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WFRD.OQ - Q1 2022 Weatherford International PLC Earnings Call

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## PRESENTATION

**Operator**

Ladies and gentlemen, thank you for standing by. Welcome to the Weatherford International First Quarter 2022 Earnings Call. (Operator Instructions) As a reminder, this event is being recorded.

I would now like to turn the conference over to Mohammed Topiwala, Director, Investor Relations and M&A. Please go ahead, sir.

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**Mohammed Topiwala** - *Weatherford International plc - Director of IR and M&A*

Welcome, everyone, to the Weatherford International First Quarter 2022 Conference Call. I'm joined today by Girish Saligram, President and CEO; and Keith Jennings, Executive Vice President and CFO. We will start today with our prepared remarks and then open it up for questions. You may download a copy of the presentation slides that correspond with today's call from our website's Investor Relations section.

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

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

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

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

Thanks, Mohammed, and thank you all for joining the call today.

I'm very pleased with our first quarter results and incredibly proud of and grateful to the entire Weatherford team for their efforts and outcomes. We have made a solid start in Q1 that lays a firm foundation for our total year outlook of top line growth, margin expansion and free cash flow generation.

This quarter, along with the broader industry, we experienced several headwinds driven by inflation, supply chain issues, disruptions related to the COVID-19 pandemic and unprecedented challenges caused by geopolitical events.



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Foremost in everyone's mind is the ongoing crisis in Ukraine caused by the invasion. We have over 100 employees in Ukraine, and I am relieved, grateful and glad that they are all safe and accounted for. The safety and well-being of all of our employees is our first priority, and we have approached this situation with the same mindset. I want to acknowledge and recognize our employees globally for their support in many different forms for our team in Ukraine. This is a great example of the One Weatherford's spirit in action.

On the financial side, Ukraine represented approximately 1% of our revenue in 2021. In light of the current situation, we have taken an impairment charge on our assets and are not forecasting any revenue for the remainder of the year.

As previously announced, we have suspended making any new investments or deploying new technology in Russia. Our operations in Russia are increasingly challenged as we ensure full compliance with the sanctions from relevant authorities. As everyone is aware, there has also been currency volatility that has had an impact on our first quarter results and could likely have a further bearing on the remainder of the year.

As this landscape continues to evolve, we expect additional operational complexities. The cumulative effect of currency volatility and operational complexities driven by sanctions is likely to create downward pressure on our financial results for the rest of the year in Russia, but it's difficult to quantify given the uncertainty.

Despite the pressures from Ukraine and Russia, we see robust demand growth in other parts of the world, and our overall thesis for the year remains intact. We expect that we will be able to fully offset the impact from Ukraine and, to a certain extent, potential ruble volatility with pickup in other geographies.

Energy security and supply have become an even greater priority in many countries, leading to additional investment plans. As a result, we continue to anticipate 2022 to be our first year in 5 to generate top line growth in the high single to low double-digit range. More importantly, we believe we will generate at least 50 basis points of margin expansion and generate positive free cash flow in 2022.

The first quarter is typically the lowest margin quarter and coming in at 16%, 40 basis points above our full year 2021, 380 basis points versus Q1 2021 and 10 basis points higher than Q4 2021 is a very encouraging sign of the progress and improvements we have made in our core operations.

In the first quarter, overall revenue increased by 13% over the prior year, with adjusted EBITDA margins over 16% on the high end of our guidance range. Our outstanding execution on our focus areas, coupled with commercial initiatives to drive pricing and grow market share, helped us achieve an industry-leading adjusted EBITDA margin expansion of 380 basis points compared to last year. In addition, we also won more than $1 billion of commercial awards during the quarter, excluding Russia, significantly ahead of our 2021 run rate.

I am extremely pleased that we are delivering at this level, and I'm truly excited about the growth potential we expect in the second half of the year. Over the past few quarters, we have shared how we have resegmented our business and discussed the successes in our market-leading product offerings across the 3 segments. While these product offerings of managed pressure drilling, tubular running services, cementation products and fishing and reentry continue, I wanted to spend some time today talking about the rest of the portfolio and the great strides we are making there.

