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OVERVIEW:

Company Summary

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PRESENTATION

Operator

Good morning and welcome to the Weatherford International fourth-quarter 2024 and full-year 2024 earnings call.

(Operator Instructions) Please note, this event is being recorded.

I would now like to turn the conference over to Luke Lemoine, SVP of Corporate Development. Please go ahead.

Luke Lemoine - *Weatherford International plc - Senior Vice President - Corporate Development and Investor Relations*

Welcome, everyone, to the Weatherford International fourth-quarter 2024 and full-year 2024 earnings conference call.

I'm joined today by Girish Saligram, President & CEO and Arun Mitra, Executive Vice President and CFO. We will start today with our prepared remarks and then open 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 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 Investor Relations website section following the conclusion of this call.

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

Girish Saligram - *Weatherford International Ltd - President, Chief Executive Officer, Director*

Thanks, Luke, and thank you, all, for joining our call.

I will start with an overview of our performance and key highlights and we'll then share our outlook on the market. Arun will then cover specifics on financial performance, balance sheet, and detailed guidance and I will wrap up with some thoughts on our strategic direction and 2025 focus areas before opening for Q&A.

As illustrated on slide 3, it's clear that the fourth quarter did not go as anticipated. We had a significant reduction in activity in Latin America, driven by cost containment program in Mexico. The activity reduction was further amplified by scheduled shifts in the North Sea and a few other pockets. The delta versus our guidance on revenue was a direct consequence of these changes.

Nonetheless, I am very pleased with and proud of the Weatherford team's tenacity and efforts to achieve our objective of delivering adjusted EBITDA margins exceeding 25% for the full year. Additionally, we demonstrated strong cash generation in the fourth quarter allowing us to generate $524 million adjusted free cash flow for the year.

From a regional standpoint in Q4, North America revenue was down 2% sequentially, primarily due to a continued reduction in US land activity which was partially offset by improved performance in our North America offshore business. Our international business was down 6% sequentially and down 3% year over year, driven primarily by Latin America and particularly Mexico.

Importantly though, our international business generated growth of 10% on a full-year basis, spearheaded by the Middle East, North Africa, and Asia region which clocked in at 17% year-on-year top line growth. Adjusted EBITDA margins for Q4 came in at 24.3%, driven by the impact of lower revenues. We have always maintained that we can improve margins even in a flat environment. But as the fourth quarter demonstrated, unfortunately, we cannot fight math when revenues decline.

Despite the shortfall, we delivered full-year adjusted EBITDA margins in line with our prior guidance at 25.1%, marking the highest full-year margin over 15 years. Throughout the year, we experienced several notable growth success stories. The Kingdom of Saudi Arabia grew 15% for the full year while we also achieved high growth rates in the UAE, Kuwait, Oman, Qatar, Thailand, Malaysia, Indonesia, the UK, and Argentina. While North America remains challenged and was down 2%, I am pleased that the team has once again done an outstanding job of improving year-on-year margins.

As shown on slide 6, we have now paid two quarterly dividends of $0.25 per share and repurchased approximately $99 million of shares during the second half of 2024. While this amount may vary each quarter due to market conditions, we believe the stock at these levels is undervalued and represents a compelling investment opportunity.

Now, turning to our segment overview on slides 9 through 11. The operational and technical highlights showcase advancements in new market penetration, technology adoption, and continued innovation of our product and services portfolio.

We achieved significant growth in a number of our product lines in 2024. Within DRE, all our major product lines exhibited significant growth. In WCC, Completions remains our largest product line and grew in the mid-double digits in 2024 following a year of mid-20% growth in 2023.

I also remain very excited about our Well Services product line. This is our customer OpEx focused rigless intervention business that enables production enhancement through innovative well rejuvenation solutions, and we have dedicated significant organic attention to it over the past couple of years. In three years, this business has grown over 50% and this represents a significant growth vector. Moreover, it is low-capital intensity and growth is generated by creating a quick payback business case for customers versus relying on intrinsic activity uptick.

