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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Weatherford International Fourth Quarter 2019 Earnings Call. (Operator Instructions) As a reminder, today's call is being recorded.

I'd now like to turn the call over to Sebastian Pellizzer, Senior Director, Investor Relations. Sir, you may begin.

Sebastian Pellizzer - *Weatherford International plc - Senior Director, Investor Relations*

Welcome, everyone, to the Weatherford International Fourth Quarter 2019 Conference Call. I'm joined today by Mark McCollum, President and CEO; Christian Garcia, Executive Vice President and CFO; and Karl Blanchard, Executive Vice President and COO. First, Christian and Mark will share their prepared remarks, and then we will open up for questions, and Karl will join in.

I'd like 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 differ materially from any expectations expressed herein. Please refer to our latest Securities and Exchange Commission filings for risk factors and cautions regarding our forward-looking statements.

Our comments today also include non-GAAP financial measures. And as noted in our press release, the company adopted fresh-start accounting. We are using the term combined to identify when we are adding the results of the predecessor and successor companies. The underlying details of the combined periods and a reconciliation of GAAP to non-GAAP financial measures are included in our fourth quarter press release, which can be found on our website.

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

Christian A. Garcia - *Weatherford International plc - Executive VP & CFO*

Thank you, Sebastian, and good morning, everyone.

Before I begin, I just want to let everyone know that you may be hearing me cough during the call and it's because of allergies. I'm still acclimating back to Houston after being gone for 3 years, and it is currently allergy season here. But to be safe, Mark, Karl and Sebastian have stayed away from me.

This is my first earnings call since I joined Weatherford, and it is certainly an interesting time to rejoin the oilfield. I'm looking forward to working with each of you.

Let me begin my discussion with a summary of the fourth quarter of 2019, then provide comments on 2020 and how the first quarter of 2020 is shaping up for the company.

Combined revenues in the fourth quarter of 2019 were $1.2 billion or 5% below the third quarter of 2019 and 13% below the same period in 2018. The sequential decline primarily resulted from significant activity reductions in the United States and Argentina. We have divested or are in the process of divesting our land rigs, surface data logging and reservoir services businesses, and excluding these, the year-over-year decline in combined fourth quarter revenues was 8%.

In the fourth quarter of 2019, average rig count in the United States fell by 11% sequentially as operators exhausted their budgets before year-end and maintained disciplined controls on capital spending. Activity in Argentina fell sharply due to uncertainty surrounding a potential change in the regulatory environment as it pertains to natural gas pricing caps, high inflation and currency devaluation.

Fourth quarter 2019 combined adjusted EBITDA was $151 million with margins of 12%. Margins reduced by about 100 basis points sequentially due to the fall-through of the revenue decline, nonrecurrence of a capital sale in the third quarter related to our managed pressure drilling product line and unfavorable product mix. These were partially offset by actions we took during the quarter to rightsize our organization in North America and internationally.

Let me provide a regional breakdown starting with the Western Hemisphere. Western Hemisphere combined revenues of $621 million in the fourth quarter declined 8% sequentially, 20% versus prior year and 17% year-over-year when excluding the impact of divestitures. As mentioned, North America was down by 7% sequentially, which was modestly better than the corresponding 11% decrease in the U.S. average rig count.

We saw revenue declines across most product lines, but were felt most acutely in our drilling and evaluation product line. Notably, combined revenues in our production product line grew 2% sequentially during the fourth quarter due to increased gas lift activity in Canada and deliveries and software license sales in the United States. Combined fourth quarter revenues of $264 million in Latin America declined 10% sequentially, 9% versus prior year. The sequential decline was almost entirely a result of lower activity in Argentina.

Our work in Argentina has a high fixed cost content as we support our customers in the unconventional Vaca Muerta region. As such, we experienced sizable decrementals on the revenue loss. While we are hopeful that activity will recover in the medium term, we expect continued challenges in the coming year and are actively rightsizing our operations in the country.

Outside of Argentina, we continue to see sequential and year-over-year growth in Mexico as we execute our integrated services projects on land and offshore.

