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OVERVIEW:

Company Summary

CORPORATE PARTICIPANTS

Luke Lemoine *Weatherford International PLC - Senior Vice President of Corporate Development*

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

Anuj Dhruv *Weatherford International PLC - Executive Vice President and Chief Financial Officer*

CONFERENCE CALL PARTICIPANTS

David Anderson *Barclays Capital Inc - Analyst*

Scott Gruber *Citigroup Global Markets Inc. - Analyst*

Saurabh Pant *BofA Securities, Inc. - Analyst*

Jim Rollyson *Raymond James & Associates, Inc. - Analyst*

Sean Mitchell *Daniel Energy Partners, Inc. - Analyst*

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

Derek Podhaizer *Piper Sandler & Co. - Analyst*

Ati Modak *Goldman Sachs & Co. LLC - Analyst*

PRESENTATION

Operator

Good day and welcome to the Weatherford first quarter 2025 results conference call.

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

I would now like to turn the conference over to Mr. Luke Lemoine. Please go ahead, sir.

Luke Lemoine - *Weatherford International PLC - Senior Vice President of Corporate Development*

Welcome everyone to the Weatherford International first quarter 2025 earnings conference call. I'm joined today by Girish Saligram, President and CEO; and Anuj Dhruv, Executive Vice President, and CFO.

We'll 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. They 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 website's Investor Relations section following the conclusion of this call.

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

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

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

Before we get started, I want to update you on recent changes to our leadership team. Per our announcement yesterday, I am very pleased to welcome Anuj Dhruv to Weatherford as our Executive Vice President, Chief Financial Officer.

Anuj brings more than two decades of diverse experience across global finance, strategy, and transformation roles in the technology, energy, and chemicals industries. I'm excited about partnering with Anuj to lead Weatherford through the next phase of our journey.

I'd also like to thank Arun Mitra for his contributions during his time with us. He drove significant impact over the past couple of years, and we wish him all the best in his next chapter.

Anuj, welcome to Weatherford.

Anuj Dhruv - *Weatherford International PLC - Executive Vice President and Chief Financial Officer*

Thanks, Girish. I'm very excited and humbled to be the new CFO of Weatherford. The company's journey over the past several years has been remarkable, and I'm excited to be a part of the next phase. I look forward to meeting with and speaking to all of you.

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

Great. I'll now start with an overview of our performance and key highlights, and we'll then share our outlook on the markets.

Luke will then cover specifics on financial performance, balance sheet, and detailed guidance, and I will wrap up with some thoughts on Weatherford's offering plans for this environment before opening for Q&A.

As illustrated on slide 3, our first quarter results were in line with our earlier expectations. However, the pathway was slightly different than anticipated as activity levels softened further in key segments and geographies.

We previously expected activity in Mexico to decline by 30% to 50% in 2025, but following a sharp drop in Q1, it now appears down around 60% on a year to year basis.

North America continued its downward trend, down 4% sequentially, and Europe also softened, driven by operator cutbacks in the UK amidst an unfavorable policy environment.

On a positive note, our confidence in the Middle East and Asia regions was well placed as we saw year on year growth in this part of the world, demonstrating resilience and stability.

I am pleased with how the Weatherford team responded to rapidly changing conditions with a focus on customers, cost, and cash. This discipline is reflected in our adjusted free cash flow of \$66 million for the quarter, driven by strong collections.

Adjusted EBITDA margins for Q1 came in at 21.2%, impacted by lower revenues, project startup costs, and a partially under absorbed headcount, which was reduced over the course of the quarter. As I stressed last quarter, we have consistently maintained that margin improvement is possible even in a flat environment, but when revenues fall, the math becomes more challenging.

As shown on slide 6, we have now paid three quarterly dividends of \$0.25 per share and repurchased approximately \$152 million worth of shares over the past three quarters, which includes approximately \$53 million during Q1. While this amount may vary each quarter due to market conditions, we remain very committed to our buyback program and still have sufficient capacity on \$500 million authorization.

Now turning to our segment overview on slides 8 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 continue to see high tendering activity and as noted in our earnings release, we continue to win high impact contracts across key regions, which demonstrates both the strength of our technology and the trust our customers place in us.

In the UK and North Sea, we successfully delivered logging while drilling and formation pressure services on a complex high-pressure, high-temperature well drilled to a depth of 21,000 feet with a temperature of 175 degrees Celsius.