As mentioned in our earnings release and specified on the segment pages in the presentation, we continue to secure a number of significant contract awards. Notable highlights include Kuwait Oil Company awarding Weatherford an MPD services contract to improve operational efficiency and reduce costs by deploying the Victus Intelligent MPD System.

Additionally, ADNOC awarded Weatherford a three-year contract for rigless services as part of the reactivation of its onshore strings. The latter exemplifies the growth potential we can create through well services offerings. We continue to focus on technology adoption and penetration and we remain confident that we can achieve growth above market levels by showcasing the value proposition of the technology innovations within our portfolio with major customers.

Now turning to our view on the market. There is a fair degree of uncertainty that will clarify as the year evolves. However, at present, the outlook has a more negative bias in the immediate term. The biggest headwind we face is in Mexico where activity levels are anticipated to drop significantly compared to the first half of 2024.

While there is a possibility of a rebound in the second half of this year, we are adopting a cautious and prudent approach regarding our capacity. While we benefited from extraordinarily strong growth in Mexico in the past few years and continue to believe in its long-term potential, for the short term, our focus will be on margins and minimizing cash exposure and risk. Coupled with Russia, this will create a drag on 2025 revenues and drive enterprise revenue lower than 2024. However, I am encouraged by the outlook in the rest of the world as countries like Canada, Brazil, Kuwait, Saudi Arabia, Thailand, and Norway will help partially offset the decline.

For 2025, total international revenues will likely be down mid-single digits which is predominantly a function of Mexico and Russia, excluding these two countries, international revenues would likely be up low-single digits in 2025, and we see a continued outlook for stability there for the coming years. North America revenues are expected to continue the same trend as the past couple of years and be down low- to mid-single digits this year, primarily due to US land that's partially offset by Canada.

From a segment standpoint on an enterprise basis that translates to DRE down high-single digits and WCC and PRI down low-single digits. However, there may be some mix changes throughout the year based on customer plans and schedules. For Q1, the revenue decline is most pronounced in Latin America due to Mexico and closely followed by Europe, Sub-Saharan Africa, and Russia due to Russia along with contract timing. Considering these markets and FX challenges, overall international revenues are expected to decline quarter on quarter by mid double-digits with North America revenue down low-single digits.

We have a good line of sight to a material increase in second quarter revenues. We have sized Mexico appropriately, and while the total year revenue decline is projected to be in the order of magnitude of 30% to 50%, the run rate is really manifested in Q1 and limited sequential changes going forward. MENA growth is driven by contract starts, integrated contracts ramp up, and new contracts commence in Europe. Additionally, this should be followed by another rise in revenues from first half to second half levels, once again, driven by contract starts that we have good line of sight to.

As we began to see revenue softness in the fourth quarter, we launched plans to control and reduce costs across several aspects of the company while preserving our focus on longer-term investments and innovation. These actions will ensure that we are keeping decrementals in check and ensuring healthy margins at the intersection of each product line and country. Margins are expected to improve substantially in the second half as our cost and productivity programs take full effect.

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

Arun Mitra - *Weatherford International Ltd - Chief Financial Officer, Executive Vice President*

Thank you, Girish. Good morning and thank you, everyone, for joining us on the call.

Girish has already shared an overview of our fourth-quarter performance and an update on our capital return program. For a more detailed breakdown of the fourth-quarter results, please refer to our press release and accompanying slide deck presentation. My comments today will center around cash flow, working capital, balance sheet, liquidity, and guidance.

Turning to slide 23 for cash flows and liquidity. For the full year 2024, we generated $524 million of adjusted free cash flow or a 37.9% free cash flow conversion rate and we remain committed to driving this rate towards 50% in the long-term.

For the full year, our net working capital showed significant efficiencies with net working capital as a percentage of revenues improving to 24.5% from 25.8% the previous year. This also represents a 610-basis-points improvement in our efficiency compared to the 30.6% we achieved in 2021, reflecting our commitment to sustainable longer-term improvements in company performance.