We have refined our portfolio, and it is differentiated by innovation across the board with an exaggerated focus towards specialty services. We have also leveraged the strength in our market-leading product offerings to pull through other offerings in a discrete and integrated fashion. This has helped our customers achieve success in their core oil and gas operations and their energy transition activities.

Some of the key commercial highlights from the first quarter are as follows: ADNOC in the UAE awarded us a 5-year contract with an optional 2-year extension to provide wireline logging and perforating services. We were selected based on our expertise in cased-hole reservoir characterization and monitoring, extensive pipe recovery capabilities and world-class perforation services.

In artificial lift, which has been a traditional strength and boasts a tremendous installed base, we received 2 awards from Tatweer Petroleum in Bahrain to deliver, install and service beam pumping units and downhole pumps. In India, Cairn awarded us a 5-year integrated artificial lift and



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production automation contract across its workover and rigless activities investor in India. The contract, which will commence in the second half of the year will enable greater production optimization and help drive collaboration between the operator and its service partners.

In our completions portfolio, we received a 3-year contract to provide cemented liner hangers for a BP-operated business in Azerbaijan with the potential for an increased scope in the future. Superior run-in features, combined with our high level of service quality and strong presence in the region were instrumental in securing this award.

Supporting our success in the market is the emphasis we have placed on technology expansion in key markets and further innovating in spaces where we have the potential to deliver critical value to customers. For example, we recently formed a collaboration with Sub Sea Services that will change managed pressure drilling or MPD, from an add-on to a seamlessly integrated part of the drilling rig. The collaboration will integrate field-proven Weatherford technologies, the rotating control device and the annular isolation device with a remotely operated pull-in system from Sub Sea Services. The result will be an industry first complete integration of MPD and typical riser axillary lines into a single automated connection for all drilling operations.

As we continue to drive innovation in this space, we took about more than 5 decades of leadership in MPD and expanded those capabilities to every part of the well life cycle with our recent commercialization of managed pressure wells. These new solutions enable our customers to apply the same field-proven technology of MPD to deliver high-quality wells with fewer surprises by ensuring a stable wellbore with a comprehensive pressure management strategy. With robust pressure control capabilities for every well phase, we increased production while lowering well construction costs and well control risks.

Following the commercialization of our managed pressure wells solution, we integrated and deployed it on the Maersk Viking ultra-deepwater drillship securing the rig's attractive position in the region where MPD capabilities are in high demand. The Maersk Viking is currently drilling with the Weatherford MPD system for a major operator in Malaysia. This integration shows the strategic importance of collaboration with drilling contractors and provide significant MPD benefits to customers.

Similarly, in tubular running services, or TRS, we have taken our industry-leading position and field-proven technologies such as our premier offering of Vero automated connection integrity, and continue to deliver innovative and differentiated technology offerings. Our Soloist torque-turn monitoring solution is the latest enhancement to our market-leading services to enable single-person operation and simplified remote viewing while running tubing or casing in the whole.

Traditional torque-turn monitoring systems require longer rig up time and personnel must remain near the control cabinet on the rig floor, significantly reducing efficiency. With our Soloist solution, customers get the same accurate torque monitoring without the hassle of arduous rig up, all from a single Wi-Fi-enabled tablet. Our enhanced service offering enables cross-functional work on the rig floor by freeing up personnel to monitor torque while performing other essential rig operations.

This enhancement to our service offerings showcases our commitment to investing in innovation and technology throughout our portfolio. It also provides incredible cost savings and safety improvements to our customers while increasing our margins to drive growth and profitability.

We've also focused on leveraging our portfolio to support our customers' energy transition and ESG needs where we continue to gain traction and prove our ability to adapt to changing industry needs. We've supported geothermal activity for more than 2 decades. And a recent project on a geothermal well with Hamburg Energy reinforces our competitive advantage.