In deepwater Brazil, Weatherford successfully installed the first OptiROSS RFID Multi-Cycle Sliding Sleeve Valve for Petrobras. This system enhances asset stimulation efficiency, improving production, and boosting the reservoir's oil recovery factor.

And in North America, we are seeing strong uptake of our ForeSite power regenerative variable speed drive. This technology helps customers reduce power consumption and emissions while lowering their operating costs. These are just a few of the highlights that are a testament to our technology's differentiated value across global operations.

Now, turning to our outlook going forward. The overall international market has softened over the past nine months, and the industry has witnessed substantial drops in Mexico, along with continued reduction in US land activity levels. Lower commodity prices while somewhat stable, have driven caution and slowdown in customer spending.

Over the past several weeks, unfortunately, the market has taken a turn for the worse. Recent US tariffs along with retaliatory tariffs have added significant uncertainty in the market, which, if left unresolved, will very likely cause demand destruction in the short to mid term.

Coupled with OPEC+ adding supply back to the market, we are seeing increasing pressure on the global oil supply demand balance. While we have not seen a universal cutback or definitive changes in customer spending plans, it's difficult for us to provide precise near-term visibility. What is clear is that we are in a distinctly different phase of the cycle with some markets in a clear downturn. There are multiple factors that drive our industry cycle and during transitions, we share a common thread of uncertainty.

That said, we have seen how spending patterns have evolved in past cycles, and remain hopeful that the industry discipline of recent years will result in a milder spending reduction than the last three cycles. We have continued to adapt our cost structure over the past two quarters and will further evolve as the market unfolds.

Since Q3 2024, we have reduced our head count by over 1,000 and our annualized personnel expenses are already down by over \$100 million. In previous cyclical shifts, the quarter in which the defining event occurred experienced minimal operational disruptions as it took time for customers to adapt and change their plans.

While we haven't seen clear direction from customers yet, it is reasonable to expect a broad-based slowdown in the second half if global trade reductions and increased supply create a need for customers to be selective with their CapEx.

As a result, our outlook is less granular between geo markets and product lines, reflecting a more realistic and potentially conservative stance. We believe we remain very well positioned to capitalize on stable or improving activity levels or even an uptick. But we are also taking steps to ensure we are not caught flat footed in the event of a more pronounced slowdown as appears to be the case.

Even with a potential annual double-digit revenue decline, we expect to deliver EBITDA margins in the low 20s this year, which remarkably is still better than where we were two years ago.

In addition to the tactical actions in response to current market environment, we are also continuing to position the portfolio for the future with the goal of being both highly differentiated and with lower capital intensity.

As noted in our earnings release, we have divested our Argentina pressure pumping business that consisted of triplex pumps and associated equipment and in a separate transaction, we sold our Argentina wireline business in the southern part of the country. The proceeds from these will be the portfolio and return cash to shareholders. These two divestitures now allow us to focus on the Vaca Muerta with our differentiated product lines. This is a significant portfolio quality improvement.

However, there is also revenue and EBITDA reductions from our results due to these dispositions. So while we have reduced our outlook, it is important to note that this change is also built into that view. With this, we expect 2025 North America revenues will decline high single to mid double digits year-on-year and international will decline low double, mid-double digits. In our high-end case, ex Mexico, international revenues would only be down low single digits despite the impact of the divestments.

Second quarter revenue should be fairly flat with the Canadian breakup, US land, and the Argentina divestitures being the primary headwinds. This should be mostly offset by contract start-ups in the Middle East, Asia, and Europe. Normalized for the divestments, we will still see a revenue uptick sequentially, albeit lower than expected from our last call in February.

With that, I'd like to turn the call over to Luke before I come back with closing comments on how we plan to address this cycle.

Luke Lemoine - *Weatherford International PLC - Senior Vice President of Corporate Development*

Thanks, Girish. Good morning, and thank you, everyone, for joining us on the call. Girish has already shared an overview of our first quarter performance and an update on our capital return program. For a more detailed breakdown of the first quarter results, please refer to our press release and accompanying slide deck presentation.

My comments today will sit around our cash flow, working capital, balance sheet, liquidity and guidance.

Turning to slide 22 for cash flows and liquidity. For the first quarter, we generated \$66 million of adjusted free cash flow at a 26.1% free cash flow conversion rate versus 24.4% in first quarter 2024. As you know, the first quarter is typically a lighter free cash flow quarter.

