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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. Welcome to the Weatherford International Fourth Quarter and Full Year 2021 Earnings Call. (Operator Instructions) As a reminder, this event is being recorded.

I would now like to turn the conference over to Mohammed Topiwala, Director Investor Relations and M&A. Sir, you may begin.

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

Welcome, everyone, to the Weatherford International Fourth Quarter and Full Year 2021 Conference Call. I'm joined today by Girish Saligram, President and CEO; and Keith Jennings, Executive Vice President and CFO. We will start today with our prepared remarks then open it up for questions. You may download a copy of the presentation slides that correspond with today's call from our website's Investor Relations section.

I want to remind everyone that some of today's comments include forward-looking statements. These statements are subject to many risks and uncertainties that could cause our actual results to materially differ from any expectation expressed herein. Please refer to our latest Securities and Exchange Commission filings for risk factors and cautions regarding forward-looking statements. Our comments today also include non-GAAP financial measures. The underlying details and a reconciliation of GAAP to non-GAAP financial measures are included in our fourth quarter and full year press release, which can be found on our website.

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

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

Thanks, Mohammed, and thank you all for joining the call today. I am pleased with the results of the fourth quarter of 2021, which build on the momentum we have generated throughout the year. We faced significant challenges including inflationary pressure, supply chain bottlenecks and ongoing disruptions caused by the pandemic.

Despite these headwinds, the Weatherford team delivered another quarter in line with our outlook and outperformed in some instances. In the fourth quarter, we achieved overall revenue growth of 2% sequentially and 15% over the prior year, with adjusted EBITDA margins of 16%. You will recall that in our prior earnings call, we explained the impact of several onetime items in the third quarter of 2021. We, therefore, expected Q4 to come in with lower margins. However, the team did a great job executing, which enables margins to come in above our guidance and over 400 basis points above the fourth quarter of 2020, a remarkable achievement in just 1 year.

In addition, we generated $49 million of free cash flow during the quarter and $278 million for the full year. We also achieved 2 consecutive years of positive free cash flow, the first time in 30 years that has happened in Weatherford.

2021 was a significant year for us with several notable milestones, and I think it is worthwhile to reflect on how far we have come in a relatively short period. We fully returned to the public market on the Nasdaq Stock Exchange as WFRD. This move was driven by confidence in our operating posture and commercial profile to create sustainable profitability.

Our return allows a broader base of investors the opportunity to participate in that value creation. We also strengthened our capital structure by using the cash generated from the business to pay down debt and concluded a series of refinancing transactions. These actions significantly reduced our interest expense and favorably positioned the company for the long term.

We were careful and deliberate in our actions on our 2021 focus areas, driving outperformance across the board on North America performance, organizational simplification, variable cost management and inventory rationalization. In North America, we completely reorganized our operating structure. In doing so, we doubled our margins and grew revenues as we undertook several actions to address our footprint, business mix and service delivery model under a new leadership team focused on returns. These actions resulted in our exiting nonprofitable business lines in the United States, such as drilling services and wellheads and switching to a new model in our wireline services portfolio.

Next, on organizational simplification. We took critical steps to de-layer our company, which created greater operational efficiency and accountability resulting in support cost savings. In variable cost management, we galvanized cross-functional teams on several work streams, leading to improvements in diverse areas from contract management to sourcing of uniforms and telecom access.

Lastly, in inventory rationalization, an area which we identified as crucial to achieving our profitability and cash flow objectives. I am pleased with the achievements made by the team as we reduced our DSI by 14 days, well ahead of our 10-day DSI reduction goal.

In 2021, we also introduced our 3 strategic vectors, and the actions on these are yielding positive outcomes that are positioning us well for the future. We have provided more clarity on our portfolio with our new reportable segments that underscore the importance of our market-leading offerings of managed pressure drilling, or MPD; tubular running services, or TRS; cementation products and fishing and reentry.

As evidenced by our commercial successes, these product offerings are gaining greater traction and also positioning us for pulling through additional services from the portfolio. In the digital space, we accelerated the adoption of our ForeSite production optimization platform and reservoir monitoring solutions and received awards for performance excellence from key customers. In the fall, we held the Weatherford Enterprise Software Conference and delivered a strong testimonial to the efficacy of our digital solutions across the well life cycle.

In ESG and the energy transition, I recognize that our journey has just begun, but I'm encouraged by our progress. We have affirmed our commitment to being net zero by 2050 and have signed on to The UN Global Compact. Our offerings in geothermal, plug and abandonment and carbon capture utilization and storage, or CCUS, are securing wins across multiple geographies. As I share this with you, I am simultaneously proud and humbled: proud of everything our 17,000-plus team members have accomplished and humbled by their commitment, sacrifice and spirit to win in the marketplace. My sincere gratitude and appreciation go out to every single one of our employees for driving the successes of the new Weatherford.

