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WFT - Q4 2017 Weatherford International PLC Earnings Call

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OVERVIEW:

WFT reported 4Q17 revenues of $1.49b and operating loss of $1.74b.

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PRESENTATION

Operator

Good morning. My name is Carol and I will be your conference operator today. At this time I would like to welcome everyone to the Weatherford International fourth-quarter 2017 earnings conference call. (Operator Instructions). As a reminder, ladies and gentlemen, today's call is being recorded. I would now like to turn the conference over to Miss Karen David-Green, Vice President of Investor Relations, Marketing and Communications. Miss David-Green, you may begin your conference.

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

Thank you, Carol. Good morning and welcome to the Weatherford International fourth-quarter conference call. With me on today's call we have Mark McCollum, President and Chief Executive Officer, and Christoph Bausch, Executive Vice President and Chief Financial Officer. Today's call is being recorded and replay will be available on Weatherford's website for 10 days.

Before we begin with our prepared statement I would like to remind our audience that some of today's comments may include forward-looking statements. These matters may involve risks and uncertainties that could cause our actual results to differ materially from our forward-looking statements. Please refer to our latest Form 10-Q, 8-K and other SEC filings for risk factors and caution regarding forward-looking statements.

A reconciliation of GAAP to non-GAAP financial measures is included in our fourth-quarter press release which can be found on our website. Christoph will now provide an overview of our fourth-quarter and full-year 2017 results, followed by Mark's comments on our strategic actions and continuing progress toward our operational, cultural and financial objectives. Following these prepared statements we welcome your questions. And now I'd like to turn the call over to Christoph.

Christoph Bausch - *Weatherford International plc - EVP & CFO*

Thank you, Karen. As mentioned during the last call, we have embarked on a transformation plan to drive increased accountability, efficiency and process discipline across the entire Company. During the fourth quarter we completed an organizational realignment that will enable us to achieve these objectives.

As a result this organizational realignment will be now structured by Hemisphere with Western Hemisphere including the former North and Latin America reporting segments as well as land drilling rigs in Mexico and Colombia. Eastern Hemisphere includes the former Europe, Russia and sub Sahara Africa reporting segments, the Middle East and Asia reporting segment and land drilling rigs in the Eastern Hemisphere.

The other two hemispheres, our operating and customer facing organization, is structured into 14 geozones. This structure allows us to move decision-making and resources closer to the point of delivery while giving us the ability to significantly increase integration and cross product line synergies.

As part of this change in our reporting structure we have also changed the classification of R&D expenses, which are now included in the segment operating results, aligning us with our peers.

As you may have noticed in our press release, we are now disclosing the revenue from each of our global business units, drilling and evaluation, well construction, completions and production. Corporate expenses remain reported separately. The following comments reflect this revised organization and all historical financials have been restated to allow for comparison. For further details on our revised reporting structure please refer to our January 29 SEC filing and the accompanying presentation.

Revenue in the fourth quarter of 2017 was $1.49 billion, up 2% from the third quarter of 2017 and up 6% year-over-year. Excluding the non-divested US pressure pumping business, revenue increased 2% sequentially and 11% compared to the same period last year. The sequential increase was primarily led by the Eastern Hemisphere with increased year-end product sales.

Eastern Hemisphere reported in an increase in revenue of 9% compared to the fourth quarter of 2016 and, excluding our US pressure pumping business, Western Hemisphere revenue increased 12% over the same period.

Operating loss for the fourth quarter of 2017 was $1.74 billion, primarily as a result of non-cash impairments and asset write-downs. Excluding charges and credits, segment operating loss for the fourth quarter of 2017 was $84 million compared to a loss of $8 million for the third quarter of 2017 and a loss of $116 million for the fourth quarter of 2016. The sequential decline can be equally attributed to both hemispheres.

Operating performance was negatively impacted by exceptional costs totaling $49 million, including a negative effect related to deferred revenue recognition on a project in Kuwait due to delay in timing between recognition of revenue and costs, provisions for bad debt, bonus plans and exceptional credits that did not repeat from the third quarter.

As the financial situation in Venezuela continued to deteriorate during the quarter, we decided to change our method of revenue recognition to a cash basis. This change, combined with a further drop in activity in Venezuela, negatively impacted our results by $17 million compared to the third quarter. Our results were also negatively impacted by low margin year-end product sales as we directed our sales teams to reduce our existing inventory at cost where necessary.

I am pleased to report that we achieved positive cash flow from operations of $96 million for the fourth quarter of 2017. This exceeded our expectations and was driven by improved collections and higher product sales, partially offset by interest payments of $104 million, $38 million in payments for severance and restructuring costs, and $30 million in payments related to legal settlements.

During the quarter, we bought US dollar denominated government bonds in Angola amounting to $25 million and recorded a capital lease obligation of $22 million previously recorded in held for sale. Both those items were reported in total debt but are not part of the free cash flow.

Customer receivables decreased in the fourth quarter from strong collections, the write down of receivables in Venezuela and continuous process improvements. As a result overall DSO decreased by nine days from 77 to 68 days.

Inventory levels decreased due to a high amount of year-end product sales to customers in Europe, the Middle East and North America, as well as a write off for aged and obsolete inventory combined with an increase in provisions for excess inventory.