As we have mentioned before, regardless of the stage of the cycle, our goal is to maintain net working capital as a percentage of revenue at 25% or better, sustainably. In the fourth quarter, we generated a significant improvement to our inventory levels as we experienced a decline in revenues, allowing us to adjust our plans to avoid incurring stranded costs.

As Girish mentioned, we have initiated a series of cost actions to drive cost reductions across the company. In this context, we took a restructuring and severance charge of $32 million in Q4. Several actions have already been completed and we anticipate finishing the remaining steps in the first half of the year.

For 2024, CapEx was $299 million or 5.4% of revenues. CapEx came in a bit higher in Q4 as we took advantage of opportunistic investments that are strategically important and represent good economics. On our 18-month rolling basis, CapEx remains within the 5% of revenue range we've outlined.

In the fourth quarter, we repurchased approximately $49 million worth of shares and paid a $0.25 per share quarterly dividend. Our liquidity is approximately $1.3 billion and we feel confident in our ability to manage the company through this transitional period. We believe we have opportunities to drive multiple elements of our capital allocation framework and create value for our shareholders.

Now turning to guidance, let me start with Q1. We are expecting $1.17 billion to $1.21 billion in revenues with adjusted EBITDA of $245 million to $265 million. The sequential decline is a function of normal seasonality, significant Mexico activity reduction, FX and Russia decline. Free cash flow will be more second half weighted as is typical with first quarter free cash flow near breakeven. For 2025, we expect revenues of $5.10 billion to $5.35 billion. Adjusted EBITDA of $1.20 billion to $1.35 billion, and the free cash flow conversion to increase 100 to 200 basis points year on year.

I'd like to point out that the Q1 operating income will be favorably impacted by a $25-million quarter-on-quarter decline in depreciation and amortization. For the full year, we expect depreciation and amortization to decline approximately $100 million.

Our effective tax rate can vary quarter to quarter depending on the geographic mix and we anticipate this will be similar to 2024 in the mid-20% range for 2025 with Q1 towards the high-30% range. CapEx will remain at 5% of revenues for the year as we finish deployment of the subsea intervention projects in Brazil as announced at the end of 2023 and will be a bit higher as a result in the first half of the year.

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

Girish Saligram - *Weatherford International Ltd - President, Chief Executive Officer, Director*

Thanks, Arun.

While the overall market is evolving and the cycle is maturing, we remain constructive on the activity profile over the next several years. There will be pockets of turbulence like we are encountering in 2025 with Mexico but the overall demand profile for hydrocarbons, reservoir decline rates, share gain opportunities, and pricing resilience give us confidence in our mid- to long-term positive perspective.

In that context, we continue to believe we have the opportunity to deliver adjusted EBITDA margins in the high-20s in the next three years in a flat to modestly up operating environment. However, as I said earlier, when revenues decline, it's hard to fight math in the immediate term. What we can control are our actions and focus. We have outlined our five strategic priorities and organizational vitality, creating the future, customer experience, lean operations, and financial performance. And for 2025, these converge around three specific focus areas.

The first area of focus is structural cost. We initiated a significant cost optimization program in the fourth quarter which goes beyond merely adjusting for volume. Our emphasis is on achieving sustainable productivity gains through technology and lean processes. While this program is set to run for several years and aims for long-term efficiency, improvements from systems enhancements, we expect to see very tangible short-term impacts in the first half of the year. We will provide more details during our first quarter call.

Second is net working capital efficiency. Invoicing, collections, inventory paradigms, supplier terms, and manufacturing and repair cycle times are all improving and expected to deliver a greater impact this year. The enhancements will contribute to our goal of achieving free cash flow conversion of around 50% over the next few years.

Finally, in a softer market, we will need to create growth and we have identified specific growth vectors that are getting a significant amount of attention. These are highly focused initiatives and include specific products like Modus in MPD that I've talked about in the past and our wealth services business that I described earlier, our digital offerings, et cetera. All of which have a strong track record, compelling value proposition, and significant opportunities for growth.