Combined segment adjusted EBITDA for the Western Hemisphere was $63 million in the fourth quarter and increased 7% sequentially despite the corresponding 8% decline in revenue. Adjusted combined EBITDA margins of 10% increased by 140 basis points sequentially, with improved profitability in the United States, driven by our cost improvement efforts, favorable product mix and stronger margins in Mexico. Collectively, these improvements more than offset the significant sequential decline in profitability in Argentina.

Let's move now to the Eastern Hemisphere. Eastern Hemisphere combined revenues of $625 million in the fourth quarter reduced 2% sequentially, 4% versus prior year, and grew 4% year-over-year when excluding the impact of divestitures. Combined revenues in Europe, Sub Saharan Africa and Russia declined 9% sequentially due to the nonrecurrence of a managed pressure drilling capital sale I mentioned previously, and seasonal activity reductions in Russia. Middle East, North Africa and Asia combined revenues of $386 million grew 2% sequentially due to increased production and completion product sales in the Middle East and drilling activity in North Africa, which was partially offset by lower activity in Asia as customer drilling campaigns concluded.

Combined segment adjusted EBITDA for the Eastern Hemisphere was $114 million in the fourth quarter and was down $30 million sequentially. The sequential decline in adjusted EBITDA was driven by the managed pressure drilling capital sale, seasonal activity declines in Russia as well as costs associated with our Land Rigs divestitures in the Middle East.

We ended the year with a healthier capital structure and eliminated $6.2 billion of debt through our financial restructuring. We increased our available liquidity position and have no significant maturities until 2024. Our capital structure is comprised of $2.1 billion of senior unsecured notes with cash of $800 million, broken down between $618 million of cash and equivalents and $182 million of restricted cash. We have a $450 million asset-backed revolving credit facility and a $195 million secured LC facility. Our ABL was undrawn at the end of the year and with approximately $240 million of availability.

Our results in 2019 included several charges that were excluded from our adjusted EBITDA, and I'd like to touch on the main ones. For the combined full year, we had charges for financial restructuring, totaling about $300 million, costs of approximately $190 million associated with our ongoing cost improvement efforts that consisted of severance, facility closure and related expenses, impairment charges on goodwill and certain assets totaling $1.1 billion. This included a $730 million impairment of our remaining goodwill for our reporting units as well as $374 million of asset impairments and write-downs.

Finally, before I turn to 2020, I want to note a couple of items that will help you establish a clean baseline for our full year 2019 combined results. To be clear, these first 2 items have not been adjusted for as part of our calculation of adjusted EBITDA: First, the divestitures, I mentioned earlier, generated combined EBITDA losses of approximately negative $10 million for the year and combined revenues of approximately $150 million, with the majority contained within our Eastern Hemisphere segment. Second, our results were burdened by approximately $50 million of employee retention costs related to our financial restructuring that will not repeat in 2020.

I also want to note that starting in Q1 of 2020, our adjusted EBITDA calculations will exclude the burden of noncash stock-based compensation. We're making this change to align how we report with the way many use the metric, and so it is a better proxy for our cash flow generation.

Now let me discuss the year ahead. The industry was challenged throughout 2019. And clearly, 2020 will be even tougher. The impact of a weakening demand environment for hydrocarbons due to the COVID-19 pandemic has been exacerbated by plants from OPEC members and their partners to introduce significant additional supply into the market. As a result, our North American customers have recently made deeper reductions to their capital spending, resulting in weaker demand for oilfield products and services.

Moreover, there are risks associated with potential operation and supply chain disruption, travel restrictions, government enacted measures that may negatively impact our ability to operate. We have developed plans to mitigate any disruptions, and we continue to closely monitor the situation and will adjust as required. Given these developments, we are retracting the guidance of the company prepared in September of 2019 for the full year 2020 and onwards.

As we noted in the earnings release, we are taking several actions, we were taking several actions to structurally change our organization and reduce costs to improve profitability. While these actions were already yielding improvements as we enter the year, we're expanding upon these to rightsize our business in response to current market conditions.

Our main objective in 2020 is to be free cash flow neutral by mitigating the impact of the expected decline in activity over and above what we initially projected. Our mitigation efforts include additional cost reduction initiatives, lowering our capital expenditures and benefiting from the unwinding of working capital as revenues decline.