In the quarter we recorded pretax charges of $1.59 billion, the majority of which are non-cash and were not included in our operating results. These charges primarily include: $1.68 billion in impairments and asset write-downs; a $96 million gain on the disposition of our US pressure pumping and pump-down assets; $43 million in severance and restructuring charges; and $28 million in credits related to the fair value adjustment of the outstanding warrant.

The $1.68 billion in non-cash impairments and asset write-downs included $740 million related to land rig drilling assets which were reclassified as held for sale, and $197 million of other asset write-offs. It also includes $434 million in inventory write-downs and $230 million for the write-down of customer receivables in Venezuela.

On December 29, 2017, we completed the sale of our US hydraulic fracturing and pump-down perforating assets for $430 million in cash. The closing of this transaction has enabled us to begin the deleveraging process which, coupled with our transformation plans, will lead to a leaner organization with lower debt and improved profit margins. In addition, maintaining our leading North America land-based multistage completions business allows for a significant upside potential for Weatherford.

Moving on to our results by Hemisphere. In the Western Hemisphere fourth-quarter revenues of $759 million were down $8 million or 1% sequentially, primarily as a result of the changing accounting for revenue with our customers in Venezuela where, as of this quarter, we record revenue on a cash collection basis only. Excluding this adjustment Western Hemisphere revenue was up 1% sequentially.

In addition, the quarter was negatively impacted by project delays in Argentina offset by increased offshore operations in Mexico and seasonally higher activity in Canada. Operating results decreased $38 million sequentially to the loss of $35 million in the fourth quarter. This sequential decrease was primarily due to the aforementioned change in revenue recognition in Venezuela, as well as lower revenue combined with incremental costs in Argentina. Increased low margin year-end product sales from existing inventory in the US also negatively impacted the fourth quarter results.

In the Eastern Hemisphere fourth-quarter revenues of $731 million were up $38 million or 5% sequentially, primarily led by increased product sales in Europe and the Middle East. Operating results decreased $38 million sequentially to a loss of $49 million. This is in part due to deferred revenue on a contract in Kuwait. The costs have been recognized, but revenue has been deferred until the installation is completed in 2018.

In addition, fourth-quarter results were negatively impacted by several low margin year-end product sales from existing inventory combined with start-up costs for two products in Asia and exceptional costs including provisions for bad debt. We expect first-quarter 2018 revenue to be modestly down sequentially mainly driven by non-repeating year-end product sales.

First-quarter 2018 revenue in the Western Hemisphere is expected to increase based on seasonal improvements in Canada primarily driven by drilling [and] evaluation combined with increased production sales and integrated project activity in Argentina and Mexico; partially offset by non-repeated production product sales in the US.

In the Eastern Hemisphere we expect a decline in revenue due to non-repeated year-end product sales related to production in Kuwait, as well as drilling and evaluation in Continental Europe combined with seasonal effects in Russia and the North Sea.

First-quarter 2018 operating income is expected to substantially improve due to higher margins on increased drilling and evaluation and production activity in North America and Argentina.

In the Eastern Hemisphere we expect improved results in production as we will see the benefit from the deferred revenue and profit in Kuwait. Combined with higher margins on well construction product sales and the absence of $49 million of exceptional items recorded in the fourth quarter 2017.

While we generated free cash flow in the fourth quarter of 2017 we expect cash flow for the first quarter of 2018 to be negative, impacted by seasonally lower collections, high interest and tax payments and increased capital expenditures. We expect to see continuous improvements throughout the year. And excluding the pending divestiture of our land drilling rig business, we continue to expect breakeven cash flow for the full year of 2018.

Fourth-quarter capital expenditures of $78 million increased by $13 million or 20% sequentially and increased $10 million or 15% from the same quarter in the prior year. These expenditures represent investments in future business opportunities. Excluding our drilling rigs business we expect 2018 capital expenditures to be between $200 million and $250 million.

The fourth-quarter tax provision was $62 million, primarily attributable to $73 million of additional evaluation allowances on prior period deferred tax assets; $9 million provision for a foreign law change partly offset by a one-time $52 million tax benefit as a result of the recent US tax reform. This tax benefit is entirely attributable to a change in deferred tax liabilities as a result of the lower tax rate.

The fourth quarter non-GAAP tax provision was $47 million and includes a higher tax expense of $10 million associated with entities that are no longer being benefited due to the establishment of a valuation allowance in the fourth quarter, and an increase in uncertain tax provisions of $10 million.

We remain in compliance with our financial covenants as defined in our revolving and secure term loan credit facilities as of December 31, 2017. And based on our financial projections, we expect to continue to remain in compliance going forward.

Our land drilling rigs business had a strong quarter achieving its best EBITDA since the fourth quarter of 2015 as we streamlined operations and achieved higher operating efficiencies. During the quarter, we made substantial progress in the land drilling rigs divestiture process and we are confident we will have an agreement on the transaction shortly.

We have also made progress on other planned divestitures and we expect to launch the first two projects during the first quarter with the expectation to complete all identified divestitures in 2018. We continue to believe that these small divestitures could collectively generate approximately $500 million in incremental proceeds in 2018. With that I will turn the call over to Mark.

