.

Jim Rollyson - *Raymond James - Analyst*

Hey good morning, Girish, Arun.

Girishchandra Saligram - *Weatherford International PLC - President, Chief Executive Officer, Director*

Good morning, Jim.

Jim Rollyson - *Raymond James - Analyst*

Girish, on the new capital allocation framework that you've added some pillars too, which congrats on that. I'm curious how you guys think about the share repurchase program because we've seen some companies that do this just pretty systematically and we've seen some guys that do it more opportunistically. And obviously, the $500 million has a three-year time horizon. So how are you thinking about the approach of that?

Girishchandra Saligram - *Weatherford International PLC - President, Chief Executive Officer, Director*

Yeah. Look, Jim, it's a great question. We don't want to get tied into a hyper-specific formula here and say this is exactly what it's going to be. So I think, look, ultimately, what you will see is it is not going to be a very prescriptive, every quarter, there's going to be an exact amount that comes out.

But I think what we will see is, over time, we will do a combination of both. We will certainly have a sort of systematic component to it, and then at the right time, have the flexibility to take opportunistic advantage of any potential situation. So look, this is really meant for us to make sure that we create value versus sort of getting to a programmatic -- every sort of weak month, quarter, we are doing an exact amount.

Jim Rollyson - *Raymond James - Analyst*

Yeah, that makes perfect sense. And then you highlighted a couple of the issues that hits you in the quarter, one being some of the issues in Latin America, one being the storm you had in Houston earlier in the second quarter. Just curious how Latin America is kind of trending today? And how that outlook is going forward? And similarly, any impact from the hurricane in Houston here in July?

Girishchandra Saligram - *Weatherford International PLC - President, Chief Executive Officer, Director*

Yeah. I'm learning a lot more about storm systems than I think I ever wanted to. But Jim, look, I think on the Latin America piece, you'll see all of that baked into our guidance. I talked a little bit about Colombia. That situation continues to evolve. There are positive indications, but there's still a lot of strain in the system. So we have factored all of that in.

Now that we've got in other countries in Latin America and Mexico, the elections are behind us, but there's still a degree of uncertainty. So we think it will be a much more positive quarter, and we will see sequentially things get better. But we are -- so we are still making sure that we are not getting too far ahead of our skis.

So cautiously optimistic is the way I would phrase it. This has been a terrific region for us. We have seen tremendous growth in Latin America. And our overall expectations for the region for the total year still remain in the ballpark we had talked about in February.

Jim Rollyson - *Raymond James - Analyst*

Perfect. Thank you. Appreciate that.

Girishchandra Saligram - *Weatherford International PLC - President, Chief Executive Officer, Director*

Thanks.

Operator

Scott Gruber, Citigroup.

Scott Gruber - *Citi - Analyst*

Yes. Good morning.

Girishchandra Saligram - *Weatherford International PLC - President, Chief Executive Officer, Director*

Hey, Scott. Good morning, Scott.

Scott Gruber - *Citi - Analyst*

I just want to come back to the medium-term margin outlook, which is great to hear in the high 20s. How do you think about the cadence of margin improvement in the years ahead, given that most of it is within your control via how you're pushing forward with the internal efficiency efforts and technology rollout? Would you expect the improvement over the next three years to be fairly ratable, to be more front-end loaded, back-end loaded? How should we think about it?

Girishchandra Saligram - *Weatherford International PLC - President, Chief Executive Officer, Director*

Yeah. So Scott, there isn't a definitive formula. Let me sort of though, however, reiterate some of the things we have talked about. Our overall philosophy on margins, we have always taken this view that we plan our business around flat activity, and then we hold ourselves accountable to make sure that we improve our margins in, I'll call it, this 50 basis points sort of range, plus or minus a little bit, right?

And then when activity comes through and you have fall-throughs that are typically higher, that accelerates the achievements of the margin and increases the amplitude. So that's really how we think about it.

So what I would say is as we go from this sort of 25% to high 20s, that baseline is sort of 50-ish a year, 50 bps a year. And then as activity comes in and revenue growths modulate up or down, that will sort of be the incremental or decremental on that, if you will. But from an internal standpoint, that's really what we are trying to get to at a bare minimum on flat activity each year.