Let me provide additional commentary on these actions. We are further adjusting our cost structure, particularly in North America, where we now expect customer spending to decline 30% to 40% year-over-year versus our initial expectation of a 10% to 15% decline. We will adjust our size and structure to address the new reality, including downsizing certain product lines to focus on key basins. We are revisiting all of our forecasted demand orders that do not have firm customer purchase orders, which requires us to reevaluate our manufacturing capacity. If you recall, in 2018 and 2019, we downsized our manufacturing footprint and significantly reduced our locations. We will continue to reduce our manufacturing capacity to ensure that we have correctly optimized our operation.

Our external supply chain continues to be an area of focus and one that presents opportunities going forward. We expect to lower our third-party costs through further consolidation of our supplier base, negotiating favorable terms and pricing, and adjusting our processes to ensure that we fully capitalize on the savings. We will be exiting a handful of countries internationally based on the projected profitability for these geographies. There will also be a number of countries where we will reexamine our go-to-market strategy. For competitive reasons, we will not be providing that detail on the specific countries and our immediate plans.

We are increasing the planned reductions for our global support structure. We took action during the latter part of 2019 and continued in the first 2 months of the year. I don't want to go into more details on this, apart from saying we are augmenting our plans in this area and that we will keep you updated as we progress.

In addition to the cost actions noted above, we are significantly reducing capital expenditures in light of the challenging outlook. With full year 2020 capital spending expected to be in the $100 million to $150 million range versus the $270 million that was spent in 2019.

The fluidity of the current industry environment prevents us from providing any updated guidance for 2020. However, I would like to provide some qualitative comments on the progression of our business for the first quarter of 2020 compared to the first quarter of 2019. For North America, we are seeing a revenue decline in the mid-20s, consistent with a year-over-year drop in the United States rig count. In Latin America, we will see a revenue drop in the low double digits, primarily as a result of the lower activity in Argentina. For the Eastern Hemisphere, excluding the impact of divestitures, we expect to see flattish growth as increased drilling services and wireline activity in the Middle East and Asia is offsetting the declines in Europe and Africa.

In a moment, Mark will note that we are starting to see activity disruptions stemming from the pandemic, and this guidance incorporates the impact of these as we understand them today. Overall for the company, we're expecting year-over-year decline in revenues in the low double digits due to the magnitude of the reduction in North America. Despite this revenue decline, we expect to see our Q1 2020 adjusted EBITDA to be flat to up from the first quarter 2019 levels on a comparable basis, translating to a margin improvement, primarily resulting from our cost reduction efforts. We expect to see improvement in free cash flow from Q1 2019 levels of negative $280 million, which included approximately $160 million of interest payments. The semiannual interest of approximately $115 million on our current debt will be paid in the second and fourth quarters of every year.

Our Q1 2020 free cash flow will be burdened by tail costs associated with our financial restructuring, outflows associated with prior year's corporate development activities and other payments, which we do not expect to recur in the next quarters. The total of these payments is approximately $80 million. Outside of these payments, we expect free cash flow to be essentially breakeven for the first quarter of 2020.

I will now turn it over to Mark. Mark?

Mark A. McCollum - *Weatherford International plc - CEO, President, CEO &Director*

Thanks, Christian, and good morning, everyone.

As you know, 2019 was a very challenging year for Weatherford, and I'd like to take a moment to acknowledge the enormous support that we receive from our stakeholders, including our shareholders, lenders, customers, vendors and particularly our Weatherford employees as we went through Chapter 11.

I believe we're a better company today than we were a year ago, but it's not because we believe the financial restructuring resolved all of our challenges. As you know, Weatherford's issues were more than just its capital structure, we had operational and cost structure issues, too.

We launched a transformation plan back in late 2017, early 2018, aimed at increasing our profitability by structurally changing our organization and streamlining decision-making to improve efficiency. Through this plan, we began the process of standardizing, simplifying and systematizing the way we work. We made steady progress toward these goals throughout 2018. And while market headwinds and our financial challenges in 2019 negatively impacted the pace of our transformation program, we did not stop working on improving our operations while we were in Chapter 11.

In North America, we restructured our business to be more efficient and profitable by reducing our footprint, rightsizing our headcount and evaluating our product and service offerings. As Christian described earlier, we significantly reduced our manufacturing footprint and began optimizing those operations. We made meaningful progress on reducing our global support cost. We repaired our critical vendor relationships and began to make progress on realizing better terms and pricing. We maintained our focus on safety and service quality, strengthened customer relationships and continued to be rewarded with new work from our customers.