Net working capital efficiency measured by net working capital as a percentage of revenues improved from 26.1% in 1Q 2024 to 25.2% in 1Q 2025. Over the last six quarters, we maintained net working capital efficiency levels at the 25% to 26% range. And as mentioned before, regardless of the stage of the cycle, our goal is to maintain net working capital efficiency levels at 25% or better sustainably.

As Girish mentioned, we have continued to execute on and initiate a series of cost actions across the company. In this context, we took an additional restructuring and severance charge of \$29 million in Q1.

Several actions have already been completed, and we anticipate initiating more actions over the balance of the year as we continue to remain agile and adapt to changing market conditions.

During the first quarter, CapEx was \$77 million. While this was outside our targeted range, this was primarily driven by CapEx for our long-term subsea intervention contract in Brazil. From an absolute dollar standpoint, we fully expect the spend to slowdown and land within our targeted range by year-end.

In Q1, we repurchased approximately \$53 million worth of shares and paid a \$0.25 share quarterly dividend. In addition, we also bought back \$34 million of our 8.625% notes and intend to continue opportunistically repurchasing in the open market. Our net leverage ratio remains at 0.5x and with our liquidity at approximately \$1.3 billion, we feel confident in our ability to manage the company through the cycle.

Turning to guidance. Let me start with Q2. We're expecting \$1.165 billion to \$1.195 billion in revenues with adjusted EBITDA of \$245 million to \$265 million. The Q1 to Q2 change is due to the removal of the Argentina pressure pumping and wireline businesses. That's mostly offset by headcount reductions and the project start-ups Girish mentioned.

The outperformance in Q1 collections shifted some of the free cash flow from Q2 into Q1, but on a normalized basis, we expect roughly flat performance in Q2. The most significant variable in this continues to be the timing of payments out of Mexico.

For 2025, we expect revenues of \$4.6 billion to \$5 billion, adjusted EBITDA of \$975 million to \$1.1 billion and free cash flow conversion to increase 100 to 200 basis points year-on-year. The revenue range and resulting EBITDA slowdown is a function of the Argentina divestment and what we believe is a prudent view of market expectations in the second half of the year.

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. CapEx is factoring down over the course of the year and land in the 3% to 5% of revenues for the whole year.

Thank you for your time today, and I'll pass the call back to Girish for his closing comments.

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

Thanks, Luke. While I remain very confident about Weatherford's future over the next several years, it is clear that market conditions have changed, and we must continue to pivot. The market has matured and so must our approach. What we won't do is chase market share without value. Margins must be defended.

I spoke earlier about the uncertainty weighing on the market. And while we know the steps to take, the exact size of each measure is still to be determined. Over the past several years, we have positioned and prepared for a moment like this.

First, we have dramatically strengthened the balance sheet by reducing gross debt by approximately \$1 billion. We now have total liquidity of \$1.3 billion, which consists of \$930 million in cash, and our net leverage ratio sits at 0.5 times trailing 12 months adjusted EBITDA. Secondly, our cost structure has become more scalable as we have modernized our fulfillment network and consolidated several facilities while building a more nimble supply chain. Thirdly, we set the dividend at a level that's sustainable even in a down market. The dividend is sacrosanct will be maintained. Lastly, our share repurchase program is pragmatic, and we aren't retreating.

Moving forward, we will be flexible with our operating structure, support costs, and CapEx, adjusted as needed to match market conditions. Last quarter, I outlined our cost optimization program, which has begun and goes well beyond just adjusting for volume. This is multi-year program that remains focused on achieving sustainable productivity gains through technology and lean processes versus just adjusting headcount.

Secondly, working capital efficiency remains a core focus area to drive free cash flow conversion to a sustainable 50%. The new Weatherford will continue to evolve and initiatives and actions that were already in place will help us navigate this part of the cycle better than the old Weatherford.

While we all hope for a better market, the reality is we will have to navigate a more difficult one than previously forecasted. However, I'm confident the Weatherford team will remain agile, adapt, and generate a stronger company as we navigate this period.

And now operator, please open the call for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) David Anderson, Barclays.

David Anderson - *Barclays Capital Inc - Analyst*

I appreciate the very sobering outlook and also appreciate all the uncertainty that's in front of us. Typically, when we think about international markets, we think about it being longer cycle barrel, it's going to be more resilient than US onshore during periods of oil price volatility. MENA is your largest region. And if I heard you right, I think you said ex-Mexico, you're thinking international will be down mid-single digits.

