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WFRD.OQ - Q3 2026 Weatherford International PLC Earnings Call

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OVERVIEW:

Company Summary

CORPORATE PARTICIPANTS

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

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

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

CONFERENCE CALL PARTICIPANTS

J. David Anderson *Barclays Services Corp - Analyst*

Scott Gruber *Citibank Cameroon SA (Douala Branch) - Analyst*

James West *Melius Research LLC - Analyst*

Saurabh Pant *Bofa Merrill Lynch Asset Holdings Inc - Analyst*

Derek Podhaizer *Piper Sandler - Analyst*

James Rollyson *Raymond James & Associates - Analyst*

Douglas Becker *Capital One Securities Inc - Analyst*

Keith Mackey *RBC Capital Markets Inc - Analyst*

Phillip Jungwirth *BMO Capital Markets - Analyst*

Josh Silverstein *UBS AG - Analyst*

Alexa Petrick *The Goldman Sachs Group, Inc. - Analyst*

Josh Jayne *Daniel Energy Partners*

PRESENTATION

Operator

Good day, and welcome to the Weatherford third-quarter 2026 results conference call. (Operator Instructions) Please note today's event is being recorded. I would now like to turn the conference over to Luke Lemoine, Senior Vice President, Corporate Development, and Investor Relations. Please go ahead, sir.

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

Welcome, everyone, to the Weatherford International third-quarter 2026 earnings conference call. I'm joined today by Girish Saligram, President and CEO; and Anuj Dhruv, CFO. We'll start today with their prepared remarks and then open it up for questions. You may download a copy of the presentation slides corresponding to today's call from our website's Investor relations section.

I want to remind everyone that some of our comments today include forward-looking statements. These statements are subject to many risks and uncertainties that could cause our actual results to differ materially from any expectation expressed herein.

Please refer to our latest Securities and Exchange Commission filings for risk factors and cautions regarding forward-looking statements. Our comments today also include non-GAAP financial measures, the underlying details and a reconciliation of GAAP to non-GAAP financial measures are included in our earnings press release or accompanying slide deck, which can be found on our website.

As a reminder, today's call is being webcast and a recorded version will be available on our website's investor relations section following the conclusion of this call. With that, I'd like to turn the call over to Girish.

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

Thanks, Luke, and thank you all for joining our call. I'll start with an overview of our third-quarter performance and near-term outlook, followed by a couple of key enterprise updates. Anuj will then cover specifics on financial performance, balance sheet, and detailed guidance and I will conclude with some thoughts on the current operating environment, our initial thoughts on 2027, and our priorities as we move forward before opening the call for Q&A.

To summarize our Q3 2026 performance, we delivered revenue of \$1.143 billion, adjusted EBITDA of \$254 million at a 22.2% margin, and adjusted free cash flow of \$155 million, representing a 61% conversion on adjusted EBITDA. Simply put, this was an excellent quarter and I am very grateful to the One Weatherford team for continuing our track record of execution and performance.

A special note of pride in our Middle East team who continue to demonstrate resilience and customer focus in very challenging circumstances. Total revenues grew 3% sequentially while absorbing the first full quarter without the Saudi LSTK contract, the wind down of our original Marmul contract in Oman, and a Middle East activity profile that has not returned to pre-conflict levels points to the stability and growth of the contract portfolio across our segments and geographies. Adjusted EBITDA margins above 22% is a tangible proof point that our thesis of being able to expand margins in a flat environment works and that expansion gets amplified with even a slight increase in revenue.

Our adjusted EBITDA margins expanded 204 basis points sequentially and more significantly 39 basis points year over year on a 7% decline on year-on-year revenue. Finally, adjusted free cash flow increased 57% year over year, demonstrating our ability to generate cash in any cycle at a high conversion level. Next, I will run through some of the dynamics across our segments and regions while highlighting near-term outlook.

Revenue in the Middle East, North Africa and Asia region was flat sequentially. That flat number absorbed two significant step-downs that we told you about in July, the conclusion of the Saudi LSTK contract, and the transition in Oman from the original Marmul scope to the new contract, which means the rest of the business in the region grew sequentially, led by MPD, liner hangers, completions and wireline, and regional profitability improved across all three segments on strong fall-through.

To put this in perspective, revenue in the Arabian Gulf countries grew 1% sequentially with these headwinds. At the same time, I want to be clear that the environment has not normalized. While the headlines might suggest normalization of oil exports from the region, upstream activity has not recovered fully, rig counts in key countries are trending lower, tender cycles have slipped. And the recent escalation is a reminder that this remains an unsettled operating environment with daily operational disruptions.

Our priority continues to be the safety of our people and business continuity for our customers and our teams have done an exceptional job with both. We have deliberately not built a regional recovery into our near-term outlook. We are planning the business on the basis that the region stays roughly where it is today. The Middle East, North Africa, and Asia region represented 39% of our business in Q3. The Kingdom of Saudi Arabia, which was 10% of enterprise revenue and 24% of the broader geo-market revenue in 2025, stood at 20% of the region in Q3, reflecting the LSTK contract step-down and activity reduction.

At the same time, it is worth noting that the UAE, Oman, and Kuwait collectively represented approximately 41% of this region in Q3, demonstrating the diversification of revenue within the broader region. Notably, activity levels have stayed very resilient in some countries like Oman throughout the course of the year.

Latin America grew 14% sequentially, driven by Mexico and the Caribbean. In Mexico, activity with the largest customer improved and just as importantly, collections were strong and consistent throughout the quarter. We are very encouraged now that we have had several consecutive quarters of regular payments, which is a meaningful change from where we were 18 months ago.