Mark McCollum - *Weatherford International plc - President & CEO*

Thanks, Christoph and good morning. Our fourth-quarter results reflect a period of adjustment as we effectively hit the reset button on our organization. We took several strategic actions to improve our operational structure and our balance sheet. Most critically, we completed an organizational realignment that is reflected in our new reporting structure.

This flatter structure clarifies responsibility prioritized as process discipline and solidifies the strong connection between our operational leadership and field level decision-makers. By breaking down silos and creating alignment to a common set of goals and objectives we built accountability into the fabric of our organization.

This comprehensive change of structure was my top priority for the fourth quarter and it marked the first milestone in our turnaround. Our realigned organizational structure gives us now a clean slate to work from as we move toward our target of $1 billion in improved results over the course of the next 18 to 24 months.

As I first described last quarter, the $1 billion figure is the aggregation of a number of opportunities across every aspect of our business from improved market share to lower supply chain costs. During the fourth quarter a third party independently validated that the size of the price is at least as large as what we saw. In working together we've defined a number of distinct buckets of operational and functional opportunity to capture this value.

These buckets of opportunity now form the basis for work streams of future activity. We have set targets for each work stream and have established teams of people who will own and hold accountability for realizing the targeted value. We are currently engaged in a bottoms up planning process that will yield a detailed comprehensive and clearly defined set of action plans to deliver the work stream's target.

And finally, we've put a project management organization and process in place to ensure that all of the collective profit improvement initiatives will be implemented on time and on target. Bottom line, we have a clear line of sight on the $1 billion transformation goal as well as a disciplined process in place designed to ensure that we can deliver. This is an undeniable, realistic and, most importantly, achievable opportunity.

As a result of our recent reorganization we have already achieved annualized savings of $115 million. Additionally, we have captured some quick wins. We have implemented purchase price management and procurement process enhancements as well as new policies that curb nonessential spending. These policy changes enable more disciplined supplier management and help push us toward our cash flow goals.

During 2017 we closed 88 surplus locations and identified additional locations for strategic consolidation. Additionally, we are continuing to optimize our manufacturing footprint. Inventory reduction also remains a key priority. We have reoriented our sales organization in a way that prioritizes account management.

Our account managers act as strategic partners to our key customers, working with them to understand their specific reservoir and operational challenges. And then crafting value-added solutions by drawing on technical talent across the full breadth of the Weatherford product and service portfolio.

Now account management is not a new concept by any stretch, nor is it new at Weatherford. But we have greatly expanded the account management structure to support many more customers than ever before. This shift to a more problem solving partnership a sales approach will enable more cross product line selling or joint technology developments and increased market share. We've also rolled out a revised sales incentive plan that ties compensation to revenue and EBITDA.

The newly integrated solutions-based and results driven approach of our sales team is being mirrored in our field operations. Following the reorganization of our product lines into four global business units, drilling and evaluation, well construction, completion and production, we have begun optimizing operations within each group by tapping into newly enabled synergies.

The integration of certain product lines, for example incorporating our cementing and liner hanger offerings into the completions business, has helped us to realize greater fuel efficiencies and reduced operational costs. Our focus in this reorganization is on improving operational discipline. We want to help our people work smarter by driving process discipline and policy standardization across the organization. This includes automating and outsourcing certain processes where it makes sense.

While many of our tactical actions and benchmarks for measuring our success are tied to financial measures, our transformation is about more than just cutting costs. By fundamentally changing the way we do business we will gain the strength and flexibility to be successful regardless of market conditions.

When I accepted this job last March I knew there would be a lot of hard work ahead in order to seize the tremendous opportunity I've seen from the outside. I'm pleased to say that the organization is rallying behind this drive to make Weatherford a stronger Company. We understand what we need to do in order to capitalize on our significant potential and strategic actions are underway.

The ultimate goal is to increase revenue, drive profitability and restore financial flexibility. In addition to monetizing our US pressure pumping and pump-down perforating assets we are actively engaged in our land drilling rigs divestiture process and expect it to conclude very soon.

And as Christoph indicated earlier, we remain committed to following through on our other planned divestitures to monetize the areas of our business that are not critical to our strategy going forward. We remain committed to cutting debt to EBITDA ratios in half by year-end 2019 and are determined to ultimately return to an investment grade rating.

Even as we put teams to work internally on charting the course for our transformation, we never lost focus on our customers who are essential partners in our success. Our customers have responded positively to our organizational realignment as well as our overall strategy for future customer support. They want us to succeed.

They see Weatherford as a strong and valuable competitor in the marketplace and they don't want to lose that. They know we have a competitive portfolio of technologies and they appreciate our renewed focus on building partnerships and offering complete solutions rather than individual products and services.

This message of support came through loud and clear just before the holidays when Shell honored us with their 2017 Wells Supplier of the Year award. Shell expressed appreciation for the high levels of safety and service quality that we have provided to them throughout the year, as well as our collaborative solutions-based approach.

Awards and recognition from operators have been backed up by contract wins around the world. For instance, after demonstrating our ability to execute integrated services in Mexico, we have been awarded another contract for integrated services in the country including case hole wireline, cased and open hole completions, coil tubing, stimulation and through tubing fishing services. Operations commenced in December and two wells have been completed to date.