We set an intermediate goal of getting to 15% EBITDA margins. And having delivered that in 2021, I'm confident that we can achieve that across cycles. We are now raising the bar for ourselves with the goal of continued margin expansion and believe that in the coming years, we can be a company delivering high-teens EBITDA margins, while also driving a high degree of cash conversion.

We continued to gain momentum in the market, led by the strength of our portfolio. And I'd like to share some of our fourth quarter commercial highlights with you, starting with our well construction and completion segment. We were awarded 2, 5-year contracts with Abu Dhabi National Oil Company with a combined value of more than $1 billion for downhole completions and liner hanger systems. The downhole completions contract is amongst the world's largest in this category.

Tourmaline in Canada awarded Weatherford a 1-year contract extension for approximately 200 wells with increased scope for our completion products. A European super major awarded Weatherford a 5-year contract to deploy fiber optics intelligent screen solutions in the North Sea. This award reinforces our leadership position in delivering reservoir monitoring at the Norwegian continental shelf.

In TRS, we achieved several big wins, including an award from Saudi Aramco for a 5-year TRS contract to support onshore and offshore operations. Weatherford was selected based on its technology, safety record, quality performance and commitment to local content and partnerships.

Moving on to our Drilling and Evaluation segment. We continue to score wins in MPD and made headway in its adoption across our geozones. As an example, following a successful implementation of Weatherford's MPD system, Shell awarded Weatherford a 2-year multi-rig contract extension for MPD operations in deepwater to continue the well delivery benefits offered by this technology. We had several other meaningful wins in this space this quarter with notable awards in Latin America and Asia.

Our digital presence continues to grow across our segments as evidenced by the commercial success in our Production & Intervention segment in the fourth quarter, including an award from Kuwait Oil Company, or KOC, which awarded Weatherford a 3-year contract to support its digital transformation strategy in the North Kuwait heavy oilfield and deploy its integrated enterprise excellence platform. The award includes instrumentation, real-time monitoring and production optimization, enabling KOC to advance its production and workover plants.

Weatherford signed a global collaboration agreement with LYTT, a digitally led business backed by BP launchpad. The agreement combines LYTT's proprietary sensing insights with Weatherford's expertise in distributed fiber optic sensing, deployed through our industry-leading ForeSite platform, to help customers revitalize and optimize their energy assets.

Moving on to some of our wins in our energy transition platforms. I'd like to share a few noteworthy awards. A European super major selected Weatherford to provide line hanger products and services in its first CCUS pilot project, as it endeavors to achieve carbon neutrality for its operations. Another European customer selected Weatherford to help with their carbon sequestration operations using our downhole sealing technology for a well recompletion project.

And in the United States, we mobilized a 50-well offshore plug and abandonment project for a major operator. I am encouraged by the traction we have seen in these areas, and I'm confident in our growing role in the energy transition, as we leverage the capabilities inherent to our portfolio.

Now turning to our view on the markets. The overall macro environment continues to improve, and we are now in the early stages of a multiyear upcycle. In North America, U.S. land markets continue to see the trend of robust growth with increased activity and spending. At the same time, we are also seeing some of the same trends from last year continue as public E&Ps remain committed to capital discipline while we are seeing private E&Ps increasing investments. Our focus, however, continues to be on generating sustainable returns and going after work only where it makes sense for us to do so.

Internationally, we expect capital spending to continue increasing, building on last year's strong finish. I am particularly excited by the growth prospects in the Middle East and Latin America, as capital gets deployed to restore production levels and lay the groundwork for longer-term expansion.

The past year's results show that Weatherford has firmly improved its financial and operational profile. We will continue to focus on the work necessary to further strengthen our capabilities. We are now more confident in the growth scenario we highlighted in our third quarter call and expect to see continued improvement in profitability reflected in margin expansion on a year-over basis.

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

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

Thank you, Girish. Before I review our fourth quarter and full year 2021 results, I will remind us all of the segment changes implemented in the fourth quarter. We recently announced realigning how we report our results to 3 product lines: Drilling and Evaluation, or DRE; Well Construction and Completions, or WCC; and Production and Intervention, or PRI. The updated reporting structure better aligns with the company's focus and business strategy around the well life cycle, designed to drive improved customer collaboration and growth opportunities. All segments provide services to core oil and gas and new energy markets. Aligning our management strategy and reporting structure further drives organizational priorities into our operating processes and investment choices.