Another highlight in the region is Venezuela as we saw our first revenue in Q3. We will see tangible revenue contribution from Venezuela in the fourth quarter, but there will also be a significant start-up cost element. Importantly, we see potential for Venezuela to ramp up in

2027 to triple-digit revenues with further increases in 2028, and with the environment remaining stable, perhaps coming close to our prior peak in the next few years.

Europe, Sub-Saharan Africa, and Russia declined 9% sequentially on lower activity across the segments, with the Norway labor strike weighing heavily on the early part of the quarter. Norway recovered as the quarter progressed, and I am especially pleased with the Equinor award, which I will come back to in a moment. This region will remain roughly flattish in the fourth quarter. But I am very encouraged for 2027 and beyond with a step-up in the Norwegian profile, Caspian, and Sub-Saharan Africa potential.

North America saw an increase in Q3, partially driven by a single-month contribution from our NCS acquisition. While the rig count has gone up, we are not expecting a noteworthy increase in overall activity levels over the next few months, but we'll see a step-up in our reported revenue with the full-period contributions from NCS.

Slides 7 through 9 lay out key highlights across our segments. DRE revenue grew 14% sequentially and segment margins expanded by over 700 basis points. Our MPD capital sales were a key driver of the margin expansion and while we recognize this will cause some lumpiness, the long-term aftermarket opportunity is something we are further developing to provide predictable high returns. WCC revenue grew 4% sequentially and this segment will see all of the impact from the NCS acquisition in the coming periods.

PRI revenue was essentially flat sequentially and we remain encouraged on a positive inflection here when the Middle East returns to normal and there is an emphasis on interventions to restore production. Offshore continues to be the most durable theme over the next few years. Our core offshore offerings of managed pressure drilling, tubular running services, and interventions had another strong quarter of awards that are highlighted in our press release and investor presentation on slide 7 through 9.

The deepwater MPD systems we were awarded earlier this year are continuing to be delivered across the second half of this year. And every system we put on a deepwater rig grows an installed base that generates multi-year aftermarket parts and services revenue.

What we hear from customers is consistent. Deepwater sanctioning is increasing, led by Brazil, West Africa, the Mediterranean, and Asia, and this work is longer cycle, technology intensive and far less exposed to the short cycle volatility we see on land. While we estimate that around 70% of drill ships either currently have or are in the process of installing an MPD system, there is a natural question of market saturation. However, we are confident that this number will continue to climb to around 85% or 90%, giving us an opportunity for several more systems over the next few years.

Additionally, there is a very significant opportunity around other offshore rigs and the aftermarket opportunity creates a more stable revenue base. Our MPD business is projected to grow above double-digits this year with further growth in 2027. That includes an aftermarket component that will more than double this year and could further double here on in the next couple of years.

Beyond these core offerings, I am very excited about our growth opportunity in offshore completions. Completions is now our largest product line and offshore represents significant potential for the future. We announced a significant award with TotalEnergies in Denmark a couple of quarters ago, a win with ExxonMobil in Nigeria last quarter. And in Q3, Equinor awarded us a two-year extension and a new Offshore Completions Award to provide our integrated completions portfolio for the Norwegian continental shelf.

Additionally, Seplat Energy awarded us a five-year contract for completions, products, and services, including gas-lift solutions for its shallow offshore operations in Nigeria. In the legacy NCS business, during the quarter, we secured an award in the deepwater Gulf of America for its frac sleeves and service tools following four years of collaborative development with a major international operator. The work is expected to commence in the first quarter of 2027, an important step into the offshore market for that technology.

With the NCS acquisition and our organic efforts, we now have a value proposition across the conventional, unconventional, and offshore domains in completions. With that backdrop, I will frame our outlook for Q4 and Anuj will provide more specifics. We are raising our full year adjusted free cash flow conversion outlook again for the third time this year and are narrowing our adjusted EBITDA range around a midpoint

that is just slightly down from July, this despite a Middle East region that has weakened relative to expectations in July and the divestiture of a few small non-core product lines.

Fourth-quarter revenue steps up meaningfully with the full quarter of NCS, the delivery of the Brazil MPD system, the start-up in Venezuela and seasonally higher activity in North America, and fourth quarter margins reflect the mix of that revenue and start-up costs in Venezuela. I am particularly encouraged that we have line of sight to a mid to high single-digit increase sequentially in the Middle East, North Africa, and Asia region, primarily driven by countries in the Arabian Gulf. We have been consistent that we will not chase revenue at the expense of returns. And the margin and cash performance in Q3 is the clearest evidence of that discipline.

Let me now turn to a couple of enterprise updates, starting with the portfolio. As shown on slides 13 through 15, we completed the acquisition of NCS Multistage during the quarter, and I am very pleased with how the integration is going. The integration management office was in place before close, day one went smoothly, and the key talent we wanted to retain is on board and the cost synergy work streams are tracking to the at least \$15 million we committed to within 18 months of closing.

More important than the cost synergies is the prize we identified when we announced the deal, taking differentiated technology that was built in a concentrated footprint and putting it through a sales channel that covers six continents. That thesis is fully intact and it is already showing up. With that acquisition of NCS, we now bring into our portfolio a differentiated completions technology platform that surpassed 500,000 frac stages completed since 2009.

In North America, customers have responded to the combination by asking for more joint projects and quotations and our international teams are qualifying early cross-sell opportunities in Argentina, the Middle East, and the North Sea.

NCS is a prime example of what we mean by portfolio enhancement, differentiated technology plus global distribution. Over the past few months, we signed agreements to divest a few small non-core product lines. Individually, none of these is material and together they will create some dislocation in reported revenue over the next couple of quarters, but they are deliberate.