And finally, we continue driving the commercialization of disruptive new technologies, which included but weren't limited to Vero automated connection integrity, our Magnus rotary steerable system, the ForeSite production optimization platform and our TR1P, single-trip completions technology.

Our international revenues accounted for just under 70% of our combined consolidated revenues during the year, offering Weatherford a diverse and attractive footprint, particularly in the current market environment. Excluding the impact of divestitures, our combined international revenues grew by 6% year-over-year in 2019.

Our growth in these markets was possible because of close partnership with our customers, who continue to believe in us and supported us throughout our financial restructuring.

Last year, we engaged in a proactive and transparent communications campaign with our customers. To achieve this goal, we hosted more than 30 technology road shows in 9 geo zones with more than 700 key decision-makers. The experience of these road shows and the positive feedback we received enhanced the way we engage with customers. They also yielded new sales opportunities, some of which have already materialized.

In the Eastern Hemisphere, our operational successes and contract wins leave us well positioned in 2020. For example, we won a $220-million contract with ADNOC to deliver directional drilling services with our Magnus rotary steerable system. We also received awards for fishing services and a 5-year award for casing-handling and tubular running services. We also won 2 fully integrated rig contracts and 1 well services contract in one of the largest proven fields in Iraq. These awards highlight how we are selectively targeting integrated service contracts that fit our operational profile and commercial requirements.

Finally, we were awarded our first integrated drilling project to date in the United Kingdom, consisting of drilling services, managed pressure drilling and tubular running services. The offering combines HEX, logging-while-drilling technology, Victus intelligent managed pressure drilling and Vero automated connection integrity to deliver technically differentiated solutions to a rig contractor on behalf of a major operator. For example, the combination of MPD and LWD will maintain well integrity to total depth while providing valuable reservoir data. With Vero on the rig, the operation will be able to transition quickly to casing running and remove personnel from the red zone to reduce risk. The team achieved the first milestone of the campaign in the fourth quarter of 2019 by providing the MPD system to the rig and we expect operations to commence shortly.

Despite the market issues we faced in the Western Hemisphere and in particularly North America, we successfully delivered several technology-based solutions to our customers there. In the U.S., for example, Weatherford installed 120 consecutive whipstocks with 100% single-trip execution. The installation spans 6 operators and involve several casing sizes. Weatherford reentry teams logged nearly 4,000 working hours and delivered an average milling time of under 3 hours per run. This success was possible because of stringent adherence to processes and procedures, and our market-leading casing-exiting technology.

In Brazil, Weatherford delivered an integrated completion solution, which set a new depth record and saved time in the deepwater Santos Basin well. The RFID-enabled Optibarrier ball valve reduced operational time by nearly 60%. To further increase savings, the Opti valve -- tubing isolation valve facilitated the Christmas tree installation, without requiring slick line intervention, which saved the operator additional rig time.

And finally, in Canada, Weatherford was awarded a 3-year artificial lift contract for heavy oil recovery. Under this contract, Weatherford is providing reciprocating rod-lift equipment and services. As a part of the scope, Weatherford is supplying a Rotaflex pumping unit, whose long stroke boost productivity, offers more complete barrel fillage, and creates less wear and tear on the surface and downhole equipment.

As you can see, our latest technology offerings are opening new opportunities for Weatherford. And in 2020, our organization will remain focused on expanding the market adoption of these products and services, which we've recently introduced. I look forward to updating you on our technology successes in future calls. But today, I want to expand on our technology development in the area of digitalization and automation.

Embracing digitalization is the next step for our industry and our company, and it's critical in helping our customers lower CapEx and OpEx, generate positive free cash flow and reduce emissions and enhance safety across the board. Our digitalization strategy leverages our core competencies and applies Industry 4.0 concepts like the Internet of Things, or IoT, data analytics and cloud computing. We're doing this through a mix of in-house development, legacy technology and strategic partnerships with tech giants like Microsoft, Google and Amazon. This strategy enables us to apply our domain knowledge in a meaningful way and keep development costs to a minimum.