In Russia, we won a three-year directional drilling contract based on the merits of our rotary steerable systems in measurement and logging while drilling technologies as well as a strong relationship with the operator. Work is already underway on this new contract.

In the Middle East we won a contract to provide openhole logging of a 60 well field. The operator awarded Weatherford the contract in part due to the alternative conveyance options offered by our compact well shuttle, which can transport logging tools without wireline inside drill pipe where they are fully protected from the borehole environment.

We also won new planned drilling rig contracts in the Eastern and Western Hemispheres, continuing on the trend of improved utilization and service quality we saw in me third quarter. Our competitive technology portfolio has been a key differentiator for us, helping us to win many of these and other contracts.

I want to provide a brief update on a couple of technologies we introduced into the market in 2017. Our ForeSite production optimization platform, which leverages the Internet of things and advanced analytics to maximize production equipment uptime and extend asset life, is currently being installed on 1,800 reciprocating rod lift units in the United States. This is just the beginning of what we can accomplish with this technology.

In addition to continuing work on current ForeSite contracts for rod lift units, we will expand the ForeSite platform capabilities to include gas lift and ESP optimization in the first quarter of 2018.

The AutoTong system, which we talked about on our third-quarter call, has been successfully deployed on four jobs globally, including land and offshore operations. Customers are seeing value in the system's efficiency and consistency and we have several more deployments lined up in the first half of 2018.

We are effectively sold out from a capacity standpoint for both directional drilling and multistage completion products in the United States. We will be expanding our capacity for both of these businesses to meet demand growth this coming year.

In the Permian basin we have seen higher sales of gas lift systems and consistent adoption of jet lift systems. In the Middle East, we've executed the first plunger lift and jet lift installations for an NOC who previously used ESPs exclusively. These ESP alternatives were all deployed without a rig, saving the customer money and decreasing the time to production in each case.

We will continue to aggressively pursue contracts for these and other services throughout 2018. Bottom-line is the overall market is increasingly positive and should provide light wind at our back.

For 2018 we expect a continued upward trend in rig count and activity in the United States and Canada led by the Permian and Delaware basins. We also believe international activity is poised to inflect upward and lift fundamentals even higher. International pricing will continue to be a concern until the remainder of the industry's capacity is absorbed, which we believe is eminent.

We expect to see continued activity growth in the Middle East and Russia as well as pockets of upside elsewhere in the Eastern Hemisphere. We are seeing the first signs of recovery in select offshore markets, namely the North Sea, Thailand and Malaysia; although we expect the Deepwater sector to remain muted.

And activity is up in Latin America overall, especially in Argentina, where we will continue to add capacity as a part of our 2018 plan. However, we expect continued stress on the Venezuelan market as the result of continued geopolitical issues.

As we look into 2018 improved fundamentals will help lead the way. In order to fully take advantage of these upward trends we will maintain our focus on safety, efficiency, innovation and service quality.

By any measure 2017 was an important year in the history of our Company. Over the past three quarters we've taken the steps necessary to get fit to grow. We demonstrated our commitment to flawless execution, reducing nonproductive time by 23% year-over-year. We initiated broad and sweeping changes that have already begun to transform our processes and procedures as well as our culture.

We set a target of $1 billion in improved earnings over the next 18 to 24 months and we have launched the transformation program that should ensure our success in getting there. We know that regardless of cyclical fluctuations in commodity prices we must create our own success. Our potential far outpaces our recent results and we're determined to close that gap. We are fully committed to the strategy we laid out ahead of us and we are confident that it will generate strong results.

Our path to profitability and sustainable growth is solid and we will accelerate toward our goal to our focus on process discipline, accountability, flawless execution and innovation.

I want to thank our entire Weatherford team for embracing the changes we've rolled out over the past few months and for their commitment to achieving our Company's immense potential. With that I will turn the call back over to the operator. Carol?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Bill Herbert, Simmons & Company.

Bill Herbert - *Simmons & Company - Analyst*

Mark, if you could shed some light here with regard to what you're contemplating in terms of managing the balance sheet from a debt maturity standpoint. I know you were having some discussions with regard to your revolver. And if you could give us some thoughts on that that would be great. Thank you.

Mark McCollum - *Weatherford International plc - President & CEO*

That's a good question, Bill. I'm going to let Christoph handle that one.

Christoph Bausch - *Weatherford International plc - EVP & CFO*

On the balance sheet in general, let's say the debt side, I think as we talked last quarter, we've noticed that the bond market is very hot right now and we're monitoring that very, very closely. But we are monitoring it and we will see if there is an opportunity or not for us. And if there is we will then take some actions.

On the revolver and term loan, that will take a little bit more time. It expires mid-next year and we will start some discussions, I would say, midyear on the revolver and the term loan. Does that answer your question, Bill?

Bill Herbert - *Simmons & Company - Analyst*

Yes, it does. I mean I guess the question is, Mark and Christoph, do we think it is likely that a refinancing is going to be forthcoming in extending your debt maturities.

Mark McCollum - *Weatherford International plc - President & CEO*

We understand the importance of doing that and I think you're going to see us be opportunistic, okay?

Bill Herbert - *Simmons & Company - Analyst*

Great, great, thank you. And then the last question for me is in relation to your divestitures. I understood that, if I heard you correctly, $500 million in expected proceeds excluding the land rig sale. Is that correct?