I had the opportunity to personally visit the site a few weeks ago and came away with even greater excitement about the potential for geothermal in the future. We deployed our Magnus rotary steerable system from surface to total depth of the well, drilling all 3 sections, a first for the system on this well type. We also used market-leading evaluation tools to analyze and log both case and open hole sections and cement bonds. This operation is positive proof that our existing market-leading portfolio can help drive the energy transition forward.



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I'm encouraged by the traction we are seeing in these areas, and I'm confident in our growing role as a service provider of choice. Our unique position in the marketplace is demonstrated by our industry-leading and differentiated technologies across the well life cycle and our ability to deliver integrated solutions to our customers, leveraging those capabilities which separates us from our peers.

Now turning to our view on the markets. The multiyear up cycle is firmly underway driven by limited supply and increasing commodity prices. The overall macro environment continues to improve, and we anticipate growing demand for oilfield services from our customers. It is encouraging to note that this cycle has thus far been characterized by the prudent deployment of capital by operators and service providers alike. This portends well for the ability to generate returns not just over this cycle, but also on a longer-term basis.

In North America, we are strengthening our commercial focus to help drive market share and pricing gains. We continue to see strong activity growth and increased customer spending supported by a favorable commodity price environment. However, a combination of capital discipline by public E&Ps, global supply chain bottlenecks and a tight labor market will constrain growth somewhat.

For example, as seen in our predominantly product-driven production intervention segment in the U.S., we continue to experience acute supply chain issues. Nevertheless, we still expect to deliver positive top line and bottom line growth as our focus remains on going after work where it makes the most economic sense. We recognize that there has been a significant increase in drilling activity in the U.S. and associated services over the past year. However, we are not chasing previously unprofitable work as we remain committed to our goal of only pursuing activity where we believe we can generate margins across cycles.

Turning to international markets. We continue to see the trend of robust growth with increased activity and spending consistent with what we have stated before. As activity increases in the Middle East and Latin America continue to drive international growth, we also see accelerating demand for our products and services and contract awards in Asia and Sub-Saharan Africa. We expect the international markets to continue their expansion as we witness capital deployments by growing number of operators.

We have put a significant focus on our Latin America performance, including structure, operations and business model and our first quarter revenue growth of 29% year-over-year reflects the excellent progress we have made. I'm also encouraged by the acceleration of activity in Asia and Sub-Saharan Africa. These 2 markets were among the toughest hit during the pandemic and a natural pent-up demand is being driven forward now.

Our focus continues to be on driving directed growth in our key markets and on the world necessary to drive execution excellence as we scale up for growth.

Now I'll hand it over to Keith for our financial update.

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

Thank you, Girish. Good morning, everyone, and thank you for joining us. As Girish commented earlier, given the headwinds from inflation, logistics, supply chain challenges and the geopolitical events occurring on the European continent, we are pleased with our first quarter results. My comments on the first quarter will primarily compare the results of the first quarter of 2021.

Consolidated revenues were $938 million, an increase of 13%. Our operating income was $18 million compared to an operating loss of $13 million. Net loss was $80 million compared to a net loss of $116 million. Adjusted EBITDA was $151 million, an increase of 48%.

Before I go into the details of the reporting segment's performance, I have a few brief comments on the current situation in Russia and Ukraine, and how it factors into our current quarter and outlook. We have taken a $19 million charge primarily related to the write-downs of all our assets in Ukraine, excluding cash. Ukraine was 1% of our revenues in 2021 and was included in our original full year guidance and the revenue has now been removed from 2022 guidance.



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In Russia, we continue to operate in compliance with all sanctions and are diligently monitoring this situation -- this dynamic situation. Consistent with our historical range of 5% to 7% that we have previously disclosed, revenues in Russia were 6% of our total revenues in the first quarter of 2022. Our net book value of our primary assets in Russia, excluding cash and not deducting accounts payable at March 31, 2022, were approximately $140 million. Our full year outlook does include Russia with lowered expectations from our original guidance. Given the ongoing uncertainties, it is difficult for us to comment further.