They free up management attention and capital, they simplify the organization, and they sharpen the portfolio around the technology-differentiated product lines that we are building the company around. That is the same lens we apply to M&A, adding where it strengthens the portfolio as with NCS and exiting where it does not. We are setting up the portfolio for the next phase of Weatherford.

Our infrastructure modernization program witnessed the first major milestone on our ERP journey with the successful launch of our enterprise performance management applications. Essentially, this means that the financial consolidation of our quarter close was done in a new system, was perfectly routine and the on-time external delivery of Q3 earnings and documentation showcases the outstanding planning and execution by the team driving it.

At our special shareholder meeting in September, shareholders approved all the proposals required to redomesticate from Ireland to Delaware. The redomestication remains subject to customary closing conditions, including final approval by the Irish High Court, and we expect it to become effective during the fourth quarter.

We continue to expect approximately \$20 million to \$30 million of annual cash savings beginning in 2027 while having no impact on our global footprint, our customer commitments, or our ongoing operations. I want to thank our shareholders for their engagement and support through this process.

So to recap, a weaker than expected macro environment, especially in the Middle East. Nonetheless, a terrific quarter on financial performance, strong contract wins showcasing portfolio value, M&A as a strategic lever that is paying off and enterprise initiatives yielding tangible improvement.

That's the story of the past 90 days. With that, I'd like to turn the call over to Anuj.

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

Thank you, Girish, and good morning, everyone. Girish has covered the operating performance and the details are in our press release and slide deck, so I will focus on cash flow, the balance sheet, and guidance. Turning to slide 24, adjusted free cash flow was \$155 million in the third quarter, a 61% conversion on adjusted EBITDA compared to 36.8% in the third quarter of 2025, driven by higher adjusted EBITDA, continued collections, including from our largest customer in Mexico and disciplined capital expenditures.

Year to date, we have generated \$379 million of adjusted free cash flow, up 55% year over year at a 53% conversion. This is the second consecutive quarter above 60% and the drivers are structural - working capital discipline, capital intensity, and asset utilization. While there will always be quarterly variances, it is very encouraging to have two consecutive quarters above 60% and provide clear proof points of our ramp to our target of sustainably achieving a 50% conversion level.

Adjusted net working capital was 29.2% of trailing 12-month revenue, up sequentially with roughly 150 basis points from the consolidation of NCS. And the balance from receivables and inventory timing ahead of fourth-quarter deliveries. Despite that, the ratio improved year over year and we remain committed to our goal of 25% or better. Capital expenditures were \$45 million or 3.9% of revenues within the 3% to 5% range we have laid out.

For the fourth quarter, capital expenditure dollars will increase as we're accelerating some spend based on the demand we see for 2027. While total year CapEx will remain within the 3% to 5% of revenue range, the Q4 spend will likely be in the \$70 million to \$80 million range with our ERP spend captured within that. During the quarter, we returned \$47 million to shareholders, \$19 million in dividends and \$28 million in share repurchases, bringing total returns since the inception of the program to more than \$420 million. Our focus on maintaining a fortress balance sheet remains clearly visible. We ended the quarter with approximately \$1.2 billion of cash, total liquidity of approximately \$1.8 billion, which includes total cash and credit facility, and net leverage of 0.28 times.

S&P and Fitch upgraded their outlooks on our reaffirmed BB ratings to positive during the quarter, joining Moody's and recognizing the progress we have made in strengthening the company's credit profile. On October 20, we issued a notice to redeem all \$236 million of our 8.625% senior notes due 2030 using cash on hand in line with our prior commentary of reducing gross leverage at the appropriate pricing level.

This redemption is at par and will leave us with no debt maturities for the next seven years and annualized cash interest expense reduction of approximately \$20 million. Coupled with the expected cash savings from redomestication, this would represent over 400 basis points of improvement in adjusted EBITDA to adjusted free cash flow conversion at these levels. This sets us up well to achieve our 50% target in 2027.

These actions represent the next step in simplifying our capital structure, lowering our cost of capital, and positioning Weatherford with investment grade equivalent credit metrics. Importantly, they provide greater financial flexibility to invest in organic growth, selective M&A, and shareholder returns through the cycle.

Turning to guidance on slide 25. For the fourth quarter, we expect revenues of \$1.28 billion to \$1.33 billion and adjusted EBITDA of \$270 million to \$290 million, which is a margin that is modestly down from the third-quarter level. The sequential revenue increase reflects a full quarter of NCS, Middle East product deliveries, the delivery of deepwater MPD systems, seasonally higher activity in North America, and increased volumes in Latin America, including the start-up in Venezuela.

Fourth quarter margins reflects the mix of equivalent deliveries along with start-up costs in Venezuela. At the midpoint of Q4 guidance, this will put second-half adjusted EBITDA margins over 150 basis points above the first half, validating the ramp we have discussed, despite an obvious weakening in the Middle East activity. Our productivity initiatives, technology-driven mix changes, and higher activity we expect should result in year-on-year margin improvements in 2027. And we will provide more specific quantification of that on our next call.

We expect adjusted free cash flow of more than \$100 million. While our AR balance for our largest customer in Mexico as a percentage of total enterprise revenues is at the lowest level it's been in the past six years, the magnitude of remaining payments is still the largest variable on quarterly free cash flow.

We have raised our adjusted free cash flow conversion outlook every quarter this year and we're again raising it for the full year to the high-40% range from mid- to high 40% in July, which puts us within closing distance of our 50% target on the strength of structural improvements rather than one-time items. In connection with the effectiveness of the redomestication, we also plan to take a certain restructuring actions at a subsidiary level.

While the accounting and tax implications of those actions are still being evaluated, we expect they would have a material positive non-cash impact to the income tax provision in the fourth quarter.

Thank you, and I will now pass the call back to Girish.