Could you walk us through how some of those key countries in MENA are trending? Are those IOCs contemplating any shifts to plans? OPEC decisions don't usually impact spending, but this time it feels a little bit different. If you could just help us understand how those major markets are trending.

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

Sure, Dave. Look, you're absolutely right. I think it's about uncertainty right now. And the reality is the international markets do tend to be more stable with MENA leading the pack.

Look, as we have outlined what we have tried to do with the outlook we presented is really present a range of possibilities. I wish I could give you a lot more clarity and say this is exactly what it's going to be, but I think that uncertainty right now leads to a very broad range.

What we are seeing right now on the ground is continued stability. We're not really seeing a shift, which is partially why again for Q2, normalized for the divestment in Latin America, we actually expect revenues to go up on a normalized basis because that's not changing.

Look, as we look at places like Saudi, we'll start with that in the Middle East. Saudi has been reducing rig counts and have been doing that over the past year or so. And we've indicated in the past that we are not immune to it. But despite that, we actually believe we can actually grow the Saudi business. That view has not changed unless we see another significant ramp down later this year. And I think there is a potentiality for that. So we're just trying to make sure that we are prepared for that.

We see a very robust spending pattern and activity levels in places like Kuwait, in the UAE, in Oman. Our ISP contracts are doing extremely well. We're actually seeing positive signs emerge out of Iraq, which get us a lot more confident about 2026.

So in general, I would say, look, we're not seeing anything definitive yet. What we're just trying to do is prepare for a range of outcomes as this whole situation on global trade and the resultant impact on commodity prices as well as the activity levels get sorted out. That's really what we are trying to do.

And look, as I mentioned in my remarks, if everything stays reasonably okay, we are well positioned for that. We will be able to take advantage. And if you look at the high end of our guidance, we are still really only down just low single digit on the international side. So back to that stability.

David Anderson - *Barclays Capital Inc - Analyst*

So Girish, you called this a distinctly different phase of the cycle. You're saying you're expecting a slowdown in the second half of the year characterized as a downturn, impossible question I realize. But many ways, it going to play out. But how do you see this downturn playing out in terms of duration or severity just as you sit here today, recognizing things could change all different ways?

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

Yeah. So you're right, it's a bit of an impossible question. Look, I think a couple of things, though, Dave. One is, I think the industry discipline, both on the operator side, as well as on the service company side, makes this a slightly different one. This isn't everything falling off a cliff and a 50% reduction or something of that nature. I think it is much milder.

I think the second fundamental difference is that it is not universal, and we are seeing different causes in different places. Look, the situation in Mexico is very different from the situation in the Middle East. So places like the Middle East, I think we will see just a bit of a gradual slowdown.

And I think as supply and demand come back into balance, the global trade situation gets sorted out because if it doesn't, I think they've all got bigger things to then worry about over the next, hopefully, several months, by the latter part of this year, I think we'll have a little bit more clarity. We still see a lot of positivity on the offshore side going into '26 and '27. So we feel good about the outer years in the projection.

So I think it is reasonably short lived but we are just making sure that we are fully prepared. I think the other thing is you've got a lot of countries like Thailand, Malaysia, Indonesia, India, that are really driving activity based on domestic needs. And if anything, in this kind of an environment, that becomes far more important. So I don't think we will see a significant step off of activity in places like that either.

Operator

Scott Gruber, Citigroup.

Scott Gruber - *Citigroup Global Markets Inc. - Analyst*

I want to stay on the '25 bit as well. So Mexico is worse, as you mentioned. But can you provide some more details on the other moving pieces? What's the magnitude of the impact from the divestitures? Are those fully out of the P&L in 2Q? And outside of Mexico, which other countries or regions did you risk adjust lower in the guidance?

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

Sure, Scott. Look, as you said, a lot of moving pieces. Initially, when we gave the guidance in February, we had a slightly different view. I think, look, Mexico in itself is down a bit more. We've talked about it.

We had expected 30% to 50%. That's probably down closer to around give or take a couple of points, 60% or so. So that gives us order of magnitude, let's call it, between 150 and 250 bps of reduction but the good news is it's a little bit flatter after this.