Mark McCollum - *Weatherford International plc - President & CEO*

That's exactly right. Those are the other small divestitures. There's a basket, there's not just one, but several of those that we talked about last quarter that we intend to do over the course of 2018. Some will initiate earlier than others. We've been in the process of getting data [rows] and preparing financial statements and all the things that are prerequisites of getting that process started. And we will kick off two here in the next month and so start those, and that will take a little while.

But in the meantime obviously the land rigs drilling divestiture process, we are continuing to work on that. Part of what you saw in terms of all the accounting stuff that happened in the fourth quarter was moving the drilling rigs to assets held for sale from an accounting standpoint. You don't do that unless it's imminent. And so, that's kind of where we are at. So, we are closing in on that and feel confident that we'll be able to get something on that done here in the next month or so.

Bill Herbert - *Simmons & Company - Analyst*

Okay. Thank you.

Operator

James Wicklund, Credit Suisse.

James Wicklund - *Credit Suisse - Analyst*

One thing that always has gotten me about this business is the disconnect between time. In our business we can make a decision and take out a position in microseconds and you guys have to live with decisions for years. Mark, when you talk about -- you got the organization realigned in Q4 and that happened, frankly, a little bit faster than somebody might have expected from business.

And the fix through this year -- how -- is the improvement in results -- your 18 to 24 months for the $1 billion, can you tell us, it that going to be backend weighted? Should it be evenly done? I'm just thinking from the perspective of, gosh, you said last week you're going to do it and it's a week later and it hadn't happened yet. What's the problem?

And nothing ever happens in corporate America as fast as we want it to happen on Wall Street. Can you just talk about the timeframe and how patient we need to be or should be in seeing the improvements?

Mark McCollum - *Weatherford International plc - President & CEO*

Jim, I appreciate the question. You are right; it's a lot easier to stick it in an Excel spreadsheet model than it is to execute the work. And you are right, when we made the organizational changes and shifted the management team around, that all happened in the month of October.

And so, we've been doing it now for about three months and -- but the fourth quarter is now reflecting back on -- of course following that change a lot of other shifting around as people re-examine where they are and balance sheets -- just a lot of decisions that happen. And so, that's why you look at Q4 as a massive reset in terms of where things stand.

But also geared towards that timeframe, we have been working on first of all trying to make sure that I wasn't just [alluding], that there really was $1 billion of opportunity. And clearly as others have come and clean it both from the outside, we had some third-party guys look at it as our team began to dive in and they are looking at it, everybody is looking at it and go, wow, this opportunity is huge.

And so -- but the easy stuff has been done. In order to do the next steps in accomplishing this $1 billion -- we are not talking about transformation -- it really is changing the way that Weatherford works. It is effectively going through the integration process for all these acquisitions that have been done over a 30-year time span that has not been done. So it is deferred maintenance. It didn't take a quarter to get into this situation; it's going to take longer than a quarter to get out.

And so, the opportunities there, everybody sees it. And so, what we are doing right now over the next month or so is defining very detailed work tasks, just like I did doing the integration process, you know, the work order. It's got a detailed step-by-step process with names associated with it and dollars and a timeline that we hold people specifically accountable to. And then we are just going to measure and manage like heck to try and get this thing done.

But when I talked about the $1 billion, I've always said it's 18 to 24 months. And the reason I say that is because invariably it's going to take a little while. But as this engine gets going, as we get the processes changes and the system changes and things outsourced and we've got to go negotiate contracts and all this kind of stuff, that this thing has some -- is building momentum. And although I don't like hockey sticks, it will have a little bit of a hockey stick effect as we go into 2019.

And so, I think as we go into 2019 I think the effects of the program are going to start to be very, very demonstrable. I think as we look at 2018, and we kind of intimated a little bit of this last quarter, that the impact is going to be a couple hundred million dollars.

Now we have already got $100 million from the reorganization that we did and now -- and I think last quarter, if you recall, I talked about another $200 million of opportunity that are for programs that were already launched. They are related to outsourcing, areas of finance, moving our hardware into a third-party management environment, our IT hardware platform and other things like that. I think all of those will probably provide another $100 million of real benefits that we will realize during the year in 2018.

But what I hope to do as time progresses is not just talk about what's in the numbers but what will be the numbers in the future as we can actually -- this process we are following will actually have a reporting system that once it's done and it's locked and loaded, there's nothing else and it's working and the dollars have come in, we should be in a position to be able to report our success on how we are doing on that transformation.

James Wicklund - *Credit Suisse - Analyst*

Okay, that's all very helpful and I appreciate that. And now let me -- with my follow-up let me ask a little -- a ruder question and an elephant in the room question considering what you put up this quarter. The consensus has you at $183 million in EBITDA in Q1. Do you think after today's call that number stays the same, goes up or goes down?

Christoph Bausch - *Weatherford International plc - EVP & CFO*

Jim, the $183 million will go down. I think there's no doubt about that. I tried to walk in my prepared remarks where we're going to think we are at the end of Q1. We definitely had a couple of exceptional items in Q4 which will not repeat in Q1.

We have certain seasonal items, you have the usual Canada story, you have North Sea, Russia a little bit slower. You will not have a repeat in product sales at year-end. We will start to get some savings in there in Q1 from what Mark just talked about. So overall it's going to be a significant improvement from Q4, but it's not going to be at the number you just mentioned.

