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EDITED TRANSCRIPT

WFT - Q1 2016 Weatherford International PLC Earnings Call

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OVERVIEW:

Co. reported 1Q16 revenues of $1.6b and loss per share (before charges and credits) of $0.29.

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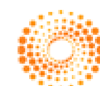

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CORPORATE PARTICIPANTS

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

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Bill Herbert *Simmons and Company - Analyst*

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PRESENTATION

Operator

Good morning. My name is Lori and I will be your conference operator today. At this time, I would like to welcome everyone to the Weatherford International first-quarter 2016 earnings conference call. (Operator Instructions) As a reminder, ladies and gentlemen, today's call is being recorded.

Thank you. I would like to turn the call over to Ms. Karen David-Green, Vice President of Investor Relations, Corporate Marketing, and Communications. Please go ahead.

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

Thank you, Lori. Good morning and welcome to the Weatherford International first-quarter conference call. With me on today's call from Geneva we have Bernard Duroc-Danner, Chairman, President, and Chief Executive Officer; and Krishna Shivram, Executive Vice President and Chief Financial Officer.

Today's call is being webcast and a replay will be available on Weatherford's website for 10 days. Before we begin with our opening comments, I would like to remind our audience that some of today's comments may include forward-looking statements and non-GAAP financial measures. Please refer to our first-quarter press release, which can be found in our website, for the customary caution on forward-looking statements and a reconciliation of non-GAAP to GAAP financial measures.

We welcome your questions after the prepared statement. And now I would like to hand over the call to Krishna.

Krishna Shivram - *Weatherford International plc - EVP & CFO*

Thank you, Karen, and good morning, everyone. Let me start with a brief recap of our operating performance in the first quarter.

Overall, this was a disappointing quarter, reflecting a sudden plunge in revenue across all regions, led by North America, while our aggressive cost-reduction actions were not enough to stem the revenue drop, resulting in a sharp decline in operating margins. Loss per share for the quarter before charges and credits was $0.29. Revenue of $1.6 billion for the quarter decreased 21% sequentially and 43% year on year. The sequential decline was affected by a sharp decrease in the level of product sales as customers around the world cut back on product spending, which is partly seasonal after a strong Q4 and partly reflective of the new lower 2016 spending budget kicking in for these customers.

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Product sales were down 30% sequentially, mainly in the US, Canada, Asia Pacific, Middle East, and Latin American markets, with the artificial lift and completion product lines declining the most. Excluding the decrease in product sales, service revenue was down 16% sequentially, in line with our peers.

Operating income margins before R&D and corporate expenses declined by 943 basis points sequentially to negative 6.6%. Excluding the rigs business, our core business revenue decreased 21% sequentially with a 931 basis point deterioration in operating income margins to negative 5.4%.

Right through this long down cycle we have been cutting costs and reducing our structure to cope with reduced activity and pricing pressures. This was evidenced by our 2015 decrementals versus 2014, which were best in class at 28%.

While we continue to reduce costs in 2016, we have now reached the point in several operating locations around the world where any further reductions in structure or in costs will mean exiting the business in those locations. This means that we have reached a point where we will incur short-term operating losses by continuing operations at these locations. We have chosen to maintain this minimum cost structure as the difficulty and the cost of rebooting and rebuilding our businesses when activity levels eventually increase far outweigh the short-term benefit of eliminating these businesses all together.

In all, we are carrying about $48 million in such costs, representing 300 basis points of margin and about $0.05 in earnings-per-share terms in our Q1 results.

Below operating margins, R&D costs reduced by $7 million while corporate costs were down $4 million, reflecting spending cuts in line with the reduced budgets for this year. The tax benefit recorded in the first quarter reflected the tax benefit on the losses in the US primarily, which are recoverable, partly offset by tax provisions internationally. The tax rate for 2016 will be dependent on the geographical mix of earnings and will be heavily weighted by results in the United States.

Excluding the rigs business, sequential decrementals were 38% on a 21% revenue drop and year-over-year decrementals were reasonable at 27% on a 44% revenue decrease. Adjusting operating income for R&D and corporate expenses, our sequential decrementals improved to 35% while the year-over-year decrementals improved to 24%. We expect to hold sequential decrementals in the low 30%s going forward, while the year-over-year decrementals should hold in the mid-20%s.

Bernard will comment in more detail on the operating results and the outlook later in the call.

Coming to net debt and cash flow now. Net debt reduced by $373 million to reach $6.6 billion at March 31. This reflects mainly the net proceeds from the equity offering of $630 million, partly offset by a consumption of $216 million in operations this quarter. The negative free cash flow performance, while disappointing, was significantly better than the $266 million free cash flow consumption of Q1 in 2015, despite recording much steeper losses this year.

All our larger peers recorded negative free cash flow in the first quarter this year. However, we were the only one to improve versus Q1 of last year on the free cash flow metric. Excluding the cash consumption of $47 million on the Zubair contract in Iraq, $71 million of severance and restructuring cash costs, and $50 million of out-of-period interest payments, free cash flow was a negative $48 million for the quarter.

Working capital balance is reduced by $119 million, reflecting strong customer collections and inventory reductions. CapEx was well controlled and was low at $43 million.