The market-leading offerings in each segment reflect the strength and differentiation of our technology and innovation. These product offerings serve as the foundation to drive growth and pull-through across our portfolio. Additionally, the seamless integration of our digital offerings and the ability to provide integrated solutions across our segments would enable continued growth in our core operations and the energy transition.

Our fourth quarter results were the perfect capstone to our 2021 performance. Fourth quarter and full year 2021 results reflect the ongoing improvements in our operations and go-to-market strategies, as we navigate an environment of inflation and increasing complexity. Consolidated fourth quarter 2021 revenues were $965 million, an improvement of 15% year-over-year and 2% sequentially, primarily driven by a 27% year-over-year increase in service revenues as we saw improvements across all of our segments. Seasonally higher product revenues drove a 2% increase in revenue sequentially, partially offset by the seasonal slowdown in service-related activity.

Fourth quarter operating income was $33 million or 3% of revenues, increasing $140 million year-over-year and decreasing $38 million sequentially. Adjusted EBITDA for the fourth quarter was $154 million and adjusted EBITDA margin of 16%, representing a 440 basis point improvement year-over-year driven primarily by growth in service revenues and improved mix of services and lower operational expenses resulting from our cost improvement initiatives. Adjusted EBITDA margins declined by 290 basis points sequentially, reflecting a change in the revenue mix and nonrepeat of certain onetime items from the third quarter of 2021.

Now let's look at our segment breakdown. Drilling and Evaluation, or DRE, revenues of $287 million in the fourth quarter of 2021 increased 34% year-over-year and 3% sequentially. The year-over-year improvement was driven by higher business activity across all product lines, led by NPD and wireline services with significant growth in the Middle East and Latin America. Segment adjusted EBITDA of $55 million increased $33 million, and associated margins of 19% improved 890 basis points year-over-year and decreased 90 basis points sequentially.

Segment adjusted EBITDA and margins declined sequentially, primarily due to product mix. The year-over-year growth in segment adjusted EBITDA and margins were driven mainly by improved services revenue mix, pricing and geographic mix. Lower operational expenses related to our cost improvement initiatives and lower inventory charges help expand margins and offset supply chain headwinds.

Well Construction and Completions or WCC, revenues of $348 million increased 3% year-over-year and 1% sequentially, driven by improved demand primarily for cementation products with North America delivering the most significant growth. Activity increases in North America and Latin America were partially offset by a decline in Europe, Sub-Saharan Africa and Russia. Segment adjusted EBITDA of $72 million increased $15 million year-over-year, and associated margins of 21% improved 380 basis points year-over-year and decreased 220 basis points sequentially.

Sequentially, segment adjusted EBITDA and margins declined primarily due to nonrepeat of onetime items in the prior quarter. The growth in segment adjusted EBITDA and margins year-over-year was primarily driven by an improved service revenue mix, improved product volumes, lower operational expenses related to our cost improvement initiatives and reduced inventory charges.

Production and Intervention, or PRI, revenues of $298 million increased 10% year-over-year and 2% sequentially, driven by increased demand for an intervention services and production automation software globally. Segment adjusted EBITDA of $47 million increased $8 million and associated margins of 16% improved 140 basis points year-over-year and decreased 370 basis points sequentially. Segment adjusted EBITDA and margins declined sequentially, primarily due to nonrepeat of onetime items in the prior quarter and the seasonal shift of products and services. The year-over-year adjusted EBITDA growth was mainly due to increased activity, lower operational expenses related to our cost improvement initiatives and lower inventory charges.

Turning to liquidity and cash flow. We continue to maintain the focus of managing our business to generate operating cash flow. This is demonstrated through the results of our underlying business and cost improvement initiatives. For the full year of 2021, operating cash flow was $322 million and free cash flow was $278 million. Free cash flow increased $200 million compared to full year 2020, primarily due to increased earnings driven by increased margins and lower capital expenditures, partially offset by higher interest expense.

In the fourth quarter of 2021, we generated unlevered free cash flow of $147 million, an improvement of $52 million year-over-year from a 57% increase in adjusted EBITDA. Free cash flow in the quarter was $49 million, which improved $72 million year-over-year.

Total cash on hand as of December 31, 2021 was approximately $1.1 billion, down $333 million sequentially, reflecting the repayment of $200 million of exit notes and the redemption costs or refinance debt our exit notes with our 2030 senior notes. Capital expenditures were $41 million in the fourth quarter compared to $54 million in the fourth quarter of 2020 and $20 million in the third quarter of 2021.

Our capital expenditures increased sequentially as we focused on our growth capital requirements given increasing activity levels. Capital expenditures for the full year were $85 million compared to $154 million in 2020. We expect to at least double our capital expenditures in 2022 to meet the increasing demand for our services and technologies while continuing to be vigorous and rigorous about driving redeployment, reuse and productivity.