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

I want to step back and share how we are thinking about 2027 and what we are doing to position Weatherford for the next several years. Let me start with the backdrop. The Middle East has not normalized and our base case is status quo on the current situation.

Unfortunately, that status quo implies volatility and uncertainty versus a steady run rate, but we are planning with the run rate to be in line with the last few months of this year. Outside the Middle East, however, the picture is constructive and getting more so. Deepwater sanctioning is increasing, led by Brazil, West Africa, the Mediterranean, and Asia, and our offshore MPD, TRS, interventions and completions businesses will be the drivers of impact from that theme.

Latin America is growing, with Venezuela reopening to international operators and Mexico stabilizing. The international markets where NCS strengthens our position, Argentina, the Middle East, and the North Sea continue to develop, and US land remains short cycle and we plan it accordingly.

So here's how we think about 2027. Excluding the Middle East, international market activity levels should rise mid- to high-single digits driven by Latin America and Asia. North America will likely be up low-single digits. Assuming the Middle East remains at current levels, that ought to provide a global market activity increase in the mid-single digits with a more noticeable increase starting in the second quarter.

For Weatherford specifically, we expect to be higher than that based on the contribution of the NCS business, share gain in some key areas, and Venezuela reopening. While simultaneously offsetting the first half of 2026 headwinds of the LSTK contracts and Middle East activity levels. The mantra of margin expansion is central to our operating ethos, and should manifest itself driven by a structurally lower cost base, mix effects, synergies, and higher activity-driven fall-through.

We are within touching distance of 50% full-year adjusted free cash flow conversion and expect to achieve that in 2027 based on the factors Anuj outlined. All in all, despite the headwinds from the Middle East, we see a constructive outlook shaping up for 2027 and the years following that. We will provide specific guidance on our next call, but wanted to paint the picture of the emerging landscape.

As we think about the next phase of the company, I'd like to reiterate what we've consistently said for the past six years. Please do not judge us by words or rhetoric, rather let our numbers speak for us. We have consistently delivered over 20% adjusted EBITDA margins over the past few years: when rigs got cut in Saudi, when Mexico activity collapsed, with the current conflict, and so on.

At the same time, we have continued to march on our path to higher free cash flow conversion and margins, focusing on our controllable elements. Performance remains our calling card and our North Star of free cash flow remains unchanged. We are focused on driving a higher degree of absolute dollars as well as margins.

We believe that achieving mid-20s% adjusted EBITDA margins with 50% conversion of free cash flow is not just achievable, it is a very clear path in the next few years and likely sooner with activity increases. To enable that performance, we now have more capability in our portfolio and are investing in further enhancing that value proposition. We are well positioned as a technology differentiator in key segments and product lines.

Our MPD, TRS interventions, artificial lift, and cementing products businesses have leadership positions in several areas. We are further augmenting that with the continued pruning of low-return businesses and capability addition in completions, drilling services, wireline, and digital. The liquidity on the balance sheet and low leverage affords the capacity to accelerate that with inorganic growth in a thoughtful and prudent fashion.

While we believe we can meaningfully expand margins through technology mix and operating efficiencies in a flat environment, the combination of unconventional growth, mature field rejuvenation, offshore resilience, and Venezuela give me a lot of confidence in revenue growth over the next few years. The most important element of the confidence in our portfolio delivering performance is the third P, our people. This is a team that has consistently adapted and delivered and I am grateful for the experience, expertise, and energy of the leadership team that permeates all the way to the front line of the company.

Thank you for your time this morning, and with that, operator, please open the floor for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) David Anderson, Barclays.

J. David Anderson - Barclays Services Corp - Analyst

So on your '27, you're kind of framing the picture for us here. I was going to just a quite a bit to unpack in there. So you're talking about mid-single-digit growth activity, Weatherford is going to outperform that. So if we take the second-half of '26 run rate, can you help us bridge the gap of the things that are Weatherford-specific in here that are going to see growth outside of that? And you're not assuming any Middle East recovery in there. So should we imply that Weatherford could be a double-digits if Middle East does come back? I mean, is that what we're thinking about here just based upon how the rest of the portfolio is setting up?

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

Yeah, Dave, you're right. Look, it is a little bit complex, a lot of different moving pieces. I'm not going to comment on what you could imply. I'll leave that to your more than capable mind and abilities to figure that out. But look, we've had -- we'll this year four months of impact from NCS. So obviously, that will have a much bigger impact in the first eight months of next year. So I think that will be a bit of a positive.

On the other hand, what we do have is through the first half of 2026, we have the ISP contracts in the Middle East plus a much higher activity profile in the first half, in the first quarter of 2026. So those will need to get offset. So I think it's really better to look at this on a bit of a longer-term basis and take a look at it as a total sort of 12-month view and frame it as that with some degree of movement across the quarter.

I think more importantly is what Anuj alluded to in his prepared remarks on that margin expansion on a year-on-year basis, that's something we feel really good about. Just given the fact that we have made some structural improvements this year, we will not have some of the natural effects of a spike in cost that we had earlier this year. As well as the synergies that we are going to get plus fall-through from increased revenues.

So net-net, I think it's shaping up to be very positive. It will be a bit more of a ramp in the second-half, but this is now the second year in '26 that we have had that ramp, we have delivered it. So hopefully, that gives everyone a lot more confidence as we talk about it in 2027.

J. David Anderson - *Barclays Services Corp - Analyst*

Just to clarify this on that margin improvement in '27, is that off the full-year '26, or is that off the second-half exit rate in '26?

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

At this point, it is best to take it as a full year, Dave.

J. David Anderson - *Barclays Services Corp - Analyst*

Okay. Thank you.

Operator

Scott Gruber, Citigroup.