As of March 31, available liquidity was $1.4 billion. The debt-to-cap calculation came in at 53.6% versus a 70% covenant, meaning there was significant headroom against the covenant.

I would now like to update our free cash flow forecast for the year. Primarily due to the large unexpected losses in Q1 and the continuing trough into Q2, we now revise our full-year free cash flow forecast to be between $400 million and $500 million. This downward revision by $200 million

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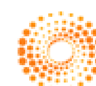

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versus our previous forecast takes into account three parameters: lower earnings by $350 million, partly offset by lower working capital, principally receivables, by $100 million and lower CapEx by $50 million.

Losses for the year will be higher reflecting the expenditure sharp drop in activity and pricing levels in Q1, which is expected to persist into Q2. With lower revenue, receivables will generate additional liquidity of $100 million. And given the low spend in Q1 our $250 million CapEx revised target for the year should not be difficult to achieve, particularly with the low start to the year.

Consistent with the previous forecast, this new forecast assumes that we will strike an out-of-court settlement agreement on change orders with our customer on the Zubair EPF contract in Iraq. If we are not successful in reaching a satisfactory settlement, we will take the matter to an international arbitration panel.

And while the cash settlement in this scenario could well be delayed into 2017, we believe the settlement through an arbitration process would be for a significantly larger amount. Such a turn of events could reduce this year's free cash flow forecast by an additional $150 million to $200 million. Discussions of our clients are ongoing.

The progress on the Zubair project has been very good, with only three final milestones remaining out of 18 to be achieved. We expect these milestones to be achieved by the end of May.

We successfully repaid the bond of $350 million that matured in February 2016, as well as certain other short-term facilities totaling $150 million. With this revised free cash flow forecast, we expect net debt levels to reduce to below $6 billion by the end of the year.

Moving on to the new credit facility now, given the environment we are in and the extreme pressure banks are facing with their exposure to the energy, principally E&P, industry; with significant loan-loss provisions being recorded by almost every bank, this was not the ideal time to negotiate a revolver for a non-investment-grade name like ours. However, as our current revolver was due to expire in July 2017, we had no choice but to renegotiate this facility before it went current.

After over two months of difficult discussions and an extremely thorough examination by our banks, I am pleased to announce that we have successfully negotiated new financing agreements which will be effective from next week and replace the current facility. Here are the key features of this new financing facility.

Firstly, it includes a secure term loan of $500 million. This term loan matures in July 2020. Next, it includes an unsecured revolver of $1.151 billion, expiring in July 2019. Both of these new facilities are enhanced by appropriate upstream subsidiary guarantees.

A residual revolver totaling $229 million, expiring in July next year, covering banks that declined to extend the current facility is also available. Of the 17 banks in our previous facility, 15 of them agreed to extend their cover with only four of the 15 reducing their commitment slightly. Two banks declined to participate in the extension, but their current commitments will stay in place until July 2017. This demonstrates the strong relationship we had with the majority of our banking group, who share our common view of the future.

The term loan will amortize down 10% annually, while the revolver will amortize down by 5% in the first year and then by 10% annually after that, but will not reduce below $1 billion.

We will have the following covenants to adhere to during the life of the facilities. Firstly, a specified debt-to-EBITDA ratio of below 3.0 times until the end of 2016 and then below 2.5 times after that. As of March 31, on a back test we are at 1.1 times versus a 3.0 times, meaning there's plenty of headroom.

For covenant purposes, specified debt is defined as the debt enhanced by subsidiary guarantees and represents only the drawn amounts against the facilities, while the EBITDA is defined to exclude all non-cash charges such as impairments and write-offs of assets.

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Secondly, we have a covenant which is defined as follows: a specified debt plus letters of credit, that means a sum total of the two, to EBITDA ratio of below 4.0 times until the end of 2016 and then below 3.5 times after that. The only difference from the previous covenant is the addition of outstanding letters of credit, or guarantees, to the level of specified debt and a higher ratio by one turn to accommodate these LCs. As of March 31, on a back test we are at 1.7 times versus a requirement of 4 times, meaning again there's plenty of headroom.

There's also a third covenant, which is specified assets to specified debt. We must maintain a ratio of at least 4 times. As of March 31, this ratio is at 14 times, meaning again there is substantial headroom on the third covenant.

Based on our forecast over the life of the facility, we expect to retain and, in fact, improve the headroom versus these three covenants. As we negotiated these covenants at a time when the industry is at a trough, we were able to secure extremely accommodating covenants which have almost no danger of breach during the life of the facilities.

We also ran a stress model assuming a flat $40 oil price until the end of 2018. This model results in flat revenue, EBITDA, and free cash flow in 2017 and 2018 at 2016 levels or slightly lower. Even under such a draconian set of assumptions, we retained significant headroom versus these three negotiated covenants.

Finally, the debt-to-cap covenant that existed up until now has been discarded and is not valid anymore.

Just to be clear, we will have a $1.88 billion facility starting next week, down from $2 billion. This facility will reduce to $1.54 billion after amortization in July 2017. Then it will reduce down to $1.4 billion as of July 2018 and so on.

Such a reduction should not be viewed as constraining to Weatherford. As a matter of fact, the total actual drawdown against the facilities for the last several quarters have been as follows: $1.04 billion as of 30 September last year, $967 million as of last year-end, and now $1.04 billion as of the end of the first quarter this year, which are far below any of these levels that I mentioned. At its lowest point of availability, which is $1.4 billion as of July 2018, we still have sufficient headroom when recent utilization levels of approximately $1 billion are taken into account.