I am deeply cognizant of the concern around Weatherford's performance in a softer market and I'm keenly aware of the decline in stock price, both in absolute terms and relative to the rest of the sector. While our guidance for the year is for reduced revenue and slightly lower margins, it is important to note that it is primarily a function of two countries. The rest of the world, especially international, is exhibiting a solid outlook and we are well positioned there.

Despite the profitability levels in Mexico and Russia and the significant declines, our enterprise adjusted EBITDA margins will only decline by 70 bps at the midpoint of our guidance, and we will generate cash in the same order of magnitude as 2024. To put that in context, that is still north of 24% adjusted EBITDA margins and 130 bps above where we ended 2023, and we believe our anticipated performance still reflects top-tier results within the industry.

I've always asked for us to be judged by our numbers, not our words and we will hopefully demonstrate that we can perform equally well in this stage of the cycle as we did in the prior one. We expect to generate roughly the same amount of cash in 2025 and reduced revenues, and this gives us ample opportunity to make strategic investments including buying back stock for the mid to long term.

And now operator, please open the call for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Saurabh Pant, Bank of America.

Saurabh Pant - *BofA Global Research - Analyst*

Girish, I want to make sure I heard you correct in your prepared remarks. I think when you were stepping through all the countries, I think you said you expect the Saudi to be up and offset the declines in Mexico and Russia. Maybe -- can you confirm that for me? And then maybe can you describe what's going on in Saudi for you? And how is Weatherford likely able to grow in Saudi when some of your bigger peers, I think early on in the earning season, were talking about decline for them on a year-over-year basis?

Girish Saligram - *Weatherford International Ltd - President, Chief Executive Officer, Director*

Yeah. Sure.

So Saurabh, you did hear correctly in terms of Saudi will be up. Unfortunately, it's not going to fully offset the declines in Mexico and Russia, but it will certainly aid the rest of the world growing. So look, I've always maintained that we have been under penetrated in Saudi in several areas in gas, in offshore, and unconventionals. But we have made very significant improvements in our business in Saudi. We have driven a lot of technology introduction. We have significantly improved our operational execution.

Aramco is a terrific customer. We've been working very closely. So, look, we are by no stretch of the imagination immune to the decline in activity and the decline in rigs. But given our under penetration, we've got a little bit more, I'll call it insulation and an opportunity to grow. So we are actually very confident that we have a growth opportunity in Saudi this year despite the overall market decline.

And look to your point on why it's different, I think it's very similar to the Mexico story. It's actually just the opposite, right? It's the law of numbers. We are much smaller in Saudi. And so we've got an opportunity to grow even though the market declines. Our relative proportion in Mexico is much higher even though the order of magnitude of numbers is the same, so a decline in Mexico tends to just look bigger for us even though the dollar decline is about the same.

Arun Mitra - *Weatherford International Ltd - Chief Financial Officer, Executive Vice President*

If I may add, in Saudi, we are predominantly a product business and we will penetrate service further going forward.

Saurabh Pant - *BofA Global Research - Analyst*

Okay, perfect. No, I got it. And I think you said you got good line of sight with contracts, right? So this is more really what you know and have a lot of it under control, right, versus just hope so that's good color.

And then, Girish, maybe if we zoom out a little bit, you stepped through a lot of markets. I know you said excluding Mexico and Russia, International should be growing low-single digits, I think you said. Maybe step us through some of these markets that are growing some of the key ones if you want to just quickly touch on that and then maybe spend a minute, Girish, if you don't mind on Russia, what exactly are we expecting in Russia for '25?

Girish Saligram - *Weatherford International Ltd - President, Chief Executive Officer, Director*

Sure. So look, I'll start with Russia. Look like I pointed out in my comments, we are expecting a significant decline. So our total guidance is based on both significant declines in Mexico and in Russia, I gave a range in Mexico and the totality is down mid-single digits for the year on the international side. But again, those are very isolated, very specific situations.

I'm very excited about Brazil. We've had some tremendous opportunities there. We've won some significant contracts. So Brazil is positive, I think Argentina is on a very positive trajectory as well. Places like Norway, Azerbaijan, in Europe pockets, in Sub-Saharan Africa are very positive. Asia is very strong. It's had a very strong year for us in 2024 and we will continue that with Thailand, Malaysia, et cetera so multiple places.