Scott Gruber - *Citibank Cameroon SA (Douala Branch) - Analyst*

Yes, good morning, Girish and Anuj. Girish, you mentioned that you're not building a Middle East recovery into the outlook, you're planning for status quo, and yet you do see mid to high-single-digit sequential growth in the end 4Q led by the Gulf countries. Can you reconcile those two? Is 4Q mostly year-end product sales versus underlying activity? And with Saudi now, about 20% of the region, and I think I heard you say UAE, Oman, and Kuwait are like double that at 40%, can you kind of walk around the region and identify areas of relative strength or normalcy versus areas of continued weakness?

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

Yeah, morning, Scott. Look, great question. You're right, they do at the face value sound a little bit divergent statements. But essentially, when we talk about that activity level, we're really referring primarily to service activity on the ground. And that is in Q4, we typically have a much higher product delivery quarter. That is very true in North America, but it's also very true in the Middle East with typically year-end deliveries of completions. Liner hangers and cementing products. So we've got the pipeline on that, we've got the purchase orders, our manufacturing teams are working flat out to make sure those deliveries happen and that's what gives us that confidence.

But the base activity level we are assuming does not actually change and this will feed the inventory profile for our customers as they go into 2027. So I think that's really what drives that. Look on your second question, part of the reason we provided a little bit of that context was to give a bit of a sense of -- look, there is a lot of concern, understandably, naturally, and appropriately so around the Middle East right now.

But we've got a revenue profile that is fairly well diversified across the various. There tends to be a little bit of concern, especially just given the recent escalation in the Kingdom of things that have happened. And we've got a very strong revenue profile in places like the UAE, and especially in Oman, which have remained pretty intact. So as we look at activity levels, I think UAE and Oman remain pretty strong and kind of normalized at this point. Kuwait and Saudi a little bit down; Iraq, substantially. So that's sort of the mix that we see, but I think all in all, we feel pretty good about the position that we have and the ability to generate the margins and cash.

Scott Gruber - *Citibank Cameroon SA (Douala Branch) - Analyst*

I appreciate the color. I'll leave it there and turn it back. Thank you.

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

Thank you.

Operator

James West, Melius Research.

James West - *Melius Research LLC - Analyst*

Hey, good morning, Girish. I wanted to ask a bit about the NCS acquisition. You're tracking to about \$15 million of cost synergies, but you've consistently said, and I agree with this, that the revenue synergy is the real prize. Would you mind giving us some more detail on the cross-sell pipeline in Argentina, the Middle East, the North Sea, timing to first meaningful international revenue and what a reasonable revenue synergy number could be and then if I could kind of throw a second one in there, has anything surprised you positively or negatively in the first 90 days of the since the closing?

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

James, let me start with maybe the latter part of the question. Acquisitions are always a little tricky regardless of the size. And sometimes if you're buying a company with 50 people, 500 people or 5,000 people, it sort of feels like same amount of work. But I've been very, very impressed with the degree of planning our integration team has put in. They've done an outstanding job. It's gone really, really smoothly.

And I've been very excited to interact with a lot of the legacy NCS team who are excited to be part of a bigger global platform. They see the opportunities and I think they're starting to now really come out in space. So I think the biggest positive for me has just been really a crystallization of this potential revenue synergy profile, which is the first part of your question.

So I look at it really sort of in three parts. I think the first is from an offshore standpoint, really on the deepwater side. One of the things that we get with NCS is a platform that unlocks tight plays and these were tight plays that were previously potentially non-commercial due to lower permeability in the reservoir. We have had some very interesting trials. We are now taking it into the Gulf of America. And when you combine that with the rest of the capability that we have across the portfolio, it becomes a much bigger integrated completion play in offshore. And so that's something that's brand new and I think we'll add over the coming years.

I've talked in the past about the tracers capability that NCS brings. That is really an extension of our overall completions portfolio. And it really allows customers to get a much deeper sense of what is happening downhole once we've actually deployed the jewelry into the well. So that really becomes now, how do you get use your completions to gain a view into reservoir performance. And then the other thing that is really exciting is on the geothermal space. I think we've got some very interesting capability there on engineered geothermal system. Again, you combine that with what we have with our natural high temperature capabilities, our DFOS capability, it becomes again a bigger offering.

So look, I've not put a specific number around it and we won't at this point in time, we are focused on the quantification being around the cost synergies that we feel very good about getting to at least \$15 million. And my hope is over the coming years, we will grow this business at a run rate that is at least mid- to high-single digit about its natural run rate.

James West - *Melius Research LLC - Analyst*

Got it.

Operator

Saurabh Pant, BoA.

Saurabh Pant - *Bofa Merrill Lynch Asset Holdings Inc - Analyst*

So I want to touch on Venezuela a little bit, Girish. Last quarter, you were getting more encouraged. And now you're talking about first revenue in the third quarter, and I think that up to more than \$100 million revenue in '27, further upside in '28. So that's very positive. Maybe just walk us through on what's underpinning that confidence. Is this contracted work with specific operators or activity assumption on specific product lines? How are we thinking about this? And then how should we think about the 4Q startup call that I think Anuj was talking about in his prepared remarks?

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

Sure. Yeah, Saurabh, look, I think if you look back at the last few calls, our tone, my excitement around Venezuela has grown very steadily on each one. And that has really been driven by the conversations that we've been having with customers, the magnitude of the conversations, the number of different customers that we've been talking to has increased significantly.

Conversations have gone from sort of what if to now, how soon, how fast, and are on the basis of actual orders that we're getting versus pie in the sky kind of concept. So really that confidence is underpinned by us having very clear line of sight to contracting work, some of which is very much in progress.