As a reminder, we also maintained roughly $500 million of cash balances on an ongoing basis. So when you net that off against the outstanding revolver, you've got to reduce $500 million as cash as roughly fungible. I would like to also remind you that off of total gross debt of $7.1 billion at March 31, only the revolver drawdown of $1.04 billion has any financial covenants attached to it. The remaining debt, comprising mainly long-term bonds, which is over 80% of our total debt, do not carry any ratio-driven covenants, nor do they carry any credit rating triggers.

I would like to conclude my prepared remarks by addressing our plan to manage the upcoming bond maturities over the next several years. The total value of bond maturities from 2017 through to 2020 is $2.9 billion. Here's how we plan to finance the repayment of these bonds.

Firstly, free cash flow is expected to be in the $400 to $500 million range this year, as I explained previously. Add to that a range of $600 million to $750 million annually of free cash flow for each of the next four years and you get a total of $2.4 billion to $3 billion. These cash flows assume a recovering and strengthening oilfield services market, resulting in improved margins -- improving margins with solid incrementals, given the reduction in our fixed cost base. And despite investment in working capital to fuel the growth, CapEx will continue to be muted, as our excess capacity gets fully utilized, delaying significant growth CapEx spending into 2019.

Next, we expect to divest the land rigs business over the next three years when industry conditions and valuations get better. Our current estimate is that the cash component of such a transaction would be between $500 million and $1 billion.

Lastly, we will opportunistically tap the public debt markets to refinance some of these bond maturities and over the next four years we believe debt markets will be open to us. In reality, we believe there is a high-yield market open to us even today.

In conclusion, a combination of free cash flow, proceeds from asset sales, and potential new debt issuances will allow us to comfortably manage the upcoming debt maturities. With that I will now turn the call over to Bernard.

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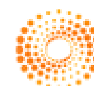

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Bernard Duroc-Danner - *Weatherford International plc - Chairman, President & CEO*

Thank you, Krishna, and good morning, everyone. A few comments on Q1 results.

Historically, Q1 is always our worst quarter. This year is the same. The four key numbers are revenue decline of 21% sequentially, 43% year on year; decrementals of 38% sequentially and 28% year on year. Free cash flow was $216 million use of cash, but $50 million better than Q1 2015. And that without any consideration for large severance cash payments and final cash outlays to Zubair.

Free cash flow doesn't matter for our peers; it does for us, given balance sheet differentials. It is worth observing Weatherford's free cash numbers as is, inclusive of all, were the best or the least bad, if you will, in class year-on-year performance of our peer group. This isn't an accident. The Company has at all levels of operations an ingrained focus on cash flow here and now and perennially.

Breaking down Q1 revenues into its main components: product sales dropped by over 30%, service revenues by 16%, and rigs by 19%. This added up to a sequential 21% drop.

Product sales usually drop sequentially in Q1 and this year was no exception. The overwhelming majority of the drop was seasonal and particularly affected the Eastern Hemisphere. Product sales for Weatherford are well construction, except TRS and managed pressure drilling, completion, and lift.

Service revenues are tubular running services, MPD, and formation evaluation. Taken together the proportion of product sales to total revenues is on average about 40% with large quarter-to-quarter variations. Product sales will improve in Q2 seasonally.

Regionally the quarter was difficult in every corner of the world. Both the US and Canada were very challenged. Canada's Q1 was the lowest in company's recorded history for a first quarter, normally that region's strongest seasonal peak. Q1 was, in fact, lower than Q2 of last year during a then already very depressed breakup. It is quite unimaginable activity crash.

The US was just as bad, but no worse than Canada, thanks to a tremendous effort around sales, operational execution, and extreme cost management. Much of our market performance was exemplary, except for two service lines which have consistently had to cut US operations: pressure pumping and rentals. No surprise there. With 30% of US revenues in Q1, they accounted for 76% of the losses.

Those numbers say it all.

Revenues for NAM declined by 22% and decrementals were more severe at 39%. Year-on-year decrementals held at 19%, a 53% revenue decline, which was excellent cost management in the midst of a collapsing volume and pricing environment.

For the first time in 15 months we held back on further organizational cost action in NAM beyond what was planned. By March, with only a few exceptions, we decided not to curtail employee counts or basin presence any further. We decided to keep some measure of overstaffing in place in the US and Canada on furlough, waiting on market direction beyond Q2.

Latin America held better than NAM, albeit it was also very strained. Revenue declined by 18% sequentially. Decrementals held at 18% also and a very decent 30% year-on-year by aggressive cost control. All country operations declined except Argentina.

Colombia, traditionally one of our largest Latin American operations, was eviscerated. Brazil and Mexico weakened further. We had already seriously curtailed Venezuela last year. The operational minimum necessary fell on to our nucleus organization and infrastructure.

Eastern Hemisphere experienced a severe seasonal in addition to cyclical downturn in activity. As highlighted earlier, our product sales are very low in the quarter, representing much of the Company's overall product sales drop. That drove 22% lower revenues and 45% decrementals sequentially, high for us because product sales typically carry higher margins.