We have taken North America down. I think that is where we see the most significant change in the market on a dynamic basis. It moves very, very fast. We are already seeing that effect. It is also the market that is likely to pick up the fastest or not change to the extent we have outlined, but that's down.

And then we have taken a little bit more of a prudent view in Sub-Saharan Africa, Europe and slightly degraded the Middle East as well. So if you think about it, look, the divestitures, again, order of magnitude, 100 to 300 bps is what that drives and then we've sort of on a global basis factored in about 300 to 500 bps on the market reduction.

But again, I will emphasize that if that doesn't actually play out, and I hope -- sincerely hope we're wrong, we will be very well positioned to take advantage of the activity levels that exist.

Scott Gruber - *Citigroup Global Markets Inc. - Analyst*

And then are you able to say the size of the proceeds from the transaction? I remember the Argentine pumping business being a decent size. And how do you think about utilizing those proceeds? Do you keep them as dry powder for future actions? Do you pay down debt, enhance the buyback? Just thoughts on use of proceeds.

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

Yeah. So look, what I'll say is we will have a lot more detail in the queue as it comes out tonight. I think the relevant factor, though, Scott, is the revenue size is a little bit higher, as I just outlined in my walk to you, but it was a very capital-intensive business, especially the pressure pumping piece.

So requiring the amount of CapEx that we did as we looked out into '26 and beyond, this will be a significant improvement in our ability to convert cash. What's left really now for us is the Vaca Muerta, and I'm very excited about our MPD offerings there, some of our product offerings, what we're doing with artificial lift and then our ability to go in and have a much stronger drilling business in that unconventional piece. So those are the things that we are looking forward to doing in Argentina. So Argentina now really transforms itself as the reforms take hold into a growth engine for us.

In terms of the proceeds, look, we don't look at it as a single bucket. It adds to the overall liquidity of the company. And I think we've got plenty of dry powder to look at all of the different things as we have outlined on our capital allocation priorities.

We will obviously continue to pay the dividend. The stock repurchase program is ongoing. As we indicated in the earnings release, we have also taken some opportunistic advantage and taken some of the debt out, albeit a little bit. And this gives us an opportunity to look at smaller tuck-in acquisitions like we have done last year.

Operator

Saurabh Pant, Bank of America.

Saurabh Pant - *BofA Securities, Inc. - Analyst*

I wanted to spend a little more time on Mexico. I know we spoke about the Middle East, and I know you said the situation in Mexico is different, which I guess a lot of people appreciate, right? But given the change, Girish, in your outlook from 30% to 50% to now 60%, maybe just give us a little more color on what's going on in the country, what's the risk that things can potentially get worse? Or on the contrary, things get a little better by the end of the year because we did see some news on potentially three suspended jack-ups going back to work again, right? But just give us a little more color on Mexico, please.

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

Sure. Look, I think all of this is still in the process of playing out, but we've got a little bit more granularity and clarity now. What I would say is, look, at this level of activity drop, we feel reasonably comfortable that it'll stay at least flattish to this. I think you're right in that there is a potentiality of a uptick, but it's likely to be towards the tail end of the year. So we're not really counting on that.

I think more importantly, looking into 2026, I think things will get better because all of the commentary we have heard out of various different sources in Mexico do suggest an understanding of the need to have different avenues to increase activity. So look, we've positioned our business, we've positioned the team, rightsized it essentially to adapt to this activity level. But also have given ourselves a little bit of leeway that if things do improve, if there are more private operators that get into the mix to be able to take advantage of that.

I think the most significant thing for us will be continuing to work with and figure out the payment stream that we get out, and that will really influence our ability to then modulate upwards on this. But look, at this point, we are really assuming that it doesn't get any worse and we feel pretty comfortable about maintaining activity levels at or slightly above the Q1 levels.

Saurabh Pant - *BofA Securities, Inc. - Analyst*

And then maybe an unrelated follow-up on free cash flow. So just on a conversion basis, the 100, 200 bps is unchanged, but EBITDA is lower. So free cash flow number is going down.

Can you just walk us through some of the moving pieces? Luke, I know you commented on CapEx declining through the year, so you would fall within that range. Maybe a little bit on working capital risk from Mexico, just collections when the market is slowing down. And any of the cash component of the charges you have taken for cost reduction, headcount reduction or that stuff. Maybe some color on that.