We successfully completed phase 1 of our efforts to restructure our debt by refinancing $2.1 billion and repaying $200 million of debt during the fourth quarter, resulting in a significantly improved debt maturity profile and reducing cash interest by approximately $71 million per year. In the fourth quarter, Standard & Poor's upgraded the company's corporate credit rating to B-. I wish to thank our One Weatherford team for the continuing cash flow improvements resulting from the outstanding operating performance, disciplined capital expenditures and capital management driven by a continuous focus on asset utilization.

Shifting our focus to the current year. I will now share some of our qualitative thoughts on the first quarter of '22 and the full year. As we look ahead to the first quarter, we expect consolidated revenues to decline by low single digits, driven in part by lower contract consumption, currency weakness and supply chain challenges, which we expect to recover in later quarters. Adjusted EBITDA margins are currently expected to be 15% to 16%. Unlevered free cash flow is expected to decline, driven by working capital investments. And we expect CapEx to be in the range of $20 million to $30 million in the first quarter.

Full year 2022 consolidated revenues are expected to grow by high single to low double digits. Across the segments, DRE is forecasted to deliver low double-digit growth. WCC is forecasted to deliver in the high single digits, and PRI is forecasted in the mid- to high double digits. Consolidated adjusted EBITDA margins are expected to be 16% to 17%, as we expect margins to expand by at least 50 basis points for the full year 2022. As stated earlier, CapEx will be at least double 2021 spending and will range from $175 million to $225 million. Full year free cash flow is expected to decline compared to 2021 as increases in net working capital, cash taxes and CapEx driven by an increase in revenue will only be partially offset by lower cash interest payments for the year. However, we expect to continue generating positive free cash flow for our third consecutive year.

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

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

Thanks, Keith. Our 2021 focus areas have yielded terrific results, but even more importantly, have laid the groundwork for improved processes and procedures in the organization. We will continue to drive rigor and discipline in those areas, but recognize that we have new demands and needs and our 2022 focus areas will drive our growth and execution strategy. We have 4 key themes for 2022 for Weatherford: fulfillment, directed growth, excellence in execution and simplification.

We refer to all of our customer delivery mechanisms as fulfillment, and this is a core area of how we operate. We are evolving from a set of independent product lines with their own fulfillment mechanisms to a globally integrated business with a contemporary and industrialized network of factories and repair and maintenance centers. This will drive excellence in service delivery and customer satisfaction while significantly improving efficiencies.

This is a significant change that is a multiyear journey, but we are starting on our first important steps this year. It will affect multiple aspects of the company from how we manage inventories to our supply chain and logistics functions. We have demonstrated that we can take on significant challenges and deliver operating improvements in a deliberate and focused fashion, and I am confident this effort will be the same.

Our second focus area is directed growth. For the first time in 5 years, we are going to grow the top line of Weatherford, but in a focused fashion with an emphasis on profitability. Our growth strategy for the year will be driven by technology differentiation, and we will increase investment in innovation. We believe that innovation is the best option for pricing and share increases and will arm our commercial teams to drive those imperatives, starting with our market-leading offerings.

In a growth scenario, our third focus area of excellence in execution is even more critical. We are building a new quality function and recognize that we must win our customers' trust everyday by delivering on our commitments. At the same time, we need the same process discipline to ensure we execute with a lean mindset and drive accountability through the organization.

Finally, simplification is an enduring theme for us, both organizationally and operationally. Our focus is on improving information flows and reducing complexity with minimal disruption. We believe the industry is in a multiyear growth cycle driven by global demand and exacerbated by underinvestment. Increasing activity levels, tightening OFS capacity and green shoots on pricing give us confidence in our 2022 growth.

There are always balancing dynamics in the market and the current situation is no different. A confluence of rising commodity prices, inflationary pressure and supply chain issues could significantly restrict margin expansion. Additionally, we think the combination of the pandemic and certain geopolitical situations are a legitimate threat that could result in demand disruption. Conversely, we see positive momentum across diverse themes, including the regulatory environment, commercial wins and traction in the uptake of our market-leading offerings.

In balance, we are positively biased, and 2022 marks the first time in the last 5 years where we are poised to grow consolidated revenues and are well positioned to take advantage of the market dynamics as our hard work on expanding margins and being selective on growth takes hold. Our 2021 adjusted EBITDA margins were over 400 basis points better on 30% lower revenue than 2019 pre-pandemic performance. As exciting as our 2021 performance and results were, we believe our journey has just begun.

Thank you for joining us today. And with that, operator, let's please open it up for Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Today's first question comes from Ian MacPherson with Piper Sandler.