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Cost reductions could not help as much as they will. They lag North America for local regulatory reasons by about two quarters. In the European/Caspian/Russia/SSA region, revenue was down 24%, reflecting sharp seasonal winter declines in Russia and the North Sea, coupled with project cancellations across SSA. SSA margins dipped ever so slightly into negative territory as costs could not make up for activity reduction fast enough.

Revenues in the Middle East and Asia Pacific region decreased by 20% with margins dropping to just under 1.7%, with sharp seasonal decline across several parts of the Asia Pacific region. MENA showed resilience, but much was offset by a combination of very low product sales in the quarter and the full effect of pricing concessions.

Lastly, the rig operations, as expected, had a difficult quarter. It was a transitional quarter as they moved rigs into new markets we mobilized a new contracts.

On the cost side, we announced earlier this year an additional reduction in force of 6,000. As of the end of April, almost 6,000, or 5,874, employees had already left the payroll, substantially completing the program. We extended the program to cover another 2,000 reduction in force, bringing it to 8,000, if you will, which we expect to complete by the end of Q2.

Annualized savings already crystallized from actions to date are specifically $408 million with savings impacting Q1 to the tune of $34 million, so the bulk of it is coming in Q2, etc. The next two quarters will show much higher levels of savings from the actions to date.

Similarly, the cash cost for the severance program was heavy in Q1, heavier than we expected. There will be lower severance cash payouts in Q2 as a corollary. We had also announced the closure of nine manufacturing facilities this year. Of this, four were shut in Q1 alone. In addition, 26 operating and service facilities were shut down in North America during the quarter.

All this added to a difficult but productive quarter, which was expected, and also we believe will set the trough for the year and this cyclical depression, which brings me to the outlook for Q2.

NAM results will be weaker in Q2. Revenues will decline Q1 on Q2, similarly to Q4 and Q1. The depth and breadth of cost cuts achieved will improve the decrementals versus Q1, but the region's operating income will decline further. We believe Q2, though, will be the trough for Weatherford's NAM.

Latin America will also be weaker in Q2, but substantially less than NAM in terms of decline. Q2 will look similar to Q1 and will likely have single-digit lower revenues and operating income, no worse. We also believe Q2 will be the trough for Weatherford's Latin America.

Eastern Hemisphere in Q2 will be up modestly Q1 on Q2 revenues and, more significantly, operating income. The increase in revenues is one factor. The different mix with the return of product sales is the other factor, probably a larger factor, together with a much lower cost basis. The cost cuts have a lag, remember, and they will benefit Eastern Hemisphere in Q2 -- starting from Q2.

This brings us to the following assessment. We believe Q1 will have been the trough for Weatherford's Eastern Hemisphere.

Lastly, the rig operation will improve gradually lease profitability in Q2 and there on because of the mobilization. Q1 will have been the trough also for our rig operation.

Now I do realize our assessment of both Latin America and, even more so, Eastern Hemisphere for Q2 is at a variance to our larger peers. Remember, although we overlap and compete in formation, evaluation, and completion, by and large, we do not what we call well construction and lift. Well construction and lift we are more complementary than competitive and have, at times, a somewhat different prognosis timewise for performance.

Adding the pieces together, our view is that Q2 will net up at a similar net income to Q1 with a worse NAM, but a better international. By the end of Q2 we will have concluded the bulk of our two-year massive cost restructuring, leaving behind only supply chain work underway. The change in efficiency and cost structure make a very large and structural difference.

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We also believe there will be seasonal and some early signs, however modest, of cyclical market improvements in Q3 and Q4. Profitability in the second half 2016 will be improved over the first half.

We are preparing cautiously, but with determination, for the beginnings of a possible recovery. The decision to opt for a furlough program in North America, rather than a more organizational shrinkage, is a clear example of such.

The turn will come and will come early for us. Weatherford is more development and production than exploration; we are more land than offshore. We are best positioned to benefit from the first turn in the market.

Two examples. In NAM, our completion and lift portfolios are directly applicable to the gradual completions of the drilled and uncompleted wells. Second, the massive destocking of cloud inventories for rod lift and PCP lift equipment will be the first arrivals of the turn. That's for NAM.

Internationally, Russia and pockets of Latin America will be the first movers, while our Middle East region will accelerate its rebuilding through the second half of the year. Again, we remain very cautious but we are building our own conviction that second-half 2016 will be better for Weatherford and the beginning of a long-term turn.

Reiteration of 2016 priorities. At the time of this call, we have successfully achieved banking commitments for our credit line through May 2019 to replace the existing line. Successful equity offering last March also provided additional liquidity.

Both capital formation events are clear positives and place us on safe ground. They do not change our free cash flow objectives. Free cash flow generation is ingrained in the Company's long-term direction. We have total organizational buy-ins, specific incentives, and disciplined metrics on free cash flow objectives.

With the end of the risk of reduction in force severance and Zubair financing, our free cash flow performance for the balance of the year will be strong and reliable. We will build our operating progress today with more efficiency, cash discipline, systematic talent upgrades, and selected market share focus. We will delever the balance sheet through free cash flow each and every year and eventually with more asset sales, when achievable. This is our direction.