As we discussed in our last call, we continue to focus our efforts on improving our operations profile. We believe we can structurally improve our margins by consolidating manufacturing plants and relocating the keynotes of our global repair and maintenance facilities. This is intended to achieve a more efficient infrastructure to provide excellence in product and service delivery, leading to increased customer satisfaction and growth. As such, we have recorded a restructuring charge of $20 million during the quarter, primarily for this initiative.

Now let's look at our segment breakdown. During the first quarter, Drilling and Evaluation, DRE revenues of $292 million increased by $56 million or 24% year-over-year, largely due to higher demand for managed pressure drilling and wireline services, primarily in Latin America and the Middle East, North Africa and Asia.

Segment adjusted EBITDA of $59 million increased by $30 million or 103% year-over-year primarily due to higher demand from managed pressure drilling and drilling services, mainly in Latin America.

Well construction and completion, WCC revenues of $344 million increased by $21 million, a 7% year-over-year increase, primarily due to higher demand for cementation products and activity in North America. Segment adjusted EBITDA of $67 million increased by $17 million or 34% year-over-year, mostly due to higher demand for cementation and completion products with improvements primarily in the Middle East, North Africa and Asia.

Production intervention, PRI, revenues of $286 million increased by $27 million or 10% year-over-year due to higher demand for intervention pressure pumping services, primarily in the Middle East, North Africa, Asia and Latin America, respectively. Segment adjusted EBITDA of $39 million decreased $2 million or 5% year-over-year, mainly due to higher logistics costs and supply chain challenges, which impacted our delivery schedule for products in North America. This was partially offset by activity improvements in the Middle East, North Africa and Asia.

Turning to liquidity and cash flow. We closed the first quarter of 2022 with total cash of approximately $1.1 billion as of March 31, 2022, down $57 million sequentially. Unlevered free cash flows of negative $47 million was down $194 million sequentially and free cash flow of negative $64 million was down $113 million versus the fourth quarter of 2021, primarily due to working capital requirements.

The characteristics of an upcycle are reflected in our first quarter working capital requirements as cash flow swung by approximately $140 million versus the first quarter of 2021. However, we are confident in our team's ability to pace our working capital requirements with our operating performance to capture positive earnings and continued margin expansion in this cycle.

While we continue to invest in our business, we remain committed to utilizing our asset base more efficiently. As such, the timing of capital investments may flex between forecast periods. Shifting our focus to the current year, I will share some of our qualitative thoughts on the second quarter of 2022 and the full year.

As we look ahead to the second quarter versus our first quarter of 2022, we expect consolidated revenues to increase by mid to high single digits, driven by higher growth across all our geo markets. Across the segments, DRE is forecasted to deliver mid-single-digit growth, WCC to deliver in the mid to high single digits and PRI in the high single digits. Adjusted EBITDA margins are currently expected to be 16% to 16.5%.

Unlevered free cash flow is expected to be positive. We are targeting breakeven free cash flow under our current activity forecast, which could turn negative if the indications for activity levels in the second half of the year exceed our current expectations. We expect CapEx to be in the range of $30 million to $40 million in the second quarter.



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Full year 2022 consolidated revenues are expected to grow by high single to low double digits above 2021 levels. Across the segments, DRE is forecasted to deliver low teens growth, WCC to deliver in the high single digits and PRI in the mid to high teens.

Consolidated adjusted EBITDA margins are expected to be 16% to 17% as we continue to expect margins to expand by at least 50 basis points for the full year of 2022. As noted in our fourth quarter remarks, CapEx will be at least double 2021 spending and will range from $175 million to $200 million. Full year free cash flow is still expected to decline compared to 2021 as increases in net working capital, cash taxes and CapEx, driven by an increase in activity will only be partially offset by lower cash interest payments for the year. However, we still expect to generate positive free cash flow for a third consecutive year, which we expect to come mainly from the second half of 2022.

This outlook incorporates the impact of changes for Ukraine and Russia previously commented on. Notably, this outlook reinforces the strength of our franchise and the broadening of the increasing demand for oil field services, which has enabled us to maintain our original guidance by already offsetting this impact with demand from our other regions.