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

Girish, I appreciate you balancing the multiyear cyclical tailwinds with the lingering inflation and just disruptive headwinds in the market with supply chain, et cetera. But when we look at your full year outlook of around 10% growth, it would not appear to reflect much gross or net pricing traction in your international markets. And we know that the pricing climate is heating up earlier domestically in the U.S. than it is internationally. That's intuitive. But when you see the building pipeline of contract tenders internationally, can you discuss how receptive your international customers are to the need for Weatherford and peers to raise pricing in this inflationary environment?

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

Sure. Ian, I think, look, it's a really important point -- I think a couple of things that are at play here. I think you hit the nail on the head. It's really long-term contracts versus the transactional pricing model in the U.S. So I think part of our sort of evolution here is that we already have a number of contracts in place. So as we get new contracts in, that's where the pricing increases typically take hold. And those are, for us -- and we've announced a series of them, those are typically back-end loaded for us. So we'll see that more in the second half of this year and then going into '23. So that's one big effect of why you see some of the numbers lay out the way you do.

Look, on your question on receptiveness, I don't think generally any customer is that open to saying, "come in pricing." But I think everyone understands the situation. But they all wanted to be within reason. I think we're having constructive dialogues and conversations, and we are looking at ways to both cut costs to increase margins but also to raise prices. So it's a combination of both. But I would say, look, there is a sense of rationality. There's constructive dialogue. But at the same time, especially in the international markets, in certain geographies and markets, there's a lot of local players that do tend to compete at a different level of thresholds that we've just got to surmount.

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

Makes sense. One element of your outlook caught my attention, and that was the trajectory that's indicated for production and intervention, which appears to have more of a sequential decline in Q1 but also guided the highest full year growth rate, which implies more of an upward sloping trajectory for those businesses. And I wanted to ask if that is related more to specific contract backlog that informs that trajectory or if you're expecting more of a geographic evolution within that business as the year unfolds.

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

Yes. So I think there's a couple of things, and I'll ask Keith to weigh in as well. I think, look, first of all, as we have pointed out a couple of times in our prepared remarks that we have -- the whole industry is facing the supply chain and logistics headwinds. And we've had a set of them that is really impacting us especially in Q1 that we are working hard to mitigate. And so it's a bit of a balanced view. So that really starts to alleviate, as we go through the rest of the year, improving in Q2 onwards and especially towards the second half. So that's what you see.

The second thing to remember is, look, it's the production business but it's also intervention services. So as we have more wells that come on stream, if you will, and you actually have a degree of greater drilling operations, the intervention services portion will also pick up. And we expect that to be a bit more back-end loaded. So that's really what it is. But it is a segment -- look, we've got some fantastic products and service offerings, so we're excited about that. We've also got a significant portion of our digital offerings in this space, our production automation software. So again, a lot of that kicks in a little bit later, which is why you see us being a bit more bullish on that throughout the rest of the year. Keith, anything you want to add?

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

I think you nailed it very well there, Girish. Ian, we have some very specific things happening around logistics and supply chain that will impact the PRI business more so than the others because of the size of the equipment there. So as that works itself through the fulfillment organization, we have to balance what we planned for Q1 and what flows over into Q2. And that's just fairly specific to that. And also, we have to think about the FX impacts of the European currencies that have weakened against the dollar given the geopolitical situation. That's a translation effect. And also just thinking through some of our slower contract consumption so we [haven't lost] these contracts. The customers have just pushed some timing out. And so we still expect strong growth in PRI across the year.

Operator

Our next question today comes from Doug Becker at Benchmark.

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

The previous question kind of touched on this a little bit, but I wanted to get more color on the margin guidance by reporting segment and just the thoughts on the trajectory by reporting segment as we go through the year.

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

So sure. So we haven't given margin guidance by reporting segment. We give consolidated margins. And also, what we have done is looked at the balance of precisely how we think the revenue will unfold across these segments more so. So if there's something specific you want to ask about a particular segment, then we're happy to try to field that.

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

Would it just be fair to characterize that we see pretty consistent margin progression through the year in each of the segments? Maybe that's a high-level way of framing it.

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

Yes. I think to a certain extent, Doug, we will. Obviously, there's going to be some impact of mix and how that unfolds within the segments because we've also got a balance of that. But I think, look, broadly speaking, what we would look to see is margin expansion each quarter, look, similar to last year. Now last year was very different in terms of the magnitude that we saw. And then Q3, we had the sort of effect of several onetime items. But as you've seen sort of throughout the year of 2021, we have made steady progress and steady improvements as we sort of really dig into our initiatives and we sort of get the traction from them, we will expect to see continued improvement over the course of the year with an exit rate that's hopefully better, which is why our overall blended effect for the year is what we've laid out in the guidance.