Our cost organizational actions to date centered around improving five things and doing so in a perennial way. One, lower cost structure through cycles. Out of an estimated annualized to date $2.5 billion cost reductions realized since 2014, we know specifically that over $1 billion are permanent or structural. This means Weatherford will have close to $1 a share in incremental earnings and cash flow above our prior earnings peak.

Two, capital allocation and cash generation is a companywide discipline. This is ingrained in our culture.

Three, leapfrog talent bench and talent development as a culture. We have upgraded our talent systematically from field to senior management. We've made talent development into an organizational priority. We never had operationally and financially as talented and deep of a bench as we have today. We may be smaller; we are much better managed.

Four, focus on quality and reliability for all product lines. Quality and reliability and execution everywhere, all the time, are a strategic priority. I specifically commented on these internal objectives and priority in my recent comments at the opening ceremony of the ATSE conference in the Dhahran. Quality and reliability is our most important metric of operational achievement.

Five, technological innovation, both incremental and step change, channels strictly on our core. Buttressing our leadership where we lead and gaining leadership where we don't.

During OTC, which is happening now, we have hosted a three-day technology exhibition at one of our R&D centers in Houston. We had more client attendance, by far, than we ever experienced. We cannot afford to be technological leaders or co-leaders on all product and service lines. We can and will on our core.

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As the massive cost containments come to an end, I will summarize the cost accomplishments from the first days of 2015. We believe we did more and further than anyone else.

Reduction in force, for a total employee count on January 1, 2015, of 55,318. We ended Q1 2016 at 34,808. We expect a trough of total headcount at about 32,000 shortly after Q2. It Will have been a 42% total company payroll reduction at 18 months. This is a clean cost restructuring without any divestment to assist the numbers.

We took down our support ratio, which is indirects to directs, or support for direct, if you will, from 59% in 2014 to where it presently stands at 38.6%. A 20% decline in support ratio is a colossal structural change in record time. To do this in a cyclical downturn is very difficult. It is also a structural change which will provide us with outsized incremental margins through the recovery years.

Operations were streamlined, with consolidation of geographic segments, flattening of the reporting organization, scaling down regional headquarters, and push the country closer to the sand phase. Supply chain is in the midst of a two-year restructuring and productivity leapfrog.

Manufacturing, logistics, and procurement are implementing fundamental productivity and efficiency change. This is an economic breakthrough for our operating cost structure flexibility of adjustment to changes in business volumes. Of all the ongoing cost initiatives, this one alone will carry forward through 2017.

Much of the above describes what we have accomplished taking advantage of extremely depressed market conditions. The operating decisions will now be adjusted.

We're calling for an end to our reduction in force drive and organizational compression. The last remnants of the layoffs will occur in Q2, but beyond we will arrest the direct cost drive and prepare cautiously, but prepare nonetheless, for a turn in our markets. Only the vast supply chain reorganization work will continue until full completion.

Weatherford is well advanced in this fundamental transformation. Cost structure, core operating practices and quality focus, returns objective, and a culture of sales we are completely different company in the making. Our performance in the recovery to come will surprise to the upside.

I have a few comments on the macro, but I will keep them to a minimum. We have long said that after a lag, decline rates would accelerate. That the effects were underestimated and the industry was producing at near capacity, which is something none of us have ever experienced.

We also added that the industry will not be able to manage required oil demand as early as 2017. This means oil demand would not be met by existing oil capacity. Inventory overhang will help, but by definition it is more than a stop-gap solution.

We, more than ever, believe all the above is correct. Other than a few barrels coming from Iran, in theory one day from Libya, by our assessment the industry has little spare capacity beyond the present operating rates. Public pronouncements to the contrary, we believe this to be accurate.

Furthermore, elasticity of supply response to higher oil prices is being ignored or overstated. In my 30 years in the oilfield and my prior years watching my father operate in same, I have never seen anything like it.

The full return costs of developing existing bases around the world, including the US tight oil reservoir, will not work financially unless oil pricing and related financing change and change fast to a materially different level. This is how we see our industry situation.

In summary, regardless of the macro outcome, we're making Weatherford focused, operationally very strong, disciplined, and return driven. We will never go down the same path to excessive leverage ever again. We have fundamentally changed our cost structure, quality, efficiency, returns culture, and emphatically our talent bench. This is today a very different company.

We will maintain strong free cash flow and liquidity. We dedicate our every effort to delever the balance sheet and do so permanently.

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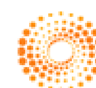

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We are positioning Weatherford with selected markets and clients using our product line strengths and specific technological leadership. In this time of great transactional turbulence in our industry, we have remained an island of calm and internal efficiency focus. Our operating and management capabilities are immeasurably stronger than they historically were.

Lastly, we have a worldwide infrastructure of service support second to none. Except for a few marginal locations internationally, we have kept the international infrastructure intact. We are confident of our technological strength, product line breadth, and market potential for organic growth.

Our numbers will prove out the merits of our direction in this brutal down cycle and even more so when the market turns. We believe this is what will deliver the highest shareholder returns at the lowest risk.

With that, I will turn the call to the operator for Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Bill Herbert, Simmons and Company.

Bill Herbert - *Simmons and Company - Analyst*

Thank you. Good morning. Krishna, could we discuss Zubair a bit here? Because it seems like the range of outcomes there are reasonably wide in terms of order of magnitude and impact on free cash flow possibilities for 2016. So can you discuss that with a little bit more detail?