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

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

Thanks, Keith. We are excited about our growth prospects as we continue to see strong macro trends and are gearing up on our commercial focus to drive pricing and share gains in the coming quarters. And I want to update you on our 2022 focus areas, which will continue to drive rigor and discipline across the organization. .

We are on a multiyear journey to evolve our fulfillment mechanisms. Currently, each product line has a fulfillment network that has developed independently over several years. We are moving away from that and rethinking our inventory, supply chain and logistics functions as we contemporize our network to serve customers more efficiently.

Throughout the quarter, we continued the work of evaluating our business and making critical and essential changes that resulted in a onetime restructuring charge to help us evolve our operations further and create efficiencies in our organizational structure. We have been very clear that we treat restructuring as an investment and have a road map to drive improvements over the coming quarters and years.

In our directed growth focus area, we are leveraging our technology differentiation, increased investment in innovation and the value proposition to drive pricing and market share growth where it makes economic sense. Rather than pursuing share at a global level, we are focused on areas of critical mass and driving the intersection of geography and product line to have each be economically independent.

Our third focus area is excellence in execution, a critical component of supporting our growth. We've built a new quality function to instill the disciplined accountability needed to execute with a lean mindset throughout our enterprise.

Finally, simplification remains an enduring focus area for our company. We continue to evaluate our organizational and operational structure to maximize efficiencies.

We believe like our peers that we are in a multiyear up cycle driven by global energy security concerns and economic growth. While there are clear risks posed by inflation, increasing interest rates, supply chain bottlenecks, isolated with serious COVID-19 lockdowns and geopolitical conflict, we believe energy security and supply will remain a focused priority. As a result, we should see further momentum in the second half of 2022 and 2023.

Weatherford's unique position in the marketplace creates a competitive advantage that will allow us to capture additional market share and to successfully deliver on our goals of sustainable profitability and positive free cash flow. Thank you for joining us today. And with that, operator, let's please open it up for Q&A.

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## QUESTIONS AND ANSWERS

**Operator**

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

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

Girish, we've heard more commentary from your peers this quarter that the improved pricing environment internationally, it's certainly not on the same frequency as the very big price increase that we're seeing in the more cyclical U.S. service lines, but there has been a change of more positive change in town with international OFS pricing. And then I just wanted to get your perspective on that. It would seem to me that you're not -- you're still not dialing in at least from surface appearances, significant price increase into the margin guidance that you've given us for this year. So is that, I guess, true or false and then what do you think maybe the upside could be as we get deeper into the cycle and maybe in the second half of this year as the environment feeds through into the system more broadly?

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

Sure. So Ian, look, I think, first of all, the tone is getting more constructive. Look, we've been talking about this for a while. We've seen green shoots across the second half of last year coming into the first quarter as well. And we are having a lot of discussions with customers and the overall tone is constructive. There is a, I'll call it, a supply crunch, especially in critical specialty services. And where we have differentiation, that's something that we really have the ability to put pricing forward.

I would say, though, look, as I mentioned in some of my prepared remarks, the margin expansion that we have seen in Q1 is -- part of it is from pricing. It's not -- we haven't broken it out explicitly because there are a lot of confounding and obfuscating factors, but pricing is certainly been a contributor to that, and we expect it to continue to be a contributor to that.

Look, 2 other things, though, that I think are relevant as we think about the rest of the year. Look, the first is we do have across the board a significant inflation challenge that all of us are working through. And our perspective has always been to be a bit more prudent and responsible about that because we don't know the full extent of that. It has been something that has been on the radar now for at least 9 months, and it has escalated. It has not yet really decelerated. And so it's a very fast-moving, very evolving situation. And when you couple that with the supply chain bottlenecks that you have, it does create a tough situation, especially on logistics costs and stuff like that. So we do expect a part of that pricing movement upward to get offset by inflation, and that's still baked into our guidance, which is -- remember, we have said at least 50 basis points of margin expansion.