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

Sure. Look, Saurabh, so we've built all of that into the guidance that we have provided. So yes, you're right that the math would imply that it's a little bit lower, but still a very reasonable and I think a very healthy level of free cash flow generation for the year that still allows us to obviously pay the dividend, make progress on the stock repurchase. And then after that, still give us plenty of dry powder on either debt or M&A, et cetera.

Look, the biggest lever continues to be working capital. Obviously, CapEx is going to go down, but that's still more within that percentage realm. But the CapEx number will go down commensurately. So we'll be within that three to five, probably a little bit closer to five still this year on revenue.

But look, the working capital piece, the biggest chunk of it in terms of puts and takes and the variability does continue to be payments out of Mexico. Now we are hopeful that we will see clarity on that and get more visibility into that over the next several weeks and months, but yes, that is the key thing.

Now what is also important to recognize though is as Mexico revenue levels fall down, that exposure also reduces commensurately. We've obviously got the overhang from last year but as that gets cleared out, the overall exposure level does go down and that actually will become a positive once that comes to be.

So look, I think for us, as we look at the longer term, the pathway to 50% free cash flow conversion is still pretty much the same. It's net working capital improvements, it's improvement on cash taxes and then at the right point in time a reduction in interest. And we're making good progress on all of those things.

Operator

Jim Rollyson, Raymond James.

Jim Rollyson - *Raymond James & Associates, Inc. - Analyst*

And thanks for all the color and honest assessment of what things look like to your best ability at the moment. Girish, you're going -- circling back to costs, you threw out a couple of numbers, head count down by 1,000-plus people and your annualized expenses down by over \$100 million. Is it just headcount reductions that have been the driver so far or maybe a little detail on what else you've been doing to get that annualized cost number up?

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

Yeah, Jim, I appreciate the question. Look, headcount is certainly a very significant component of that. It's never easy or nice, but it's just a function of the business environment that we have to take these actions. But look, in addition, we are really working hard on, first, I'll call it the traditional levers of discretionary costs, making sure that we are really spending money only on the things that matter when it comes to professional consulting services, things like travel, all of the usual tightening down of things that happen in this environment.

The other thing that we are doing is our fulfillment program that's been working for the last several years, we have talked a lot about that in the past. That's really starting to pay some dividends, modernizing the network, getting more efficient. It has effects on both ends, the first of which is reducing cost and the impact of the company, but at the same time, also a reduction and more flexibility in meeting customer deadlines, et cetera. So that helps as well.

Look, we are also looking at how do we run the company more efficiently, more shared services kinds of arrangements, better ways to run it, more technology to automate. We have launched, as we have talked about, a multiyear ERP program, but we're not waiting for every single piece to take hold before we get some of the efficiencies, some of these things are running in parallel of as we get improvements in place.

So it's really an all hands on deck and everything focused on running the company more efficiently. I've said this for where Weatherford was never really designed to be what it is today. And so we've got a very unique opportunity to re-draw the blueprint and set the company up a way that works for the business that we are today and what we are going to be, which really gives us more ability to be efficient with the resources that we have.

Jim Rollyson - *Raymond James & Associates, Inc. - Analyst*

And if you think about what you have in progress, some of these things you mentioned take time relative to the \$100 million of annualized that you're already achieved, how much more do you think you have to get, like how much more cost and assuming this kind of market stays here, how much more cost you can take out of the system?

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

Yeah. Look, what I would say is, again, if we just assume -- let's say we get to the end of this year and then we stay flat. I will get back to you over the next two to three years, we should still be able to lift up margins in that 25 to 75 bps every year. So call it 150-odd bps. So that would suggest that there is still order of magnitude about the same in the next three years or so that we can get just from a productivity standpoint.

Operator

Sean Mitchell, Daniel Energy Partners.

Sean Mitchell - *Daniel Energy Partners, Inc. - Analyst*

I appreciate all the color and kudos for candor. You guys have talked in the past about your family of P&A services and products, especially in the North Sea. Can you just refresh us on the outlook for that business?

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

Yeah, Sean, thanks for the question. Look, this continues to be an area that we think has a lot of interesting growth prospects for us in the future. Depending upon the environment and the market, things ebb and flow a little bit. But we've had some tremendous success both in offshore US on the California side, as was the Gulf of America. We've had a lot of success in places like the North Sea, Continental, place like Continental Europe, multiple other locations.

A lot of it is within our intervention business, but it's complemented by some of our well construction products that we bring in. But probably most significantly is the umbrella that we are able to put around it on overall project management and scope to really give customers a complete solution.