Because you talked about revising the free cash flow forecast down to $400 million, but in the event that Zubair doesn't swing your way, that could be too high by a couple hundred million dollars, if I understood you correctly. So could you shed some light on that please?

Krishna Shivram - *Weatherford International plc - EVP & CFO*

Yes, Bill. First of all, I said that the free cash flow forecast for the year is going to be revised down by $200 million, down to about $450 million. Now included in that $450 million is an assumption that we will successfully negotiate a settlement of our variation order claims on a customer. That settlement is being discussed right now and we have not reached a point where we can mutually agree to the settlement.

If we don't reach a settlement, we will not get any more cash, even against the milestone payments that are due to us contractually, because we believe our customer will withhold all cash going forward. If that happens, then about $150 million to $200 million of cash that would otherwise have come to us, including the settlement estimate, will not come to us anymore. Which means basically the $450 million of free cash flow will then reduce to -- by $150 million, $200 million. That's what I was talking about.

In fact, we're getting closer to a settlement agreement with our customer. And if we maybe -- if everything works out, be able to announce a settlement in the next several weeks. If that happens then the $450 million remains intact.

Bill Herbert - *Simmons and Company - Analyst*

So you believe that it is likely you will reach a favorable settlement on this front?

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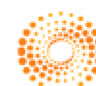

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Krishna Shivram - *Weatherford International plc - EVP & CFO*

I think both sides are not too far apart right now and so I think it is -- I would give it more than 50% chance that we will reach a settlement, yes.

Bill Herbert - *Simmons and Company - Analyst*

So what exactly is being disputed here?

Krishna Shivram - *Weatherford International plc - EVP & CFO*

It's the level of compensation for the change orders. We have a number of change orders that we have documented over the last three years, which are changes to the original design of the facility that was in the tender, and none of those change orders have been compensated for. So we have a certain claim and that claim has not been honored or recognized by our customer. That's basically the subject matter of the discussion.

Bill Herbert - *Simmons and Company - Analyst*

Okay. Switching gears for a second from the balance sheet; Bernard, in the event that international revenues as a whole continue to bleed lower over the course of the year, what then is the likely roadmap for margins, given the interplay between pricing concessions on the one hand and those continuing to roll through and on the other hand the more aggressive cost cutting that you continue to implement?

Bernard Duroc-Danner - *Weatherford International plc - Chairman, President & CEO*

Just to put things in perspective, as I mentioned, a lot of the cost cuts have not impacted much yet, but they will starting in Q2. The international operations, and more specifically, the Eastern Hemisphere, which takes the longest from a regulatory standpoint to be able to absorb the layoffs and so forth.

We have approximately -- going through all the cost cuts through Q1, there are approximately $100 million a quarter more of cost cuts that are going to come through the Eastern Hemisphere and also Latin America. But that is actually -- but it will obviously then come through the Eastern Hemisphere. That is quite a cushion on further erosion coming from volumes and pricing.

The second thing also, Bill, is that when we talk about product sales, that is one we have some visibility on. We have a notion of what is going to be delivered or expected to be delivered, a number of different products, and that gives us also a sense of volume and margins to come. The service is more, I think, vulnerable in the event that a project gets further canceled and so forth.

With respect to pricing, we have also a sense of what was given. In our particular case, pricing concessions have been given. There is no significant amounts of other pricing concessions being negotiated for us. I will also point out to you that there are very large tender activities which are ongoing, which have been very recent, which suggest that many of our clients all of a sudden are very interested in locking in volumes at current pricing. Which suggests also volume is unlikely to go down further; more likely to inch up some.

All this to tell you that the cost reductions are sizable. The product line deliveries are relatively predictable. Pricing concessions we have already, quite a bit has gone through Q4 and Q1 here now. There isn't much that we know of analytically to go through incrementally in Q2.

All of this to say that the roadmap for international in Q2, Q3, and Q4 should be, depending on your viewpoint on the macro, either constructive or better than constructive in our particular case.

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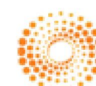

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Bill Herbert - *Simmons and Company - Analyst*

Okay, thank you very much.

Operator

Ole Slorer, Morgan Stanley.

Ole Slorer - *Morgan Stanley - Analyst*

Thanks a lot and thanks for an SRO run down here or how you see the world. So just to clarify, you say that a similar quarter in the second quarter to what you delivered in the first quarter; do you mean at the EPS level or at the normalized level, the EBITDA level?

Bernard Duroc-Danner - *Weatherford International plc - Chairman, President & CEO*

Yes, yes. Well, actually the EBITDA and the EPS level. The EBITDA may be a little bit higher, but not materially. But net-net at the net income level and EPS level similar, made up of deteriorating North America further, if it was possible.

Latin America a little bit lower and Eastern Hemisphere a little bit higher on the top line, but operating income -- the biggest moving part for us, simply because of product mix in Q2 versus Q1. You add the pieces together; it suggests to us that we would have Q1 or Q2 flat at the earnings level. Albeit the revenues may come down some, when all is added up together.

Ole Slorer - *Morgan Stanley - Analyst*

If I think about the normalized free cash flow loss in the first quarter as $50 million and if it excludes Zubair on the second quarter, what would a reasonable range be to bracket the second-quarter free cash flow, excluding Zubair?