I think the second thing is in the first quarter going into the second quarter, as we have updated our guidance, in totality, it is still pretty much the same, but you have to consider that we have had some significant headwind from Ukraine and Russia that we have factored in. And so we have put in a little bit more of the, call it, additional juice that we were going to get from pricing into that to make sure that the overall thesis remains intact.

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**Operator**

And our next question today comes from Doug Becker of Benchmark Research.

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**Douglas Lee Becker** - *The Benchmark Company, LLC, Research Division - Senior Equity Analyst*

Thanks. I wanted to touch base on the DRE revenue guidance. Just taking a look at it, full year guidance for low teens growth seems to imply very modest growth from the second quarter level, the rest of the year. Is there anything in particular you'd point to that drives that outlook? Because achieving mid-teens seems very realistic if second quarter revenue grows, say, mid-single digits.



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

So I think it's a function of -- this business has done very well over the past year. It is probably one of our widest expanding margin businesses. We've done a fair bit to reposition this business outside the U.S. to move the assets, as you know, particularly for our drilling services business.

So it's not that we are forecasting it to stop growing, it's just a higher base. And so we have taken that into consideration. We've also seen that the MPD assets in DRE are now almost fully deployed, the ones that we have. We have a fair bit of CapEx in the pipeline to come through, which will then get deployed more towards Q4 and Q1 of 2023.

So yes, I think we appreciate that we stepped up and really improve the DRE business, but we're also looking to maintain that through the year, but it won't be the same kind of growth rate as you've seen.

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

Yes. And if I could just add, Doug. Look, I think first of all, I think living in a world where low teens growth is considered modest as kind of a nice change. But look, we have been very clear and deliberate on the fact that we are not going to go chase volume. And what we are not doing in the company anymore is building up CapEx with the expectation that we will get the volume. And we certainly could but we recognize that we've got to manage the business through cycles. So we are being very, very prudent about where we deploy capital, and we really want to make sure it's profitable.

To me, the more interesting part of that DRE is the year-on-year margin expansion, a 750 basis point margin expansion year-over-year is what I would like everyone to focus on, and that's what we are focusing the company on.

**Douglas Lee Becker** - *The Benchmark Company, LLC, Research Division - Senior Equity Analyst*

That's fair. Jumping to PRI margins. They were down year-over-year. Just hoping you could expand on the logistical challenge you're seeing, particularly in North America. Just to try and get a better perspective for the trajectory of margins over the course of the year.

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

Sure. So look, I think a couple of things on that. First is the whole industry is having supply chain bottlenecks, and we are not immune to that. We have had a couple of specific things regarding our operations as well. One is the lockdowns in China that have affected some of our sources of supply and has caused a bit of a perturbation.

Look, secondly, freight and getting ships booked and ship sailing has been a challenge, and that has been something that affected us fairly significantly. In the first quarter, we had one particular incident that was a fairly significant hit that has pushed shipments out to the second quarter and then beyond. So it's really a combination of China lockdowns, logistics and then just sort of broader industry challenges. But look, we hope that by the second half of the year, these do get alleviated, we have looked at alternative sources where possible, getting more of a longer-range forecast in and working with our customers to prioritize shipments and manage through that.

**Douglas Lee Becker** - *The Benchmark Company, LLC, Research Division - Senior Equity Analyst*

Yes. And then a final one just on working capital. I think it's very understandable that it was a sizable use of cash in the first quarter just given the seasonality and expected growth. Just hoping to get some context how to frame the potential outcomes for working capital and free cash flow for the year.





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

Sure. So our thesis still holds -- at this point, we won't forecast that we should have net positive free cash flow for 2022. We are, like everyone else in the industry, investing in working capital in Q1. And I think that as we get more indications about what the second half looks like, then we should also probably expect further investments in Q2, but not to probably the same significance as Q1 because it was really a strong step-up in Q1.