Look, we don't have some of the elements like conveyance, et cetera, but we are able to successfully partner with other organizations to be able to provide that to customers. So we are very excited about this business. One of the acquisitions we made last year, this company, Ardyne, which is now part of our interventions business, gave us a little bit more capability with far more efficient cut and pull technology, single-trip technology.

On that front, we have deployed that extremely successfully. That business is doing extremely well relative to our expectations in the pro forma that we had. So a lot more to come on this.

I think the key will be really to see how the regulatory environment plays out and whether that gives us additional impetus. But even without that, I think operators understand the significance and the responsibility of doing this. So over the years to come, I think this will be a very significant platform for us.

Operator

Doug Becker, Capital One.

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

Girish, you've characterized the sale of the pressure pumping business in Argentina as a key milestone in the portfolio optimization to a more capital efficient model. What's left to optimize? And are there other potential divestitures on the horizon?

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

Yeah. Doug, look, as I've said a few different times in the past year, we like the overall portfolio that we have. We aren't looking at the business and saying there is a particular product line or a particular country or something like that, that we want to divest or change. What we tend to do is really look at this, what we call the intersection of product line and country, and we look at what is the sustainability of that business, the return capability over time, the viability of the asset base, et cetera.

And I think in this particular circumstance, we had a happy confluence of circumstances where we had an opportunity to divest the business. It was going to be more capital intensive for us. As I mentioned in my prepared remarks, these were triplex pumps, so you can get a bit of a flavor of the capital intensity around things like that.

Look, I think this was probably the most significant piece that we had from a capital intensity in one particular country, one particular product line. But look, we continue to evolve and look at ways to shape the portfolio. And it's not just about divestment. Look, last year, we acquired a tool companies in the wireline technology business, Probe and ISI, and that really accelerated our pivot in wireline to be a less capital-intensive business, to be a technology provider in several instances. So we will continue to look at shifts like that.

In the pressure pumping side, we started a couple of years ago on this transition to grow what we call our engineered fluid chemistry business. It's a very small part of the company today, but one that's growing extremely well because we feel the value is far more in that engineered fluid chemistry portion versus in the heavy machinery aspect of it. So I think we will continue to look at that intersection, see where we can add value to it. And if we see circumstances where it doesn't make sense, we'll take the appropriate action.

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

And you alluded to this a little bit, but you're still looking for acquisitions and maybe in the context of uncertainty can create opportunities. Is that something we should be looking for? Or is it just part of the ongoing process?

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

Yeah, look, it's not one that we are looking at saying we just have to go do something. Look, it's part of the ongoing process. We always look it up. I think there's a lot of interesting things. And the one of the things that I am particularly interested and frankly, a little excited about is Weatherford today, this is a cycle change that is very different for us.

In the previous couple of downturns, Weatherford has not been in a position to play offense. We've been hunkered down and worried about survival and stability. It's a very, very different company today. We've got a resilient balance sheet, we have a lot more capability inside the organization. And so we're able to look at things with a broader and a longer-term perspective.

So I do think there is a possibility and optionality that we have, but we're always going to do it only if it makes sense.

Operator

Derek Podhaizer, Piper Sandler.

Derek Podhaizer - *Piper Sandler & Co. - Analyst*

I was hoping if we can expand on potential tariff impact, maybe if you can quantify it for us. I know we've heard from a couple of your peers this week, putting a dollar figure. But how should we think about it maybe from a country perspective, maybe a product line perspective? Just maybe some more color and comments around potential tariff impact.

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

Sure. Derek, look, I'll be very candid. I think it is very difficult to quantify right now because we don't know exactly what it's going to look like. If you look at the business itself, there are three elements to it. I think there is going to be an impact from a CapEx standpoint on our service product lines, which will most significantly be felt in our DRE segment.

We move a lot of tools across different parts of the world, and we've got centers of excellence in the United States. So the impact of tools coming in, I think it's something that we will have to understand once we know exactly what the tariff regime is going to be. But at the same time, how that then gets manifested in terms of pricing increases, et cetera, we'll have to see.

On the Well Construction & Completion side of the business, we think there is limited impact. We do have manufacturing facilities in the US where we shop product out to other parts of the world, that could be subject to a little bit of this retaliatory tariffs depending again on what shape or form that takes, really difficult at this stage to quantify that, but we could see a bit of a suppression in demand, and that's what we have tried to bake into the guidance.