Bernard Duroc-Danner - *Weatherford International plc - Chairman, President & CEO*

Yes, yes, let's put Zubair on the side because it is a one-time event. And so, for clarity's sake, without Zubair free cash flow in Q2 should be $100 million to $125 million. Something like that, excluding Zubair. That is net of whatever severance would be still occurring, which would be less than in Q1 but some still.

Ole Slorer - *Morgan Stanley - Analyst*

Understood. Just finally, at your macro statement you highlighted the declines. Is it anything particularly that you see around the world which makes you more confident that we are closer to this inflection point in any particular region or anything else that you see?

Bernard Duroc-Danner - *Weatherford International plc - Chairman, President & CEO*

I would say that one of the benefits of having a fabulous team around me at Weatherford today is I tend to have more time to do what I think might be useful at this juncture. And what is more useful I think at this juncture is trying to interact as much as I can with the client base, and that's a long-term process.

What does that have to do with your question? I have then a multiplicity of verbal, qualitative, but meaningful nonetheless, data points from Continental Europe, from Russia, from Latin America, from pockets of the Middle East. And I know full well what's going on in the deepwater plays, which are longer to have an effect.

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Ignoring the latter, just all the commentary on the particular regions I am describing, add them together, it doesn't take a great modeling capability to see a frightening amount of volume being lost permanently. And it doesn't have to be spectacular individually; $100,000, $150,000 being lost over a period of a few quarters and accelerating.

But you add them all together and the picture is -- for us, actually is -- as much as we recompute our numbers all the time, because we have a hard time believing it, the picture is one of a shrinking supply base, which we do not see any available capacity which is there to be able to replace it. Certainly not on call, and I mean on call within a year or two.

It's qualitative, but it's multifaceted. Many, many client interactions, particularly in more relaxed atmosphere after meetings take place.

Ole Slorer - *Morgan Stanley - Analyst*

Thanks for that, Bernard. I look forward to discussing that with you in more detail at the later stage. I hand it back.

Operator

(Operator Instructions) Jim Wicklund, Credit Suisse.

Jim Wicklund - *Credit Suisse - Analyst*

Good morning, guys. Just as a quick follow-up to Bill's, how much -- will you lose any cash in Zubair in Q2?

Krishna Shivram - *Weatherford International plc - EVP & CFO*

So, Jim, it depends on whether you assume we strike a settlement or not. If we do not strike --.

Jim Wicklund - *Credit Suisse - Analyst*

If you do strike a settlement, will the cash actually hit in the second quarter? Is that what you're saying?

Krishna Shivram - *Weatherford International plc - EVP & CFO*

Yes, so that's part of the settlement discussion. We don't know where that's going to end up. But assuming that no settlement takes place at all and we go to arbitration, then, yes, we will have a cash outflow in April and May.

Jim Wicklund - *Credit Suisse - Analyst*

I understand getting paid back for change orders. I'm just trying to figure out how much the operating loss, cash loss would be.

Krishna Shivram - *Weatherford International plc - EVP & CFO*

They are intertwined, so operating cash loss is about $10 million to $15 million a month and we will have two months of operations in the second quarter. That's the worst-case scenario.

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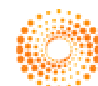

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Jim Wicklund - *Credit Suisse - Analyst*

Okay, that what I was looking for. Okay, thanks.

Bernard Duroc-Danner - *Weatherford International plc - Chairman, President & CEO*

Jim, if that is the case, we will shut -- the operation would come to an end anyway at the end of this month. (multiple speakers)

Jim Wicklund - *Credit Suisse - Analyst*

There are several of us who are looking forward to Zubair being over almost as much as you are.

Bernard Duroc-Danner - *Weatherford International plc - Chairman, President & CEO*

That is not possible I think.

Jim Wicklund - *Credit Suisse - Analyst*

Almost, almost. You'd be amazed.

CapEx, you've dropped CapEx by 80%-plus since 2014. I understand there's overcapacity. Your rental business is not doing fabulous and that's I guess historically been a big eater of CapEx.

How much do you jeopardize the future? How much are you going to have to ramp up in 2019? Are we sacrificing (multiple speakers)?

Bernard Duroc-Danner - *Weatherford International plc - Chairman, President & CEO*

I will begin with an answer and then Krishna will do the second half. If you take CapEx and you break it down into three different places of application, so you talk about the infrastructure, which is all the bases around the world, you talk about supply chain, and you talk about the tools, the service tools generally -- service tools being applicable to whether it's a completion service tool, whether it is an LWD kit, etc.

I would have to say that the supply chain as it now stands can accommodate easily, easily 3 times the volume we have. And that's actually almost a silly statement because we have no -- we have plenty of machining and roofline and so forth. That's how we're rationalizing it right now.

It is not a source of CapEx requirement until and unless the industry is materially different, and I'm talking a level of volume that you do not expect anytime soon. I'm talking about years. That one is just not a consumer of CapEx.

Getting to the infrastructure, we rationalize North America. We did take down a number of facilities, not too many, internationally. We now have in 85 countries, by my latest count, the sort of base representation we feel is desirable given our long-term presence, etc.