We are furiously hiring people in Venezuela. Our headcount has increased substantially in the past several weeks, and we continue to add to the capability of our team. So look, I would expect that in the next few months, there will probably be more visibility and more specifics around which customers, but I think suffice to say we are talking to several different operators. We're focused on international operators who have signed a lot of these agreements that have been in the news and are well publicized.

We have gotten purchase orders in. We are starting work and that's really what's driving it. Now, the start-up cost, look, we're not going to get into very specific quantification because we don't do that on a country and project basis. It is a little bit of a drag, but very naturally so. We've got some refurbishment of our facilities. We've got hiring costs, bringing people on board. We've got to make sure we get some inventory, which is a bit more of a cash impact more than anything else, but just making sure we're getting ready for what we see as a fairly big wave of activity that is coming upon us. And that's what, look, we would not use words like a potential ramp to triple-digit revenue if we weren't seeing a pretty clear line of sight to it.

Saurabh Pant - *Bofa Merrill Lynch Asset Holdings Inc - Analyst*

Okay, got it, Girish. That's very encouraging. Thank you. I'll turn it back.

Operator

Derek Podhaizer, Piper Sandler.

Derek Podhaizer - *Piper Sandler - Analyst*

Hey, good morning, Girish. So you iterated the mid-20% EBITDA margin, 50% free cash flow conversions, clear path over the next two years. The second-half margins are already at 150 points above first half. Maybe could you help us bridge today from the 22% to your mid-20% target, breaking it down? How much is structural? How much does technology like the MPD aftermarket and completion that you mentioned, and importantly, how much activity is needed? I know the underlying guidance is based on a flat Middle East, but does the path in the mid-20% require a Middle East recovery or can you get there if the region does stay flat?

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

Yeah, Derek, look, I'll reiterate what we have said multiple times. We really try to run the business with a focus on we're going to get to that target at flat revenues. It's going to take a lot longer, obviously, but our role really is to drive 25 to 75 bps of margin expansion on flat revenue. That's kind of the way we think about it. And we don't really look at how much exactly is going to come from each element because it's going to vary on a quarter-by-quarter, year-by-year basis, but we do expect that there will be a contribution from structural cost.

The modernization of our infrastructure, we think, is a very significant play that will unlock a lot more cost efficiencies in the company and allow us to focus on things that are higher value-added. We are continuing to develop and deploy technology and we are very encouraged by the initial signs of that. Everything that is coming out increases that value gap, so that helps.

And then a mix shift towards lower capital intensity, higher margin kinds of businesses. We talked about some of the small divestitures. In totality, it's not huge order of magnitude less than 1% of the company, but it is lower margin. It allows us to again focus our time and efforts on things that actually drive higher value. So we feel very good that even in a flat environment, we should be able to get to that mid-20s%. It will probably take about three to four years if you just extrapolate it out.

Now, on the flip side, if you see activity increases and we are confident that we will see that come through and we will see revenue increases, that increases the amplitude of that margin as well as accelerates the timing of it. So I think if we see that activity increase, depending on what it is that three to four years could get accelerated a little bit.

Derek Podhaizer - *Piper Sandler - Analyst*

Great, appreciate all the comments. I'll turn it back.

Operator

James Rollyson, Raymond James.

James Rollyson - *Raymond James & Associates - Analyst*

Hey, good morning, gents, and thanks for all the comments so far. Girish, if you circle back to 4Q guide, so you've got margins coming down just modestly from the 22.2% in 3Q on a pretty big step up in revenues. You walked through some of this, but I'd love for you to decompose how much of that margin delta is tied to NCS dilution, how much is that MPD, Middle East equipment delivery mix, and then Venezuela, the start-up cost is trying to kind of understand how that flows.

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

So short answer, Jim, is yes. So again, look, I think it's a variety of factors. Let me start though with the third quarter. We did deliver significantly better margins than what we had expected. Some of that is just also your shift between the third quarter and fourth quarter just in terms of the projects that we had. The Venezuela startup cost is something that has ramped up and is a little bit newer in development, and we are building that out on a day-to-day basis. So that I would say is a bit more of a reality than it was when we gave our prior guidance in July. And then look, the rest of it is natural, I would say seasonality.

It's not just the Middle East deliveries. What's actually a bigger factor is North America. What we typically see in the fourth quarter is typical year-end equipment sales, typically lower margin, eventually leads to higher pull-throughs on an aftermarket basis later in the life cycle. So altogether, if you put it, it's not a huge drag and it's still significantly ahead of the first half, and that's really what we try to manage it around. And that's the bigger focus rather than try to time it within a 90-day window. It's structurally getting better and all of this will eventually lead to higher margins, especially the Venezuela start-up costs.

James Rollyson - *Raymond James & Associates - Analyst*

Got it. And just that follow-up on that MPD capital sales margin benefit that you referenced earlier, is that something that is a recurring thing or do we think of DRE margins at least in the short run as 3Q being a high water mark?

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

Yeah, great question. Look, I think let me start with the latter part. I would certainly not call it the high watermark. We have done better on DRE margins in the past, but it clearly in the short-term does create a little bit of a natural spike, if you will. And typically when we have older equipment used asset sales, that is a significantly higher contribution to those margin levels as we have discussed in prior earnings calls.

But as we pointed out in our prepared remarks, we still see the opportunity over the next few years of a lot more MPD sales. So I do think there will be some degree of lumpiness, but I think as activity levels improved, my hope is that there is still more headroom in DRE margins.

Operator

Doug Becker, Capital One.