And I think the most pronounced effect will be in our Production & Intervention segment, which holds our artificial lift product line. We bring a lot of product into the United States from other parts of the world and I think on that one with the tariffs that are currently in place, it likely creates a very difficult situation for customers because the cost ramps up fairly dramatically, even if we are able to pass on the cost fully to customers with some of the tariff levels that we've got right now, we would not be in those product lines if we weren't able to do that. But it becomes a dramatic change.

So I think customers will then look at alternative technologies. We might look at refurb or used markets, et cetera. So look, I personally, I just think it's way too difficult and probably too early now to make pronouncements on this. So what we've viewed it as we will wait a little bit to see what really happens over the next 30, 60, 90 days as hopefully these agreements get finalized, get put into place. And in the meantime though what we do expect is there is going to be a degree of uncertainty, which leads to a reduction in activity levels. And I think that will be the most tangible change that we will see increase in the next several months.

Derek Podhaizer - *Piper Sandler & Co. - Analyst*

Just for a follow-up, I just wanted to hit on digital. I mean you obviously announced a partnership with Abu Dhabi AIQ but maybe just a bigger picture question around digital.

Just given the uncertainty in the macro, activity levels coming down, is this really the discretionary spending for your independent E&P, IOC, NOC customers? Just thinking how relatively insulated digital could be in this type of environment? Or would that digital-related spending just really come down in line with traditional services? Just so maybe some color around that.

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

Yeah. Look, I think it depends, Derek, on what element of digital, right? It's a very broad term. So I think things that don't have value or are just seen as a little bit of experiment, that might likely come down. But I actually think it's a very significant opportunity for us, especially as we look at the production space.

In this an environment, I think there is going to be a significant premium that customers place on production optimization, on finding mechanisms to do more with their data that again allows them to get more production intensity out of existing reservoirs, existing wells, and that is where our suite of products and solutions starting with our scale system, our edge devices and our production optimization platforms, I think can actually have a significant opportunity to create value. So my hope is that will actually go up versus down.

Operator

Ati Modak, Goldman Sachs.

Ati Modak - *Goldman Sachs & Co. LLC - Analyst*

Girish, you noted in the prepared remarks that the guidance change is potentially conservative. Can you help us understand that comment a little better in terms of the factors that you've evaluated and the derisking that provides confidence there?

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

Sure, Ati. Look, again, I tried to be careful with some of our words. I say potentially conservative because, again, it goes back to this notion of uncertainty. Because I think I pointed out a couple of times, we have not seen customers definitively tell us at this point that they're going to cut back spending or they're going to change specific plans, et cetera.

What we are doing is projecting forward a little bit, and we want to be realistic and prudent about it. I will again say I sincerely hope I am completely wrong on this and that everything is perfectly fine and that oil rebounds and activity levels continue. So if that does happen, then yes, the guidance would be potentially conservative, and we would see an uptick. We just see the reality today as more likely to be different.

Ati Modak - *Goldman Sachs & Co. LLC - Analyst*

And then maybe if I can get one for Anuj, if possible. How should we think about your priorities as you start in this new role and thoughts you can provide on capital allocation priorities or balance sheet priorities, anything you can provide us?

Anuj Dhruv - *Weatherford International PLC - Executive Vice President and Chief Financial Officer*

So this is day three for me. So I need to understand the organization in much more detail before putting it together in detail my priorities. However, from a capital allocation standpoint, I'll echo what Girish have mentioned, which is the dividend to sacrosanct.

Key is to have a strong balance sheet. I'd like to call it a fortress of a balance sheet, which allows for flexibility throughout the cycle. And so those things will not change.

Line of sight to cash on sheet and making sure we have enough liquidity levels, which I believe we are very well positioned here to withstand the uncertainty that we're seeing and to make sure that we can be opportunistic as needed through the cycle.

Operator

This concludes our question-and-answer session. I would like to turn the conference back over to management for any closing remarks. Please go ahead.

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

Great. Thank you all for joining the call. I really appreciate, as always, your time. I think we've tried to paint as clear a picture given the uncertainty in the market, let's say, a fairly wide range of outcomes. But we feel very strong in our capability to navigate through that uncertainty, ensure that we still generate healthy margins and more significantly strong cash flow over the course of the year.

So thank you for your time, and we'll talk to you again in 90 days.

Operator

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

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