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

Okay. And then you highlighted that EBITDA conversion should be pretty high, as we go through the cycle. Just any way to frame that EBITDA conversion to cash flows, we think, say, 3 years out?

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

Well, I don't know if I can give 3 years out a view. But when we think about 2022, we think we'll have strong conversion but we think we will have less free cash flow than 2021, simply because of the requirements to invest in working capital, the requirements to double our CapEx expenditures. And as we've become a more profitable company in certain geographies, we'll have more cash taxes. And we'll be maintaining about the same level of investment in restructuring. So that says that we will still be positive on free cash flow for the year given the interest savings that we have created to help fund these expansionary investments. But we're hoping to maintain that trajectory with -- given the steadiness of our margin profile across the next 2 to 3 years.

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

And just to be clear, I wasn't trying to get a specific number 3 years out. We live in an uncertain world. But maybe what do you consider a high conversion or just a target to think about over the longer term?

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

So over the longer term, I would say that EBITDA to operating cash flow at the moment, we are in the, I think, the 60% to 70% range. When I think about that on a full year basis, I think that's something we can probably easily maintain because that just says that we have to make sure that our working capital mechanics are operating as efficiently as we have them today. So if you look at how we performed over the course of 2021, we've taken 26 days out of our net working capital cycle overall: 14 days out of inventory, 11 out of AR. That kind of pushes the boundaries, but we still are pushing the teams to do better. So those are the kind of the mechanics that we have to keep monitoring.

Operator

And our next question today comes from Gregg Brody of Bank of America.

Gregg William Brody - *BofA Securities, Research Division - MD*

Just first question, I didn't hear an update on credit facility. Curious if you could tell us where that stands or if -- how you're thinking about that today.

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

Sure. So we are working diligently with our banks. We are still working through that process. They were waiting to see what our Q4 print looks like, of course. And that is out today. So we will get back into the dialogue and discussion with that process. We've looked across the industry as a whole as well, and we've seen very little banking facilities being given back to OFS companies or ones that we -- I cannot point to saying that there's a loosening of the banking -- the bank market towards us. But we've had positive conversations happening. We're working through it. And we should have an update in coming quarters.

Gregg William Brody - *BofA Securities, Research Division - MD*

Got it. So nothing eminent here. It sounds like you got -- you said coming quarters that it could be a couple of quarters until we get a resolution here?

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

I think it comes down to getting terms and conditions that we find acceptable for the organization. We could probably sign a facility tomorrow, but it probably wouldn't be in the best interest of Weatherford.

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

And look, that's really the focus here, Gregg. As we have demonstrated over the last year, we are very focused on reducing our interest expense. We know we've got to address the capital structure. We have taken a huge set of steps towards that last year and improved where we stand. We've also got the stub hanging out there of $300 million. We know we've got to address that. But we are going to do everything to make sure that the company is set up and protected for the longer term versus just get it in place for the sake of getting something in place.

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

And the stub will be addressed as we continue to generate free cash flow, that we don't need to reinvest in the business. We will address the stub. Last year, we generated $278 million of free cash flow, and we took $200 million of that and repaid the stub. And we took a $100-plus million to pay the fees to fund the refinancing. So we are focused on the capital structure. So there are some things that we know we can do ourselves. And there are some things that we're going to look to the bank market to provide support for.

Gregg William Brody - *BofA Securities, Research Division - MD*

I appreciate the update there on that. Maybe just turning gears. You mentioned you've -- the first question was about inflation, and you've highlighted that you have a number of long-term contracts, so not necessarily going to see revenues increase as a result of this today. So -- and you did guide to better margins this year. So I'm trying to figure out is -- do you have the ability to pass inflation through the customers on these older contracts? Or are you simply finding ways to address it through operating cost savings?

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

Yes. So it's a mix, Gregg. So we've got labor inflation typically that we can pass along and we do in pretty much all circumstances. And then we've got a mix in terms of material inflation, and it really depends, right? If you look at our portfolio mix, we've got a fairly high degree of service-related offerings. So it's not really that product dependent. And the product business tends to be a little bit more transactional, if you will. So I think we're overall well protected on that front. But as we get the longer-term contracts, the bigger point is really that they sort of really kick in, in the latter part of the year.

Gregg William Brody - *BofA Securities, Research Division - MD*

All right. And then just on the free cash flow line items that you usually get this from me. So I'll just run through the ones that restructuring. I think you said it'd be the same similar level of investment this year. Does that mean we should see a $30 million number for this year?