Mark McCollum - *Weatherford International plc - President & CEO*

But I would also qualify that as you go through the year, I don't know that we are uncomfortable with the look for the year. I just think that Q1 is high and I think that people are underestimating the impact of the transformation on the back end of the year (multiple speakers).

James Wicklund - *Credit Suisse - Analyst*

Perfect, guys. Thank you very much.

Operator

Angie Sedita, UBS.

Angie Sedita - *UBS - Analyst*

Mark, on the $1 billion in improved profitability, obviously you've done some work, you've brought in some people here to look at it as well and confirm your own thoughts. Can you walk us through what the buckets are? You mentioned market share on supply chain and then how much potentially -- or maybe even a range, on what could be in each of those buckets.

Mark McCollum - *Weatherford International plc - President & CEO*

I'm a little hesitant to go through all the buckets at this point because we are -- until I have all these detailed plans and validate it with specifics -- action steps -- I don't want to get too [prescriptive]. But I would tell you that the targets we are driving for internally, we've got to look at each of these work stream buckets. They add the numbers that are greater than the $1 billion of what we are going after.

The second thing that I would tell you is that when we talk about the ability to get it done, it is a net number, not a gross number. And so, the project is being oriented to become self funding so that after some initial seed money this thing will start paying for itself very quickly, and so -- as we execute along the way.

And then I think the third thing I would tell folks as they think about this, and I said in on the call, this is not just cost. The transformation has a significant sales improved market share, improved pricing. But there are a lot of different things that we are looking at on our go-to-market strategy.

We've talked about the account management structure and changes there. We have very -- for the first time organizationally have very detailed account plans by customer and charging the sales organization to be creative in working with customers. And more -- rather than sort of sitting back and waiting for things to come to them, to be out there helping our customers with value-added projects. But at the same time making sure that we are at least as much as our fair share of the market through this transformation.

So, there's a big and important sales component of this that will help achieve these targets as well.

Angie Sedita - *UBS - Analyst*

Maybe a follow-up to that is could you divide it into how much is cost versus how much would be a sales component? The two-thirds cost and maybe a quarter of that is market share and account management?

Mark McCollum - *Weatherford International plc - President & CEO*

I'd say probably on a broad rule of thumb, yes, it's about one-third sales, two-thirds cost. Maybe a little higher sales (multiple speakers). But that's very rough, but that's --.

Angie Sedita - *UBS - Analyst*

And then as an unrelated follow-up, if you think about your levers for free cash flow in 2018, you obviously monetized some inventories in Q4. Maybe you could talk about further inventories to be monetized in 2018. Is there something still left to be done? I would assume yes. And other levers for free cash flow in the year.

Christoph Bausch - *Weatherford International plc - EVP & CFO*

Angie, it is Christoph. I will take that. Yes, we have had a very, very thorough review of our inventory, as you saw from the balance sheet side. And yes, we have a significantly additional amount of inventory we believe we can monetize in 2018. Those are high running products which are currently in very high demand. And we have several projects underway to reduce the inventory on hand, the inventory days to bring them down.

So, I think in many cases, maybe with the exception of inventory related to Deepwater activity, we will see more opportunities to improve our working capital and inventory specifically in 2018.

Angie Sedita - *UBS - Analyst*

Thanks. I will turn it over, guys.

Operator

David Anderson, Barclays.

David Anderson - *Barclays Capital - Analyst*

I was wondering, could you just give us a sense as to how much the pressure pumping business this quarter leaned on your margins? I guess -- in other words, I'm expecting to see a step up I would expect in the first quarter. Could you just give us a sense as to how much that held back in the quarter?

Christoph Bausch - *Weatherford International plc - EVP & CFO*

Sorry, David. (inaudible) the question. Your question was what the pressure pumping business we had, how much the margins are? Is that your question?

David Anderson - *Barclays Capital - Analyst*

Yes, I'm just trying to understand what was the margin -- was there a margin drag during the quarter on the pressure pumping that gets uplifted in the first quarter?

Christoph Bausch - *Weatherford International plc - EVP & CFO*

So yes, and it is related to Argentina specifically where we had a delay, as I mentioned, in the start-up of an integrated project which includes pressure pumping. So, it is an integrated completion project with pump-down perforating, pressure pumping as well as flow back testing. And the drag overall in dollar terms compared to Q1, because Q1 will go -- I would say it's probably slightly north of $10 million.

David Anderson - *Barclays Capital - Analyst*

Okay, all right, thank you on that. And just a different question on the Artificial Lift. You had talked about gas lift becoming a bigger deal displacing some of the ESPs out there. Could you just talk about how big a part of your overall Artificial Lift business that is?

Mark McCollum - *Weatherford International plc - President & CEO*

Sure. I don't know that I have a percentage.

Christoph Bausch - *Weatherford International plc - EVP & CFO*

The exact number, David? So gas lift, I have a rough number which I can give to you. The overall ticket amount is significantly lower, as you know, because gas lift installation is $10,000 all in versus pumping units is maybe 10 times as much. And so the numbers per installation is significantly lower. The number, from my perspective, on gas lift as a percentage of the overall Artificial Lift business is probably around 7% to 8%, in that range.