And then look in the Middle East specifically, we've got a lot of optimism around our Middle East business. I touched upon Saudi earlier but beyond Saudi, right, places like Kuwait, Oman, Qatar, these have been the bedrock of our growth over the last few years and we see a lot of stability there. We see continued opportunities to grow.

Last year, we also talked about a little bit of modulation on our integrated service contracts. The good news is customers activity is now caught up to us, and so we will be able to ramp that back up again and we should see an uptick there again, helping partially offset some of the issues in other places.

Operator

Kurt Hallead, Benchmark.

Kurt Hallead - *The Benchmark Company LLC - Analyst*

So, Girish, again Mexico has been a big drag for sure. Everybody in the sector here is feeling the pain, obviously maybe to different degrees. So again, a reference in the question before about good line of sight on opportunities at Saudi, despite the soft market, contract starts, et cetera. So I just wondering if like your dynamic in Mexico was more of a instinctual hope for a second half recovery. So I just wonder if you could give us a little bit more insights as to how you're thinking about it, how your team is thinking about it, and what kind of vibe are you picking up from those within PEMEX?

Girish Saligram - *Weatherford International Ltd - President, Chief Executive Officer, Director*

Yes. So look, Kurt, it's a really important point. The way we have constructed our guidance, the way we have thought through the business as I put in my prepared remarks is we have actually taken what we believe is a very prudent approach and it is a conservative approach to Mexico. So we are citing the business a little bit further down than maybe other people. I talked about a decline in activity of 30% to 50% that is very, very significant.

And so we are not assuming a dramatic ramp-up in the second half from Mexico. If we actually see that, that will be positive for us, that will be upside. But that is not what we have built in. We have very strong line of sight, especially, look, there are two ramps right? There's a ramp from Q1 to Q2 and there's a ramp then from Q2 or the first half going into the second half.

We've got very solid line of sight to contract starts to activity increases, a lot of different product deliveries, et cetera that give us confidence in that, and hopefully what we have demonstrated over the past 18 quarters is look, we tend not to get in way over -- forward on our Qs on guidance and we try to make sure we've got a reasonable line of sight of things we give it to. But on Mexico, we have taken what we believe is a conservative and prudent approach.

Kurt Hallead - *The Benchmark Company LLC - Analyst*

Okay. All right. Appreciate that.

Now, you also specify on Russia if I'm not mistaken, I think it's, I don't know, something less than 5% of your overall revenue base but I guess given such a small percentage of your business, I was just curious as to what drove you to maybe flag it and then it also begs the question, there was a step-up in sanctions pressure on Russia so was that part of the reason you flagged it?

Girish Saligram - *Weatherford International Ltd - President, Chief Executive Officer, Director*

Yeah. So look, Kurt, we have always maintained on Russia that we will continue operating as long as three key principles of that. The first is ensuring the safety of our operations and people. The second is, it still makes economic sense. And the third and most significant is that we have a very high degree of confidence that we are in full compliance with all international sanctions against Russia as well as all local laws within Russia, both need to be satisfied. Those principles have not changed for us. And we still believe that we are fully within those.

Having said that, with each round of sanctions, we have talked about this in the past, it does get more complicated, it does get more challenging. We have not shipped anything into Russia since February of 2022. There's been no new technology introduction. And so the complexity of the business means that it will further decline.

The business has gone down as a percentage of the total company about 200 bps in two years. So from 7.4% to about 5.4%. It is a significant reduction and we expect that reduction to continue. When you couple on top of that, you add FX and the volatility around FX, we saw a dramatic decline in December on the ruble-dollar exchange rate that puts a lot more pressure. So it will be a very negative headwind. And again, that's part of Mexico and Russia contribute to that down mid-single digit on the international side.

Operator

James Rollyson, Raymond James.