And I would have to say that the infrastructure can accommodate more than 2 times the volume that we are running through the Company today, easily. That again is not an area of CapEx. I will remind you that we built this infrastructure ourselves. It was a big user of CapEx in years past.

Then you get to the tool side, the service tool side. Well, we do have -- take a look at our inventory, take a look at our PP&E; depending on what kind of tool it would in one or the other category. By our assessment also, we have largely available somewhere between -- tool components that can accommodate 50% to twice as high as the volume we have.

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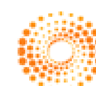

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That's a lot of numbers that would suggest we're not starving the business. We are very careful how we do it. We are not sort of holding our breath waiting for better times.

We have far more PP&E and equipment capabilities than people realize, which is in a way our sanctioning an overspending of the past, which none of us here would be proud of, least of all myself. But it is an asset today. You should not presume we are starving.

Do you want to add, Krishna, to that?

Krishna Shivram - *Weatherford International plc - EVP & CFO*

Yes, I think when we normally look at 2017 and 2018 we can certainly spend very low levels of CapEx while still maintaining a healthy growth potential. And then from 2019 onwards I would suggest that, as a percentage of revenue, we will stay at between 5% to 6% of revenue for the next two or three years.

So this is quite low compared to historical levels, but it is well-explained by Bernard. We have plenty of capacity.

Jim Wicklund - *Credit Suisse - Analyst*

Okay. And my follow-up, if I could: Latin America, what and where gets better first?

Bernard Duroc-Danner - *Weatherford International plc - Chairman, President & CEO*

That's a good question. I would say that my guess, it's a guess, is Colombia primarily, because it's so devastated and it's heavily a land market, you know that. Not only is it heavily a land market, it's so eviscerated. They don't have the kind of political upheaval you have in Brazil.

Argentina has remained healthy. I can't imagine Venezuela because they are so I think financially, let's say, strained. That leaves Mexico, but Mexico is still going through a lot of the restructuring of the industry and so on and so on. So by process of elimination I have to say Ecuador -- sorry, Colombia is your best bet.

Jim Wicklund - *Credit Suisse - Analyst*

Okay. Thanks, gentlemen. Appreciate it and thanks for the detail.

Operator

Rob MacKenzie, IBERIA Capital.

Rob MacKenzie - *IBERIA Capital Partners - Analyst*

Thanks, guys. Bernard, a couple questions for you, if I may. First, are you guys seeing any signs of pickup, say, in the US in any kind of completions or workover activity for you guys?

Secondly, as part of your conversations with your customers you talked about earlier, how have those changed, if you will, over the past week, two weeks, months, two months? Are we seeing a turn in sentiment there?

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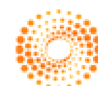

Bernard Duroc-Danner - *Weatherford International plc - Chairman, President & CEO*

On the first one, I'm sorry to say that, no, there isn't any signs of a pickup or anything else like that as of today in the US. I think the US; it's really a question of cash flow for our clients. And that is price of oil and it's also financing capabilities. This is one thing.

The second is an interesting question, it's very simple. I am getting a lot of questions on what I am seeing in terms of production rate difficulties with other reservoirs in other plays from particular clients. They are wanting to know how the other ones are doing; what do I see in terms of trends?

It's sort of interesting that they want to compare their own difficulties all around decline rates with other difficulties. Not so much for competitive reasons, but to get a sense what is happening to the industry.

There's been really a lot -- these are informal conversations. They are outside of the realm of formal meetings which take place also with clients and I think, for me, are far more valuable than the formal aspects. So it's a lot of conversations, systematically really, from what am I seeing in other parts of the world.

One of the advantages of being an oilfield service person, from an oil and gas perspective, is you get to see lots of reservoirs and lots of reservoir situations. Actually more so than the people exploiting it who are constrained or restricted to the ones they are developing. We have a rich sort of pool of information as, if you will, a traveling salesman as it were.

Rob MacKenzie - *IBERIA Capital Partners - Analyst*

Great, thank you. But in terms of what they are indicating to you -- I understand that they are pumping you for information, but what are they indicating to you, if anything, about how their plans are evolving?

Bernard Duroc-Danner - *Weatherford International plc - Chairman, President & CEO*

They are sort of, in general, they are -- they have no authority or capital or planned additional drilling and they are trying to hold off decline rates. And they are -- in many cases it's coming to the point where they cannot do that anymore and so it creates a lot of strain and worries. They are quite anxious to know where and when cash flow will allow them to restart activity, because they are very afraid of losing production rather rapidly now.

There is an acceleration. You hold it off and, ultimately, there is acceleration. So there's really a sense of -- we're at the point now where they are afraid of declines that they cannot hold off. Hence, their interest in understanding where and when the industry could have a turn, because they are sort of worried about their own production profile.

Given the fact they are running out of -- through intervention and the sorts of things you can do with limited budgets. Very, very scarce drilling. They are worried about being able to hold off the decline rates where they are without them accelerating further.

Rob MacKenzie - *IBERIA Capital Partners - Analyst*

That's very helpful, thank you.

Operator

You have no further questions at this time.

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Bernard Duroc-Danner - *Weatherford International plc - Chairman, President & CEO*

Then we will conclude the call. Thank you very much.

Operator

Ladies and gentlemen, this concludes today's conference call. You may now disconnect.

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