Scott Gruber - *Citi - Analyst*

Got you. I was curious, your opinion, I mean, you have some great growth momentum, particularly in the Middle East. But obviously, energy investors are skeptical of oil service earnings pretty much across the board in 2025. But just looking at where consensus sits for your growth in the next year, it's kind of the higher end of mid-single digits. Do you think that's a reasonable starting point with how you see the project schedule come together later this year?

Girishchandra Saligram - *Weatherford International PLC - President, Chief Executive Officer, Director*

Yeah, I think that's a very diplomatic way of asking for 2025 guidance, Scott, but no, look, we're not giving guidance on 2025 yet. But I do think, look, we have talked about a couple of things that are relevant, right? One is we don't see the cycle going away anytime soon. We've talked about it being vibrant. We continue to see contracts come up.

So I think all of that suggests that there will be continued growth in the overall sector, and we're optimistic about that. Now what is the exact magnitude around it? We're going to have to wait a little bit for us to actually come out and give some specific guidance around that, right? I'm not going to get drawn into a range right now, but I think it is definitely reasonable to say there will be revenue growth as we head into 2025.

Scott Gruber - *Citi - Analyst*

Yeah. I appreciate the color. Thought I'd try. Thanks guys. I'll step back.

Girishchandra Saligram - *Weatherford International PLC - President, Chief Executive Officer, Director*

Thanks, Scott

Operator

Doug Becker, Capital One.

Doug Becker - *Capital One Securities, Inc - Analyst*

Girish, the capital allocation framework slide says approximately 50% of free cash flow or, I guess, more accurately, adjusted free cash flow will be returned to shareholders. Do you think of that as an annual target just to give flexibility -- a multiyear target to give flexibility or more of an annual target as we just think about the shareholder returns going forward?

Girishchandra Saligram - *Weatherford International PLC - President, Chief Executive Officer, Director*

Yeah, Doug, there is no specificity on an annual target on this. This is sort of over the course of the program. Look, again, our whole intent on this is a couple of things.

Number one, most importantly is to make sure we create value. We've got all of the mechanics and the mechanisms in place. But at the same time, we want to preserve flexibility to do the things that matter in creating longer-term value for the company, having dry powder for M&A, making sure we're driving the organic investments that we need to.

Look, the dividend obviously is pretty prescriptive, it's pretty specific. So that kind of sets a baseline. But the rest of it is really over the -- over that period. So it's not an annual and certainly not a quarterly target.

Doug Becker - *Capital One Securities, Inc - Analyst*

I think that makes a lot of sense. And then, Arun, I wanted to circle back to the revenue growth. And I was hoping you might put a little bit finer points on the annual guidance. And just -- I know this is at risk of being pedantic, but when I take a look at the 3Q guidance, take a look at the annual guidance, to get DRE growth year-over-year in the high teens or PRI in the mid-single digits, we're talking about growth that would be well into the double digit sequentially and then maybe even WCC might be down a little bit. I guess, simplistically, am I interpreting this correctly? Or just any additional color on that revenue growth outlook?

Arunava Mitra - *Weatherford International PLC - Chief Financial Officer, Executive Vice President*

Hey, Doug, you are right that there is quite a bit of dependence in Q4 overall for the enterprise. And again, a lot of that has to do with product deliveries, as I mentioned, activity in Latin America picking up the way we anticipate. So you should see activity, which is comparable in terms of the growth as you've seen in the past, in Q4. There will be more products going out this Q4 than what you would have seen in the past. So yes, you are right, while the sequential growth between Q3 and Q2 is a little muted, but we fully anticipate to make up for that in Q4.

Doug Becker - *Capital One Securities, Inc - Analyst*

Got it. Thank you.

Operator

Kurt Hallead, Benchmark.

Kurt Hallead - *The Benchmark Company LLC - Analyst*

Hey good morning, everybody.

Girishchandra Saligram - *Weatherford International PLC - President, Chief Executive Officer, Director*

Good morning.