Douglas Becker - *Capital One Securities Inc - Analyst*

Girish wanted to follow-up on some of those MPD comments. Offshore is clearly a durable theme over the next couple of years, 70% MPD penetration among drill ships, potentially go to 90% you mentioned. Aftermarket is doubling this year, double again over the next couple of years. So I was hoping you would size the MPD business, the aftermarket component. What do deepwater deliveries look like the rest of this year and into next year? And then finally, just what's the opportunity for other offshore rig types if we go to semis and jackups?

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

Yeah. Hey, Doug, good morning. Look, we don't break out, as specific product line sizing, et cetera. I think suffice to say, MPD continues to be an important part of the company. It's obviously one of our leading businesses, but we've got -- it's in the same ballpark as a lot of our other product lines.

What I am very encouraged by is the growth rates that we've seen in MPD this year and that has been dramatically exaggerated on the offshore side. So offshore has clearly grown in a much stronger profile this year than the onshore business. Some of it is just a natural weakness of the Middle East. But I think it's more a testament to the strength of the offshore cycle.

So Doug, what we see is you look at, depending on how you count it, order of magnitude between 80 and 90 deepwater rigs out there. If we've got another 10% to 15% opportunity, let's call it, that's still a sizable number of systems. The exact timing of that is always going to be a little bit unpredictable, but I think suffice to say we've got very clear line of sight to a lot more in the pipeline, the conversations that we are having with the drillship operators, the contractors are very positive as they understand that MPD is now becoming just an integral part of their overall. It's something that customers expect, not just MPD enablement, but the capability on the rig. And then it's not just about having the hardware, it's about how do you actually make it function so that services element over the long-term becomes important.

And then look, there is a much larger prize out there as you look at the jack-up market, the semi-sub market that is significantly under-penetrated. And I think as we tend to look at more mature field rejuvenation. We look at reservoirs that are harder to drill. I think the whole notion of MPD making wells accessible that previously weren't really starts to become a theme as well as the extension from MPD into this concept of MPW or managed pressure wells across various life cycles. So I'm very, very encouraged by this MPD business, really excited about the aftermarket muscle that we have built on it. And I think the next few years should be very positive for this product line.

Douglas Becker - *Capital One Securities Inc - Analyst*

Thank you.

Operator

Keith Mackey, RBC Capital Markets.

Keith Mackey - *RBC Capital Markets Inc - Analyst*

Hey, good morning, team, and thanks very much. Anuj, so the Q4 free cash flow guidance of \$100 million-plus looks conservative relative to Q3 \$155 million with a higher EBITDA number. Can you just bridge the pieces there, including the increased CapEx and working capital build? And just on Mexico, you said your largest customer's AR as a percentage of revenues at a six-year low, but remaining payments are still the largest variable. Can you just size what's outstanding and what's assumed in the Q4 guide, please?

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

Thank you. Good morning. Happy to. So you're right, the \$100 million proved to be a bit conservative, though that has been our approach given the overall macro environment. So we are guiding at \$100 million versus \$155 million. And so just to take a step back and reiterate what we said in the prepared remarks. One, our year-to-date free cash flow generation has been \$379 million, and we've converted about 53% of that to free cash.

And we do have quarters that are lumpier than others. We've had two quarters about 60%. We've had one quarter in the mid-30%. And so you do have items such as timing of collections, our cash interest payment, our cash bonus payment, large product sales that can swing any given quarter, and free cash correspondingly.

However, the key for us is to ensure we drive to the full year target, which we've put out there, which is at the high-40%. As it relates to Q4 specifically, we do have a cash interest payment that we'll make, which we did not have in Q3. For good measure, I'll point out we did redeem and we are in the process of redeeming our 2030 note, which will going forward reduce our interest expense by \$20 million on an annual basis.

The second piece in Q4 that Girish alluded to a bit and so did I in the prepared remarks is we are ramping our CapEx in Q4 to the \$70 million to \$80 million range, which sequentially is an increase of \$25 million to \$35 million. And the reason we're doing that is to meet the demand we're seeing for 2027. So when you couple the interest payment and the increase in CapEx, that accounts for most of the delta between the \$155 million that we guided or that we hit here in Q3.

From a working capital standpoint, we did build inventory in Q3 and the reason for that is we do have product deliveries generally that are a bit lumpier in Q4. And so we should see some relief in Q4 as it comes to inventory as we deliver these overall products. From a Pemex standpoint, yes, very positive that Pemex, the percent of our total accounts receivable is at the lowest it's been in the last six-plus years.

However, they still continue to be a large, large variable in our quarterly free cash flow number. We have been very positive, and we've seen a lot of momentum in collections from our largest customer. Really since this time last year when there were structural reform items that the government undertook in Mexico. And since then, the collections have been really coming in like clockwork. And so we do have collections baked into our Q4 number, and we do expect to receive this from our largest customer in Mexico.

But just to summarize all of this, we said this many times. And I hope all 16,500 of our Weatherford employees are on the call nodding their head to this. Our singular -- if you had to have one singular goal, our North Star is to drive free cash flow-based decisions. And so our key is to continue to march towards the overall 50% target, and we're very confident in hitting the high 40% here for full-year 2026.

Derek Podhaizer - *Piper Sandler - Analyst*

Okay, very helpful. Thanks very much.

Operator

Phillip Jungwirth, BMO.

Phillip Jungwirth - *BMO Capital Markets - Analyst*

Girish, you mentioned completions is now your largest product line and you've strung together a number of offshore completion awards here from Total, Exxon, Equinor, Seplat. Just curious what's driving this offshore win rate? Is it more technology-led or an integration story? And just how should we think about completions growth in '27 across conventional and offshore? And if I can just squeeze one more in. The NCS Deepwater Frac Sleeve Award that you called out, is that a one-off or could it be the start of a real offshore channel for that technology?