David Anderson - *Barclays Capital - Analyst*

Interesting. And then just as a follow-up on the artificial lift, Mark, last quarter you talked about some of -- you weren't particularly thrilled how that business was being run. I think you had talked about some issues in the supply chain, the costs weren't where you were talking.

I'm just thinking about as you talked about supply chain and you talked about account managers and all that, is this -- that business, is that a particular target of a lot of those efforts? I'm just trying to understand how that business has been doing. We kind of get the sense it hasn't been doing real well. I'm just wondering how much of your efforts are put into that business.

Mark McCollum - *Weatherford International plc - President & CEO*

I'm not targeting the lift business in any way. The changes that we're talking about of account management and other things are being done on a very holistic basis. But what I would say is that historically the Artificial Lift segment of business has been a very, very high percentage of Weatherford's overall North America business in the US. I mean, it's quite high.

And as a result when you look at the number of salespeople you have associated, that's where the bulk of the folks were. When sales were divided between all different product lines, they each had their own unique sales, you kind of had an overwhelming number of those guys versus some of the other product lines.

And so, what we are trying to do through adding account managers, bringing more customers into the account management structure and changing the way sales works is to try to make sure that all product lines are getting equal representation.

But it's not to pull or lift up or anything, it's really just to say when we have -- we have a customer relationship out there, regardless of which product line the salesperson represents, that has that relationship. We ought to be able to use that relationship to bring and introduce all of our products and services to those customers and offer solutions that make sense to them. And so that's what we've been trying to do.

Now some of the other things we talked about on the lift -- it's -- because of its size there was a lot of inventory. So part of what we were doing this quarter was to try to bring down some of our inventories in that particular area, not manufacture more. Trying to get zeroed in and focused on looking at our safety stocks and getting those down to where they need to be.

And then I think also we saw, as we moved things around in our product portfolio, that probably gas lift was being somewhat deemphasized. And so, what you could see in our results in fourth quarter is, as we increased the emphasis on gas lift and jet lift as an alternative to ESPs, because we do believe that ESPs don't solve all of the problems, and that there are cost effective ways to have installations that ultimately can be a better production solution.

But part of that is getting out there and demonstrating to the customers, talking about it, pushing it. So we had a marketing campaign, sales started pushing on gas lift and we've seen some improved results there. And we expect to see more of that as the sales organization continues to work more closely together.

David Anderson - *Barclays Capital - Analyst*

Interesting. Thanks.

Operator

Sean Meakim, JPMorgan.

Sean Meakim - *JPMorgan - Analyst*

Mark, on the $1 billion program, when you talk about the folks that have left the plan, how much has their confidence been influenced by the recent is in the oil price? I guess another way of asking it, as you think about how much easier is it to visualize the sales portion of $1 billion with Brent at $70 versus at $55?

I think you talked about maybe a third or more of the mix could be coming from market share, pricing, things like that. That's a little bit higher maybe than the original thoughts around that mix. I'm just trying to get a sense of how much the macro is driving the confidence.

Mark McCollum - *Weatherford International plc - President & CEO*

I would say none. Everything that we've been doing, we've been fairly agnostic to what the commodity price is going to be. And it's been more around -- on the sale side as an example, is thinking more clearly about, okay, how are we approaching our sales process as we work with customers. Looking at situations where it looks like there are pull through opportunities for other parts and services that we have not traditionally been putting in front of customers to even offer.

We've been doing elasticity models on certain of our products where it feels like we're not paying close attention to pricing opportunities that we may have, things are in short supply. In certain situations our processes around discounting, we're giving too wide of latitude for folks to provide discounts when they didn't really understand what the product cost was going to be, particularly when a customer might ask for bespoke changes to a product off of what would be our standard offering.

So, there's a lot of little things around it that really are agnostic to what the commodity price is and more around how we go to market. And in part the reason we're doing that is because we fully expect that a rising tide lifts all boats. Yes, with commodity prices being higher and we feel like we've got wind at our back I'll guarantee that so do our competitors. And so we are all out there equally.

And so, in the end the guy who's going to win this thing is the guy who's going to be -- first of all who has the technology, second of all who can show customers a value-added solution and who has that solution competitively priced.

And for us, so it's part of us having the processes to bring forward solutions rather than coming to the market with individual product lines that have to do the work behind the scenes to make sure that we are reducing our cost structure so that we can get our priced competitively set.

And then making sure that we are disciplined in our approach to go in market to try to get that. And so, all those things I think are what's right now contributing to the opportunity set that we see.

Sean Meakim - *JPMorgan - Analyst*

Thank you for that. That certainly sounds constructive. So just then on free cash flow, just curious if you think about some of your initial thoughts on your coming into the seat. When we look at the write down on working capital is north of $600 million, does that have any influence on your view of how much cash can be harvested from working capital?

And I think when you were first coming into Weatherford you were targeting maybe a ballpark of about $1 billion. Just curious how you look at the opportunity to harvest cash from working capital maybe the next year to two years.

Mark McCollum - *Weatherford International plc - President & CEO*

I'm going to give my perspective and then I'll let Christoph talk some details. But no, I think obviously -- I think the change in my perspective on working capital isn't that the total amount isn't ultimately available to us, it's how long will it take to get there.