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

I would think it would be higher than the $30 million, but I don't think it will be much higher than the $30 million. So I would put that number between $30 million and $50 million at this time. And so we're still working through our plans, as Girish says in his opening. One of our major strategic focuses this year is our fulfillment system. And that could mean that we are working through how we make things and deliver things, consolidating footprint, working on the back end of our warehouses and so forth. So there's probably going to be some restructuring investment that we will have to make into that.

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

Yes. And again, Gregg, look, the other thing I would just add is we've talked about multiple times, our focus on restructuring is dramatically different. We're really looking at a very rigorous set of business cases, and it's all about payback. And until we are absolutely sure and we are doing it in sort of a metered approach where we fund a little bit, we get the benefits, then that sort of leads to the next piece, et cetera. So we've been very thoughtful, very careful and very deliberate about where we do it. It is just like any other investment that we put into the company with us having a high degree of confidence that it's going to pay off.

Gregg William Brody - *BofA Securities, Research Division - MD*

All right. And just a few others here. So working capital, that trend -- we should expect to trend with revenues and where you've been seeing payables and just -- and receivable days, right?

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

Yes.

Gregg William Brody - *BofA Securities, Research Division - MD*

The E&O inventory charge, that's -- is that -- is there some number we should be thinking about there as an add-back or deduction? Or is that -- do you have it in your margins and you're just sort of taking it out?

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

In on our margins, it's not -- it is included in our EBITDA margins. We just have to adjust it for cash flow purposes. So yes.

Gregg William Brody - *BofA Securities, Research Division - MD*

Do you -- so is there going to be an adjustment that we should be thinking about this year when we run our free cash flow numbers?

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

So when I think about -- at the moment, I think about it more so in terms of where are we now with the run rate. And I think the second half of '21 run rate is probably where I'm thinking that we will start '22 and probably take it through the year until we get through our inventory planning and fulfillment initiatives further and can get a better rate. Because really, it's just about working off things that are obsolete and slow moving. And also, as we think about what new demand is coming in, then that will also work with the calculations. It's a very specific calculation that looks at movement by plant. And so it's one of those things where I always -- the best way to think of it is where are we running at now? And so if I take the second half of '21, that's kind of what I would guide to use for the full year until we get an update.

Gregg William Brody - *BofA Securities, Research Division - MD*

Can you remind us what the second half of '21 was?

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

So it's in the back of the deck. I think we were $12 million for the quarter, probably about the same in Q3. So that makes it about $24 million or $25 million for the half.

Gregg William Brody - *BofA Securities, Research Division - MD*

And we should annualize that number? Or we should just assume?

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

Just annualize that number for now.

Gregg William Brody - *BofA Securities, Research Division - MD*

And that's going to be a benefit to cash flow this year.

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

That's a benefit, yes, because it's an add-back...

Gregg William Brody - *BofA Securities, Research Division - MD*

Great. I got it. So that's $50 million back. And then the cash taxes, how should we think about that this year?

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

So I think cash taxes this year was total, what, $65 million or $70 million. And I think that we should see that step up closer to somewhere between $80 million and $100 million.

Gregg William Brody - *BofA Securities, Research Division - MD*

Got it. And then last question for me. Any thoughts on additional asset sales? Or what you categorize as dispositions?

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

We don't forecast that. We think that just comes in as a bump. Most of the covering analysts tend to remove it from the cash flow calculation anyway. So we just don't focus on that.

Gregg William Brody - *BofA Securities, Research Division - MD*

And maybe just last one strategically. How are you looking at the M&A environment? Obviously, things you're in a much better position than you were last year. Is there -- are there opportunities for you to add to your portfolio?

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

Yes. So look, we'll look at it, as you said, sort of opportunistically, Gregg. Our focus really continues to be on righting the ship. We think we've got a tremendous amount of opportunity within the company both to fix our underlying operating processes, but also to drive innovation and organic growth within the portfolio. So that's our overall priority. But look, if there's something that comes along that makes compelling sense from a shareholder value perspective, we'll most definitely look at it. So we are staying open and willing to engage in conversation.

Operator

And our next question today is from Connor Lynagh with Morgan Stanley.

Connor Joseph Lynagh - *Morgan Stanley, Research Division - Equity Analyst*

Yes. Two higher-level questions that are pretty related here so I'll ask them together. As you look at your CapEx budget that you're increasing, if we think about the new segment allocation here, where are you deploying most of your incremental capital? Is there a noticeable directional trend within the businesses? And then more sort of structurally and long term, as you look at the cycle, where do you see the greatest opportunity for growth? And maybe let's parse that in terms of revenue and margin?