James Rollyson - *Raymond James - Analyst*

Girish, maybe circling back around to Mexico, the opposite question. Obviously, you guys have had a big presence there and in the moment that's not working out as well as you'd like. But it seems to me if you look at the math on activity in for PEMEX relative to their production. At some point, this massive activity is going to come home to roost on the production side, which would assume at some point means they're going to have to reverse course.

But I'm curious when we get to the other side of this valley of activity reductions and they look to maybe ramp back up assuming they do. Curious how you think about that. Like, what's your opportunity set? How willing are you to get back up to the level of leverage you have to them, et cetera? Like just maybe thinking about how this works on the flip side when we get to it whether that's '25, '26 or, whenever.

Girish Saligram - *Weatherford International Ltd - President, Chief Executive Officer, Director*

Yeah, Jim look, right now, we're very focused, as I said, on margins and ensuring that we get cash. Look our operational performance has been really strong. They're a very important customer for us and we believe in the long-term potential there. So I think we will be well positioned to take advantage and we are just going to make sure that we are covering our bases when it comes to cash and not taking undue risk.

As you know that, we've talked about in the past, there have been different payment mechanisms. We have been one of the only companies that has been very limited on CDS activity. We have not taken that risk and any significant form on our balance sheet, et cetera. So we will continue that very prudent approach. But I don't see any reason why if there is a positive environment, we won't be able to take advantage of it.

I want to stress again though Jim. Look, I think the dollar order of magnitude is going to be roughly equivalent for everyone operating in the sector. It is just a function now of just proportionality. So we did have higher exposure, so that hits us more from a percentage standpoint. But again, look the rest of the world, we think we will have a similar but opposite dynamic.

James Rollyson - *Raymond James - Analyst*

Understood.

And as a follow up, maybe, Arun, if you look, last year was the first year, you guys rolled out the capital return program. So you only had a half a year of doing that. We're looking at free cash flow that's going to be in a similar vein $0.5 billion type of number. Just maybe curious as you guys think about your CapEx opportunities and that return of 50%-plus. How are you thinking about that? Are you just looking to meet the minimum or given where your share price is or might you actually step up on the share repurchase side? Just your big picture thoughts there.

Arun Mitra - *Weatherford International Ltd - Chief Financial Officer, Executive Vice President*

Yeah, Kurt, as you correctly pointed out, we are six months into this. And if you look at the run rate, we are doing almost $50 million a quarter, which is more than what the run rate is. If you extrapolate 12 quarters and $500 million. So we have been doing more than what we committed to over a three-year period just based on the six months activity and given where the share prices are, we will continue to do that.

But there are other capital allocation priorities as well, which we are also paying attention to, continued pay down of debt, investing in opportunistic M&A. So it is really a holistic approach rather than just being focused on share buybacks. But again, we are well ahead of our commitments associated with shareholder returns, both in terms of dividend and what we've done thus far and continue to do on the share buyback.

Operator

Josh Jayne, Daniel Energy Partners.

Josh Jayne - *Daniel Energy Partners - Analyst*

First one, when we just look across the number of awards that you announced over the course of the quarter, one of the themes seems to be the number of MPD awards announced. Could you speak to the success there? Today's market for MPD and also how you see it evolving over the next couple of years.

Girish Saligram - *Weatherford International Ltd - President, Chief Executive Officer, Director*

Sure. Josh, look, this is a product line that we continue to be very excited about. We think it is really a better way of operators managing their business and we think adoption continues to improve. The good news is it's still at a low enough level that there's plenty of opportunity there. We've introduced Modus. I've talked about last year was really about us -- getting field trials done and getting the packages built. We now have them deployed in multiple regions. And this year, we will see a significant uptick from contribution from Modus.

In addition to just core MPD services and we're seeing a lot of demand from customers for additional packages as they really realize the efficacy of the offering. We're also seeing this concept of managed pressure well. So taking the MPD technology, taking the capability that we have developed into other product lines into other services, and that's another platform of growth for us for the future. So there's multiple different elements -- my bullishness on MPD has been there since day one has only grown.