The issue that we are finding is that we have a lot of things on the balance sheet. We have got a lot of inventories, but they're not always inventories of things that are moving quickly in the market. I think as the Deepwater complex gets fired up we are going to see some significant opportunities to bring down inventories.

The receivable write-downs that happened in the quarter around the accounting changes for our revenue accounting in Venezuela, those were going to be hard no matter what. But we still expect to see continued opportunity across our working capital set that's still in line with what I believe is the larger long-term opportunity that I articulated before. Christoph, do you want to add?

Christoph Bausch - *Weatherford International plc - EVP & CFO*

No, I think you said it all. But one small add to that, and I mentioned that before. We looked in detail through our inventory. There is significant more potential on inventory and this is on high running current inventory. And maybe add to that we increased our excess inventory provision. That does not mean that that inventory is worthless.

So, there is a lot of assets around there which can be sold. And lastly, Mark referenced that while we've written off our receivables in Venezuela, we still expect to collect those at one point in time. And that might not be this year or next year, but we expect to collect those one day.

Sean Meakim - *JPMorgan - Analyst*

That's all entirely fair. Thank you very much.

Operator

James West, Evercore ISI.

James West - *Evercore ISI - Analyst*

Mark, a lot of us thought the discussions around the internal changes are positive and interesting, but I wanted to get your broader perspective on the markets. As we talked last quarter, I know you were a bit conservative on 2018. We have had a move in oil prices. We have a lot of optimism spreading around the world in terms of sustainability of this higher oil price.

And I think Weatherford probably more than most benefits from an upcycle, from the emergence of a global upcycle. And so, I think it's very important that we keep that in mind, that it's not just what you are doing internally but just the cycle work is going to help you and certainly help you better than others.

And if you could give your, I guess, outlook. We know North America is on fire. International is starting to come back. How do you see 2018? And really as we maybe exit 2018 and going into 2019 and assuming that we can maintain these prices, what does the market start to look like in your view?

Mark McCollum - *Weatherford International plc - President & CEO*

That's a great question, James. Obviously, yes, I think that you are absolutely right. Weatherford stands to benefit from an international cycle as much, if not more than, some of our peers with our TRS business and some of the other things. If you sort of look outside of North America it really has been a sleeping giant that could really help us quite a bit.

We are approaching 2018 still with some level of reservation. I think that the pricing we see in the marketplace is good, it is constructive and we are very encouraged by it. But I think geopolitical concerns like areas of Venezuela and others will continue to damper some level of enthusiasm.

And I think that, as I stated in my remarks, I think increases in activities still may have a muted effect because we think there will still be some level of pricing pressure. We are still seeing guys -- some of our competitor's price under and I think that's coming to an end as we absorb capacity. But pricing still may have a muted effect early; as we absorb all our capacity that's going to stop.

And I think that's -- I think we are fast approaching that point in time. We are seeing more discussion around Deepwater projects. As I talked with customers, they are adding rigs but they're not -- they are adding one and two they're still relatively slow.

So our outlook in 2018 on international, at least from what our customers have said right now, is going to be still more land-based. So we talked about Russia, the Middle East, Argentina, we're very excited about what's happening in Argentina. We are going to be adding spreads and more capacity there in Argentina, so that will help.

On Mexico I think we will continue to see some expansion of the projects that we have in Mexico. But really we need the deepwater complex to really get firing before we can even say it's all clear for international. And I think that's still late 2019 going into 2020 timeframe. To me always the marker of an international upturn is you see a big wave in tendering. And while there has been some discussion, we're not seeing all those tenders yet.

North America I think, again, we are enthusiastic about North America as well. Now having now disposed of the pressure pumping assets our exposure to the market is a bit more muted. The North American completions business for us is booming. We are going to try to squeeze this thing, add some capacity because we are kind of sold out. But we are going to keep pressing that.

But our exposure in North America is going to be more largely around the well count and rigs and the number of wells that are completed. So again, we not only drill more but bring ducts down. All those things will help Weatherford's portfolio in the North American market.

I'm also, I think, as we talk with customers, for me at least at the Weatherford portfolio, encouraged by those who discuss putting -- saying they're going to put more of their capital to work on improving production, living within cash flow rather than just going and drilling more new wells and adding to the well count. Because I think that, quite frankly, plays to Weatherford's strength because we can help them quite a bit on the production side of the equation to get as much cash flow out of their assets as they possibly can.

James West - *Evercore ISI - Analyst*

Okay, that's great. Thanks, Mark, for that. And then just a I guess unrelated follow-up, for either you or Christoph, whoever wants to take it. But the [IO] market is wide open. Why haven't you hit it yet?

Mark McCollum - *Weatherford International plc - President & CEO*

I will give you an honest answer. You just saw the results. You saw it was a noisy, noisy quarter from a financial statement standpoint. And I think we needed the opportunity to let the market get out there, walk through, adjust this. And then I think that once that happens then I think that we will be free to make a decision about whether we go or not.

James West - *Evercore ISI - Analyst*

Perfect, thanks, guys.

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

Thank you all for joining us on today's call. I will now turn the line back over to the operator. Carol?

Operator

Thank you. This does conclude today's program. Thank you for attending. You may now disconnect.