When we think about it in terms of the full year, we are thinking that net working capital across the full year is probably going to be a use. And so we're thinking that, that could probably be somewhere in the -- probably a $20 million to $40 million use across the year. We're still trying to sort it through to ensure that all the things that we're doing operationally to manage inventory, the single pool, we are -- we've kicked off the fulfillment initiative, which is to realign our nodes. That should also start to take effect in the second half of the year. So that's what we see from where we are today. But everything is still positive for the organization because this is all activity and upside drilling.

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**Douglas Lee Becker** - *The Benchmark Company, LLC, Research Division - Senior Equity Analyst*

So it sounds like free cash flow could still approach $100 million for the year. Is that a fair characterization?

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

I think that's still where we are looking at it. We've kind of set that target out there. Our models say that we should be able to achieve it. It's now a question of who do we grow with? It depends on, of course, NOC versus IOC growth. Those are different payment terms. So there's a range of things that affect that, but we still see it a range of towards the $100 million of [free cash flow] (corrected by company after the call) for the full year of '22.

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

Yes. And again, Doug, what I would say is, look, again, we've got to factor in that we have considered Ukraine and Russia, which is obviously significant downward pressure. And so we are still aiming to make that up. So I think the range is still accurate, but some of the pieces might move a little bit.

But look, what we want to be very conscious about is the growth that we expect to see in the second half as well as in 2023 as we put in our prepared remarks. We've got to really modulate that and be careful about it. We are still very committed to positive free cash flow for the year. We are confident we're going to get there. But a little bit of that timing, Q2 to Q3 might get affected just a tad bit.

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**Operator**

(Operator Instructions) Today's next question comes from Gregg Brody of Bank of America.

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**Savannah Madelaine Leonard** - *BofA Securities, Research Division - Research Analyst*

Good morning. This is Savannah Leonard on for Gregg Brody. So first question, is there -- do you guys have any update on refinancing the credit facility and the remaining 2024? Or could you just give us some details on how you're thinking about that today?

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

Sure. So Savannah, great question as usual. We are really now more confident than ever that we are closer to getting the type of facility that we desire. We're working through with our banks and given that the structure of the industry has now kind of shifted, right? So we have more demand





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than supply for the underlying commodity. We have investments coming back to drive and energy security. So all markets are feeling like energy, in its current form, is probably a place to invest in. So we're feeling fairly good about that.

I think the underlying question though is -- or the better question, I would say, is can Weatherford afford to participate in this up cycle effectively? And us and the answer to that question is yes. So we are working through the facility. We're getting closer to what we desire and what we want. And at the same time, the -- even without the facility in place, we have the balance sheet liquidity to fund and grow into the cycle.

In terms of the 2024, the stub, that's a function of free cash flow generation. We're thinking that we would rather pay that off from free cash flow over the next few years, if that's still out there. But at the same time, if markets rerate all of us again or Weatherford based on its performance, the way it did last fall, and we see the opportunity for liability management. We'll absolutely take it. But I think our first priority, as we've said, with the stub is to delever, and we hope to take that down either free cash flow or if the revolver comes in, and then we can use some of the cash on the balance sheet, and then we will do that. So the thesis is still the same.

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

Yes. And Savannah, this is Girish. Look, I think as we have pointed out, I know you're all aware, but I think it's worth repeating we've been very, very clear about where we're going to use the cash. That remains our first priority. We're going to drive that. We have seen the demonstrable proof of that last year. And at the same time, look, we are very, very clear that we are not going to put in place an instrument that doesn't work for the company longer term. So this is not a question of, hey, we can just go get something in. We want to make sure that we are really getting something in place that works for us across cycles, fits the profile of the company that we are today, which is predominantly an international company with a lot more focus there, but operates a significant portion in North America as well. So it has to work, but we are in a much better place today where we are not in a position where we have a forcing function to drive that. So we want to make sure that we are focused on the long term and getting the best outcome for everyone from that standpoint. .

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**Savannah Madelaine Leonard** - *BofA Securities, Research Division - Research Analyst*

Okay. Sounds good. I also have some questions on cash flow items. On the last earnings call, you had said a number between $30 million to $50 million for restructuring charges. Is that still how we should be thinking about it for the full year?