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

Yeah. Look, I'm incredibly proud of what the team has done here and it's been a very focused and disciplined effort over several years. It started with the vision, but really having the investment that went in to drive technology differentiation, but you just don't win on the merits of that. There has to be integration. We have to have a track record of execution. So all of those elements come in. And it's taken some time because this is not a place where customers naturally want to take risk and they're hesitant to try new things, but the team has done an outstanding job.

So I'm very confident and hopeful that we will see this trend continue and we will continue to win more. So I would expect -- look, it tends to be again a tad bit more lumpy given its product sales, et cetera, but over the next few years, I would expect that as the offshore momentum continues to build out. This is a product line that will be in the very top tier of our CAGR across the business.

On the NCS question, look, really, really focused on this as being a new pathway for us. Every time you get the first one, it is a bit of a one-off, but really the intent on this is to create a completely new space for us where we have a differentiated offering. So very excited about that, but it's going to start as this one thing.

Phillip Jungwirth - *BMO Capital Markets - Analyst*

Thank you.

Operator

Josh Silverstein, UBS.

Josh Silverstein - *UBS AG - Analyst*

Yeah, thanks. Good morning, guys. Anuj, I'll go back to you on the free cash flow side and kind of target working capital here. It moved up to over 29% of revenue with 150 basis points from NCS and the rest from receivables and inventory timing. What's that path, the path back towards 25%? Is that a 2027 target? And how much of this is structural with NCS effect versus Mexico receivable, and what are the specific levers on the inventory given the 4Q delivery build?

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

So just to start off, yes, 29.2% for working capital as a percent of revenue. There's an asterisk next to that number there with regards to NCS. The way it's amalgamated, as is we have a month of the underlying financial cash flow revenue results, but we have the entire balance sheet that we've consolidated.

And so it is not structural. The 150 basis points over time as the full-quarter impact is reflected in our numbers, that should normalize. And so if you look at the overall progress we've made relative to the same time last year, we've had a lower revenue base, and as a percent of revenue, we've decreased our working capital even greater. And so there are significant actions underway in order for us to go and structurally be at that 25%.

But I do want to note that, which is even in a tough environment where the denominator has come down relative to the year before, we've reduced our working capital even more so on a percentage basis. And the reason I allude to this is as we look forward to 2027, you heard the comments and the prepared remarks and the Q&A here from Girish around what we're expecting in '27. And so as you start ramping the denominator higher, it naturally will allow us to start marching even faster towards the 25% number.

And so that will help, but at the same time, our ability to manage working capital will be essential. And I'm confident that as we start ramping into 2027 and through 2027, we can manage our working capital such that it does not increase at a higher percentage relative to what we've done in the past. And so to summarize, the 25%, there are a lot of moving variables. We talked a bit about our largest customer in Mexico. That can be chunky here and there and there is always some risk in the timing of those collections.

However, they have been paying and we've been receiving money every quarter like clockwork. And so if all these variables continue on. There's some inventory optimization that we're working towards on doing -- part of your question, you talked about inventory, I believe, and what are the levers we need for inventory. Really for Q4, for inventory, it's just deliver our products. It's that simple. We have an inventory build in Q3 to deliver products in Q4.

So we deliver those products. The inventory ends up coming down, and it's probably a net benefit for the quarter. And so just summarizing everything, I do think that in 2027, there's potential line of sight for us to hit and march towards that 25%. But again, it's not just hitting that

25% and then being comfortable with it. It's making sure that we have the structural cadence and processes in place inside so we can remain at that 25%. And that 25% of working capital is really a subcomponent of our target of hitting a 50% free cash flow conversion, which as you've seen here in 2026 in various quarters, we've been well ahead of that. And so more to come, but the trains are on the right track, I believe.

Operator

Alexa Petrick, Goldman Sachs.

Alexa Petrick - *The Goldman Sachs Group, Inc. - Analyst*

Thanks for taking our question. I wanted to just double-click on the opportunity set if we get a normalization in Middle East activity, I think we talk a lot about what that intervention work could look like for the PRI segment. Can you just help us size that opportunity?

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

It's very hard to tell because it changes with time, and I think the longer this drags on perversely, I think it gets a little bit higher. But it's really a function of where it drags on, how long it drags on, but my expectation would be a mid-single-digit incremental increase over what it is. Good news is we've already got contracts in place, we've got covered with a lot of capabilities. In the region. So I think as it ramps up based on our customers' plans and what they see, we are very, very well poised to support them.

Alexa Petrick - *The Goldman Sachs Group, Inc. - Analyst*

Thanks so much. I'll turn it back.

Operator

Josh Jayne, Daniel Energy Partners.

Josh Jayne - *Daniel Energy Partners*

Thanks for squeezing me in. You made a number of helpful guideposts for '27 with respect to activity, but I just wanted to take the temperature a bit on operator CapEx on a relative basis. So we're in an elevated crude price environment, everything should be economic. But just based on what you're seeing and sense of urgency on upticks. Any thoughts on companies who have a diversified asset base? Are you seeing a shift of relative CapEx dollars offshore versus onshore over the next couple of years, or do you think things are sort of moving at a similar pace?

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

Yeah, Josh, we've not seen a dramatic change. I think there has been a very clear trend towards that offshore inflection and putting more dollars in there. So we haven't seen that necessarily change there other than perhaps countries where you've got the situation where they're simultaneously net importers but do have reserves of their own. So we are seeing perhaps a little bit more from those NOCs. On focusing on their own reserves, and that's leading to a bit more of that offshore capability, if you will, of the next few years.

Operator

Thank you. And that concludes our question-and-answer session. I'd like to turn the conference back over to management for any closing remarks.

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

Great. Thank you all for joining. Appreciate it. And we'll talk to you in early February about fourth quarter and total year.

Operator

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

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