Kurt Hallead - *The Benchmark Company LLC - Analyst*

Thanks again for all the color and the extended outlook in terms of the margin improvement and free cash flow conversion. Obviously, continues to speak to the growth story being intact. And given your ability to deliver over the last couple of years, there should be little doubt that you're going to get there. So anyway, that's my advertisement for you guys.

So Girish, really kind of curious here in terms of the international business. And as you kind of think about the prospect for the pace of contracting. And again, not looking for specific percentages or anything, but really looking at some qualitative assessment on your front. And where do you think the bulk of future growth is going to come from? Again, not looking for percentages, just some qualitative commentary.

Girishchandra Saligram - *Weatherford International PLC - President, Chief Executive Officer, Director*

Yeah. So again, look, in terms of where it's going to come, we still see the Middle East -- the broader Middle East region as being the biggest driver of that. And we see that both in a combination of gas offshore, but we also see a fair amount of just even oil activity, just given some of the decline rates in reservoirs, et cetera. We still see a significant amount of discussion, a significant amount of tender activity.

And so therefore, look, as we look out the next few years, we're not overly concerned about a dramatic change in that outlook or a significant slowdown. Now at the same time, I would say, look, Latin America last year was incredibly strong. This year, it's still growing in totality, but obviously a lot lower. Just with some of the changes and some of the focus on more energy independence, more opportunity for exports in Latin America, that could be another place that we will see significant growth.

So really, those are the two areas. We are kind of assuming on the North America side that things remain sort of flattish for at least a little bit, maybe pick up at some point in the second half of next year. But those two regions, Middle East and Latin America, with the Middle East being the preponderance of where we expect to see it from.

Kurt Hallead - *The Benchmark Company LLC - Analyst*

Okay. That's great. And I know you made some reference to some M&A dynamics and some small things that you've done so far. Like when you think about it in the context of either product line technology or geography, what do you see on the horizon, again, not specifics, but what do you see on the horizon that can really add to your current portfolio?

Girishchandra Saligram - *Weatherford International PLC - President, Chief Executive Officer, Director*

Yeah. Look, I think from a couple of different angles. First is more offshore capability, that would be something that is really interesting just given how confident we are in the cycle. I think getting more of a portfolio advancement capability there would be interesting. And then secondly, on the very longer-term basis, right, more production orientation, those are the kinds of things.

But ultimately, look, for us, what we really try to do is across our portfolio, we've got a portfolio that is a little more production and development oriented, but it's all based on differentiating technology. So things that can help in that, help us conquer some white space, gain additional share through creation of that differentiating value, those are things that we are very interested in.

Kurt Hallead - *The Benchmark Company LLC - Analyst*

Okay. Great. And maybe just to kind of wrap it up on the shareholder distribution. You made a reference on the share repo to pretty much keep share count creep in check. But as time goes on, do you think that there is an opportunity to outright reduce the share count?

Girishchandra Saligram - *Weatherford International PLC - President, Chief Executive Officer, Director*

Look, there certainly is an opportunity, and that's -- look, the whole thesis was designed around that. But again, we don't want to be overly prescriptive on this. It's all going to be about what makes sense at the right time.

Kurt Hallead - *The Benchmark Company LLC - Analyst*

Excellent. Thank you. Appreciate it.

Girishchandra Saligram - *Weatherford International PLC - President, Chief Executive Officer, Director*

Thank you.

Arunava Mitra - *Weatherford International PLC - Chief Financial Officer, Executive Vice President*

Thank you.

Operator

Saurabh Pant, Bank of America.

Saurabh Pant - *BofA Global Research - Analyst*

Hi, good morning, Girish and Arun.

Girishchandra Saligram - *Weatherford International PLC - President, Chief Executive Officer, Director*

Hey Saurabh. Good morning.

Arunava Mitra - *Weatherford International PLC - Chief Financial Officer, Executive Vice President*

Hey Saurabh.

Saurabh Pant - *BofA Global Research - Analyst*

Good morning. Maybe I want to start with a question on your three-year outlook, especially on the free cash flow front, I think it's really important that you see a path to 50% EBITDA to free cash flow conversion, right? It's a big step up because if you just look at the implied guidance for this year and you assume $500 million free cash, right? It's about 35%, maybe a little more than that, free cash flow conversion, right? Can you just walk us through the path of how do we get from 35%, call it, round number to 50%. What are the moving pieces? Just talk to that a little bit maybe.