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

I think when we think about it, it's still the right number for the full year. I think you can keep that there. We've gone out this quarter and taken a $20 million charge for a new restructuring program. I mean, it's a smaller charge when compared to prior years. So there's probably less the fix, but probably more targeted fixing our fulfillment areas. So with the $20 million charge, we don't see the need to step up the cash forecast outflow for that. So I think that our original number still holds as we march towards the $100 million of positive free cash flow.

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**Savannah Madelaine Leonard** - *BofA Securities, Research Division - Research Analyst*

Okay. And then my last question is on cash taxes. How should we think about that for the rest of the year?

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

So I think we haven't changed our viewpoint. We do see it stepping up year-to-year. Last year, I think we spent about $60 million to $65 million on cash taxes. This year, I think we've said it's going to be somewhere in the $80 million to $100 million range in terms of the step-up. So -- and that's just a function of the way our cash taxes flow in terms of profit taxes of revenues in some of the markets that we operate. So as we expand, that should go up, but I think it should be commensurate where it won't go up unless there's more revenues for people to withhold from.



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**Operator**

Ladies and gentlemen, our next question is the follow up from Ian MacPherson with Piper Sandler.

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

Thanks for bringing me back. I'm sorry, my line drops when you were in the middle of answering answer my first question. Girish, I was interested in your comments around the integrated MPD approach. And I wanted to ask if you could expand on that and what the upside is to Weatherford and going with MPD as an integrated component of the rig as opposed to an a la carte add-on and how that changes?

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

Yes, great question...

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

Or how much you capture of that upside?

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

Yes. Look, great question, Ian, and something that we are very excited about. One of the things about services like MPD is they've always been -- one of the challenges with adoption for customers has been it's been a complete discrete add-on. And especially when you're talking about an offshore kind of an environment, it's something that they have to buy separately. It's more people that need to go with limited accommodation and just the whole thing becomes a significant challenge. And it's a significant capital deployment. There's also been this sort of commercial construct between drilling operators, the end user and service providers like ourselves on sort of how do you manage that whole thing.

So I think the integration solves a lot of issues, and it really becomes a better customer outcome. First of all, you've got rigs that are already deployed with the right capital out there, you can now cross train personnel to reduce the demands of that, and you've got the ability to really engineer and design the product so that you set it up in a way that is most conducive for longer-term efficiencies for the customer.

And look, for us, we really think this is a great approach. And it is incremental to the way we think about MPD from a financial standpoint. It reduces our capital outlay because you've got a better planning around it. You've got an ability to share to a certain extent. And the commercial construct becomes one of efficiency sharing. And so we are really creating a different value proposition for customers.

So we think this will pay off in significant dividends over the next coming quarters and years, and we are excited just given some of the examples we've seen so far.

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

Last one for me, Keith. You have a few adjustments on EBITDA this quarter. I think we've identified, obviously, the restructuring and the $19 million that was mainly the impairment in Ukraine, but the other one was the $16 million other expense. I wanted to ask about that. And if you could guide on any other exceptional add-backs that we should think about for the rest of the year? .



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

Sure. So the other expense went up a little bit from the prior quarter where we were roughly a 10 to 16. And part of that was driven by a few more charges for LCs and other things. And also, we had some FX volatility that had to flow through that line.

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

Got it. And then going forward, that should be, I guess, a less material item?

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

It is a less material item. I think if we look at where it was a year ago, quarter 4. We closed the year with a 10 million. It's a small line item, but it should not surprise us going forward.

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**Operator**

And ladies and gentlemen, this concludes our question-and-answer session. I'd like to turn the conference back over to management for any closing comments.

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

All right. Well, thank you, everyone, for joining the call. Hopefully, you've got a good sense of where the company's position and share our excitement about the path forward, and we look forward to updating you again next quarter. Thank you.

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**Operator**

Thank you, sir. This concludes today's conference call. We thank you all for attending today's presentation. You may disconnect your lines, and have a wonderful day.

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