Josh Jayne - *Daniel Energy Partners - Analyst*

Great, thanks. And then as my follow-up.

Your walk around the world internationally was very helpful but could you speak generally to the sense of urgency today in the offshore market on the part of customers. What are you seeing and hearing with respect to when activity could potentially pick up over the course of this year after what seems like a lull in the first half of '25 and what regions may be stronger in the back half of the year than they are today.

And then I'll turn it back. Thank you.

Girish Saligram - *Weatherford International Ltd - President, Chief Executive Officer, Director*

Sure. Look, I think it's a bit of a mixed story, different regions have very different dynamics. Broadly speaking, we still think this offshore cycle still has plenty of legs. And despite some choppiness, as you pointed out in the early part of the year in the first half, specifically, we think, the longer-term story is very good. And that's, really exemplified and demonstrated by some of the long-term Subsea orders, et cetera that other people who operate in that space have.

For us, we've got very good line of sight. We work very closely with our partners and with operators. We've got good line of sight to movement of rigs and when we will have mobilization and demobilization happen. So we feel very good about a bit of a pickup and that's part of our ramp, but it's not tied to speculation. It's really tied to fairly firm schedules and contracts.

Around the world. Look, I mentioned Brazil, we think that's a big positive. Azerbaijan, the Caspian is a really big positive. The North Sea is a really interesting situation. The Norwegian side of it, we think will be positive. But look, the UK side is challenging. It's well known what is happening in the UK market right now. And we have seen more and more operators signal that they are going to significantly reduce their activity.

Again, we have factored all of that into our view. We think the UK market is still positive for us longer term from a P&A standpoint. But it is concerning to see the reduction in activity because there needs to be that oxygen to make sure that the P&A can get funded from a cash basis standpoint. And then look, places like Asia and Thailand and offshore Southeast Asia, et cetera and even Australia, those are all positives and we continue to see resilience there and we think it will improve.

Operator

Douglas Becker, Capital One.

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

Girish, I appreciate the near-term uncertainty but wanted to get an update on the three-year targets. In the past, the talk has been for EBITDA margins to improve into the high-20s, free cash flow conversion to increase to say 50% from what looks around 40% this year. So just what's the updated intermediate-term outlook for margins, free cash flow conversion in the current environment?

Girish Saligram - *Weatherford International Ltd - President, Chief Executive Officer, Director*

Yeah, Doug, as we pointed out in our comments, but I'll be a little bit more explicit about it, the immediate term, it's tough to fight math. So we will see that margin decline and you see that in our guidance, especially in the first quarter.

Right now we are going to suffer from a little bit of that fall through effect and the decrementals will be dilutive. But look, we've got a very solid line of sight on our cost programs and then with the ramp, that should again help. So we will see margins pick up very significantly as we go in as the second quarter and then through the rest of the year. And look, if we continue to execute the way we have over the past four years and I don't see any reason why that should fundamentally change, we should actually exit this year at margins levels very similar to 2024 or actually even better than that, right?

And so for me, when you put all of that together, what that means is we re-baseline the company. And so that notion of high-20s margin has not really changed, it might get booked out six to nine months, but it's still very much intact and that is our goal and we believe we've got good line of sight to achieve that over the next three years.

Free cash flow conversion. Again, we've talked about that. We're making significant improvements. We're not declaring victory on the 25% goal yet even though we were below that because look, our whole thing is we want to make sure it's sustainable and really get the total conversion to the 50%. So we feel really good about the actions that we have got and our whole focus now is on execution around that.

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

Certainly sounds promising.

Also wanted to follow up on the well services business. You mentioned it's grown over 50% over the last three years. Could you expand on specifically what products and services are driving that and the growth prospects for that business going forward.

Girish Saligram - *Weatherford International Ltd - President, Chief Executive Officer, Director*

Yeah. So look, this is an exciting business where it actually shows up in our financials from a segment standpoint is in well construction predominantly. So that's really where we see it. But look what we've been able to do is take a few different elements.