Arunava Mitra - *Weatherford International PLC - Chief Financial Officer, Executive Vice President*

So Saurabh, it is really a combination of working capital efficiencies. We see ourselves -- we are currently -- on a consistent basis, we are at about 26.5, right, in terms of (technical difficulty) revenue. And over the next three years, we'd like to see ourselves below 25. So that translates into a better conversion. And interest cost, as we pay down debt and keep working on the interest cost associated with the debt that translates into better conversion.

And tax efficiency. In the next three years, our ETR and cash taxes will improve over time. It's not going to happen overnight, but our cash taxes are at 14% to 15% this year, and we certainly expect that to go down by a couple of percentage points. So the combination of all of these three will lend itself to a better conversion.

Girishchandra Saligram - *Weatherford International PLC - President, Chief Executive Officer, Director*

And Saurabh, if I can add, look, I think it's also important to again remember, we had a little bit of a switch this year in our free cash flow given the acceleration of some payments into Q4 of last year that we talked about in February. So as a result, we had much stronger Q4 in 2023 and the free cash flow sort of shifted. So on a normalized basis, this year is probably in the low 40s.

Saurabh Pant - *BofA Global Research - Analyst*

Okay. No, that's very helpful, Girish. Because you've got to set the starting point for investors so that they can make up their expectations for next year and '26, right? So it's very helpful.

And then just maybe one quick one as a follow-up on, I think in your capital allocation framework slide, you mentioned CapEx should be in that 3% to 5% range. And obviously, it's up 5% this year, right? So it's interesting that you see the current 5% as the peak for you on a sustained basis. Under what circumstances should we think CapEx as a percentage of revenue falls below 5%, just so that we're clear on that?

Girishchandra Saligram - *Weatherford International PLC - President, Chief Executive Officer, Director*

Yeah. Look, Saurabh, our 3% to 5% range, we've always said it's somewhat cycle dependent. It will be closer to 5% when we are in an up cycle and much more geared towards growth CapEx. And if we are at some point in a down cycle, it will probably be closer to that 3% and much more geared towards maintenance CapEx at that point.

So I think, look, as long as we continue to see the cycle where it is right now, as long as we continue to see growth in the future, it will probably be closer to that 5%. And again, it is very important to reiterate this is not about a specific quarterly target. It's really sort of a rolling 18-month window just given the lumpiness of some of these CapEx outflows.

Saurabh Pant - *BofA Global Research - Analyst*

Absolutely. No, I totally get it. And if I can sneak in one more, Girish. Just can you add a little color on -- I think in your prepared remarks, you talked about some shift in activity in Mexico. Can you give a little more color on that? What are we talking about? And should we expect that to reverse or change or normalize in the near term?

Girishchandra Saligram - *Weatherford International PLC - President, Chief Executive Officer, Director*

Yeah. So look, again, I think, first, I'll start with the latter part of the question. We did indicate that overall, Latin America should be better this quarter versus Q2 on a sequential basis. So we will see some of that reversing. And all it was really was just customer planning around wealth sequences and what they decided will just shift it out a little bit in the latter part of the quarter. So that's really what it was. Nothing untoward, nothing that gives us any signal for longer-term worry or anything. It's just normal operational changes that happened. We just didn't have enough opportunity to offset that. That's really all it was.

Saurabh Pant - *BofA Global Research - Analyst*

Okay, perfect. No, that's very helpful. Okay, Girish, Arun thank you. I'll turn it back.

Girishchandra Saligram - *Weatherford International PLC - President, Chief Executive Officer, Director*

Thanks, Saurabh.

Operator

This will conclude our question-and-answer session. I'd like to turn the conference back over to management for any closing remarks.

Girishchandra Saligram - *Weatherford International PLC - President, Chief Executive Officer, Director*

Great. Thank you all so much for joining the call. Appreciate the time, as always, and we'll be back in three months to talk about the Q3 results. Thank you.

Operator

The conference has now concluded. Thank you for attending today's presentation. You may now disconnect your lines at this time.