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

Thank you, Connor. Really great question. So if you think about our business and the way it's currently set up and where we have laid it out, if you start with Drilling & Evaluation or DRI, that business is heavily service-oriented, where we take our tools out and we perform work. As you get down to well construction, it's a really good mix of services and product sales, so liner hangers that go into the whole cementation products and so forth. And then when you get down to the production and intervention business, it's much more product-oriented.

So we are building systems and leaving them behind and so forth. So when you look at our CapEx, you will see that as we look at it, we would say that easily 35% to 40% of our CapEx right now is focused on the Drilling and Evaluation segment because that's where we need new toys to go off and do things. And then you can split the remaining 60 or so between the other 2 product lines. And that's kind of been the long-term trend as we've gone through and re-segment this.

The challenge we have at the moment now is we're going to have to think about how we change our fulfillment practices. So there may be bigger investments in changing the footprint of our plants. And so the infrastructure CapEx may change, and that may be for in the near term. But that should smooth itself out and go back to this, how do we build a toolkit for the segments that we service? Girish?

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

Yes. No, I completely agree. And, Connor, to your second part of your question on where we see the long-term growth. Look, part of the reason we segmented the way did is that's the way the business operates really. And it really highlights, though, that we've got traction in each one of these segments. Look, in the short term, I think we will -- in the short to midterm, I would say, in this sort of cycle, we'll probably see a little bit more growth in our production business, but also our drilling business.

But then there's always a lag effect because it sort of follows the well life cycle. So we'll see construction and completions pick up where drilling takes off. Look, on the long term, we believe, like many others in the industry that oil and gas will continue to be a very significant portion of the energy supply of the world for a while to come. And so the production piece of it really -- will be something that's significant. But as we look at what we are doing with respect to digital solutions across the spectrum, we look at energy transition offerings. I would say all segments really are ones that we are excited about and think we've got strong growth prospects. And you look at it for this year, right, in terms of the guidance that we laid out. So it is a little bit more skewed towards PRI, towards -- especially towards the back end. But really, we've got good growth in all of them, but it's also geography-specific because we are not playing in every single market with every single product line.

Operator

And our next question today comes from Sean Mitchell at Daniel Energy.

Unidentified Analyst

Obviously, in the U.S., we were seeing a huge problem with labor, especially with shortage of truck drivers and whatnot. And you guys mentioned in your opening kind of narrative that you're seeing supply chain issues and bottlenecks internationally as well given your exposure to the international markets. Can you talk a little bit more about specifically internationally, what's going on from a supply chain or bottleneck or labor issues maybe that you're seeing in the international markets? Is it similar to what we're seeing in the U.S., do you think? Or is it other things?

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

Sure. Look, I'll start with supply chain. I think those issues truly are global. It's not restricted to the U.S. alone. The logistics challenges are a little bit different just given in the U.S., the transportation infrastructure that we've got and a lot of the trucking capabilities across. But look, we are seeing very significant shortages and constraints around shipping lanes and freight charges and stuff like that. So overall, getting raw materials to factories, especially where you've got electronics components and we're doing a lot of our high-tech applications, et cetera. That is a challenge for us today on a global basis. From a labor side of it, look, it is a little bit different. I would say the U.S. has a much more fluid labor market than the rest of the world. I'm generalizing to a very large extent. We've also got different dynamics in terms of the unionization piece, et cetera. So I would say the labor side is a tad bit more challenging in the U.S. and a little bit more stable in the rest of the world. But you've got inflation aspects that are very different again by country.

Operator

Our next question today comes from Ian MacPherson with Piper Sandler.

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

Keith, I'm sorry to put you back in the hot seat with the model questions. I think the one that we didn't revisit was the step-up in stock comp that was in your EBITDA in the fourth quarter. And I was wondering if you could just re-baseline that for us for our free cash flow estimates for 2022.

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

Sure. So the fourth quarter was a confluence of a few things, the step-up related to 2 primary catch-up calculations. One was some phantom share program that we had. It was supposed to be paid out over 2 years; however, the target was hit early. And that was -- so we have to accelerate the second half of the payment and the calculation into 2021. And then we also have to true up some long-term incentive compensation programs for being -- based upon the revised outlook for 2022, we are more confident that we will hit the targets on that as well. And so that brought it up. When you look at the stock comp, the equity adjustment back to EBITDA on the quarter, I think that should normalize back in Q1 of this year back to the 4 or 5 where we are usually at each quarter.

Operator

Ladies and gentlemen, this concludes our question-and-answer session. I'd like to turn this conference back over to management for final remarks.

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

Great. Thank you, everyone, for joining us today. I really appreciate the engagement of the dialogue, and I look forward to speaking to you again at the conclusion of the first quarter.

Operator

Thank you. This 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.