So first is our capability around engineering. Ultimately what we call IES, so our ability to have reservoir engineering, to really work with customers, to interpret their data, to have really an understanding of what is their issue, what are their challenges, and how to address that. We have coupled that with a lot of digital capability including fiber optics. So how do we get surveillance that is on a more real-time basis versus you've got to bring in a wireline truck, et cetera.

And then ultimately, what is really the core of the service? It's through-tubing rigless intervention. So and what this does is completely removes the need for a customer to schedule a rig, manage that cost aspect of it. So it becomes a lighter and much more efficient way for them to get production enhancement.

And ultimately, look, as I pointed out earlier, what is nice about it is this becomes a business case for them from an OPEX spend to say, okay, I'm going to get a return on it versus saying, hey, I'm going to launch a big CapEx campaign over several years. So we've seen some very positive successes from this. This has become a really important platform and I'm excited about the growth that we'll get in the future from this.

Operator

(Operator Instructions)

Derek Podhaizer, Piper Sandler.

Derek Podhaizer - *Piper Sandler - Analyst*

Wanted to talk about North America. You mentioned that North America margins were up this year despite the declining environment. Maybe could you, expand on this and how you're able to improve these margins despite the flat-to-down market and how we should think about your margins in North America going forward.

Girish Saligram - *Weatherford International Ltd - President, Chief Executive Officer, Director*

Yeah. Derek, great question.

So it's really down to three things that we are very focused on. The first one is addressing our cost base. We have historically had a North America business that has had a lot more cost and has had margins that are dilutive to the company. And I am just really pleased with what the team has done so far and we're not done yet.

So we've been attacking the cost base. It's not just about taking out headcount and stuff, it's about facility consolidation. It's about changing from third-party services to internal, it's about reducing procurement spend, getting more efficiencies, looking at how we utilize our personnel across the board. So that's one key element.

The second aspect of it has been pricing and it sounds a bit incongruous given North America and some of the dynamism and the decline in the market. But we've been very focused and the team has done an outstanding job of driving price and then holding on to price despite some very tough scenarios. And look to do that, you've got to back it up with technology differentiation and you've got to back it up with service quality and execution, which we think we've been very successful at. And that's allowed us to get that value gap, to get the cost decreased, to get a bit of a price increase has a significant impact on margins.

The third is we've been very focused on growing into places where we didn't have penetration, right? Whether it is basins or customers, but specific products, specific services that we were not in but we've had advantage -- technical advantage that commercialization of technology that drives market share increase has been a big focus for us. We've got several notable examples of this, but that's really what has driven it, which is why in totality, the North America business has actually done better than the market but more importantly, the margins have gone up.

Derek Podhaizer - *Piper Sandler - Analyst*

No, that's very helpful.

And then maybe moving back to international, specifically the Europe, Sub-Saharan Africa, Russia segment of yours. Obviously, you spent a lot of time on the Russia side. But how should we think about the shape of recovery for Europe and Sub-Saharan Africa and how that will impact that overall segment internationally I think about 2Q going forward?

Girish Saligram - *Weatherford International Ltd - President, Chief Executive Officer, Director*

Yes. So look, I think we will see a nice ramp on there actually starting in the second quarter. And again, a lot of this is stuff that we've got line of sight to. There's two effects. One is we will have a little bit of a seasonal uptick that will actually come in Q2 from Russia so for a lot of transparency there, but it's going to be very small relatively speaking.

The bigger part of it is contract starts that we have won that are committed. We are getting mobilization plans ready in both Q2 and Q3. And so what will likely happen is we will see a nice uptick going into from Q1 into Q2, a smaller uptick going into Q3, and then leveling off for the rest of the year. So it is not a progressive ramp. It is really a Q1 to Q2 ramp that we are very confident about.

Operator

There are no more questions in the queue. This concludes our question-and-answer session. I would like to turn the conference back over to Girish Saligram for any closing remarks.

Girish Saligram - *Weatherford International Ltd - President, Chief Executive Officer, Director*

Hey, thank you, all, for joining the call and we look forward to updating you in April on our Q1 results.

Operator

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