A great example is within our production business, where our digitalization strategy yielded comprehensive production 4.0 solutions to Weatherford's proprietary ForeSite ecosystem. The ForeSite ecosystem delivers end-to-end production performance solutions and drives efficiencies across every form of lift from the wellbore to the point of sale for an asset or enterprise. The backbone of the ecosystem is, of course, the ForeSite production optimization computing platform. It is the key to helping our customers meet the objectives I mentioned earlier and enables them to manage assets by exception. Put simply, the system automatically identifies underperforming wells, pinpoints uplift opportunities and then ranks each opportunity in terms of impact. Further, we use predictive analytics and physics-based algorithms to predict lift failures before they happen. These prediction capabilities have been validated by a major global operator to be more than 98% accurate.

The next step in our Production 4.0 journey was deploying the power of the ForeSite platform at the well site via our next-generation controller called ForeSite Edge. Paired with IoT-enabled equipment, ForeSite Edge gives our customers autonomous artificial lift capabilities, which means that the well optimizes itself continuously. It acquires, stores and streams high-frequency data; leverages optimization models on the edge; and sends instant IoT-based notifications to alert engineering teams when human intervention is needed.

Today, the ForeSite platform optimizes more than 50,000 wells worldwide in only 2 years since its release. To put that into perspective, at this moment, it's optimizing more than 1 million barrels of oil per day or 1% of the world's total oil supply. It's used at an enterprise level by some of the largest producing companies worldwide, and we expect well count to grow meaningfully in the near to medium term.

Let's talk about a few of those 50,000 wells. A major operator in South America recently began installing ForeSite enterprise-wide. One of the first success stories was within a multi-well ESP lifted asset. ForeSite recommended adjustments to the ESP systems in a number of those wells, which the operator quickly enacted in the field. With these simple CapEx free measures, our customers' investment paid for itself immediately by increasing production by 5%, worth millions of dollars per year.

I spent several minutes talking specifically about our digitalization and automation efforts for production, but our digitalization solutions are by no means limited to a single segment of an asset's life cycle. Whether an operator is drilling, completing, side tracking or producing, we have or are developing comprehensive digital solutions that can generate economic value from day 1 and onward.

Based on numerous conversations and interactions during our technology road shows, we understand that widgets alone won't address our customers' concerns or add long-term strategic value to their operations. What we heard during these conversations is that our customers want unique and cost-effective solutions that address their pain points and enable them to finish wells faster and produce more for longer. They don't want to have to choose between best-in-class technology and integration; they need both.

Our overarching strategy, therefore, is evolving the Weatherford organization for one that was aligned around individual technologies into one with market-focused teams that integrate our technologies and innovative ideas to provide our customers with market-leading wellbore and production solutions.

Providing efficient solutions to our customers means we've got to become more internally efficient too. Our profitability improvement efforts going forward are a combination of adjusting our operational footprint as well as further structural changes to our organization and the way we work. To ensure that we get the full value of these efforts as quickly as possible, we've moved away from the broad transformation program with hundreds of initiatives that we ran prior to our financial restructuring and have instead narrowed our focus to the opportunities with the highest yield.

Given the significant volatility in the capital and commodity markets, our outlook for 2020 remains cautious. The spread of COVID-19 is increasingly impacting the outlook for global economic conditions and energy consumption. Remember, too, that oil and gas activity is the primary economic engine for many countries around the world, and we're already beginning to see COVID-19-driven activity disruptions in Asia, the Middle East and Europe. Further still, recent actions by members of OPEC and its partners to increase production and offer discounts on crude are materially impacting the supply-demand balance and have caused a precipitous decline in pricing with Brent and WTI down over 40% year-to-date.

The market is actively assessing these recent developments. Our customers are reassessing their capital spending, and we're actively working with them on their plans going forward. There is no question that there will be a material impact on customer spending, activity levels and ultimately, our results. However, the depth and length of such impacts and the time line for a recovery are currently anyone's guess.

That said, we expect the impact of recent events to be seen initially and to be the most pronounced in transactional markets such as North America. While operators on land in the U.S. are hedged approximately 50% for oil and 30% for natural gas, we expect a material decline in customer spending in North America year-over-year as operators focus on living within cash flow. Moreover, declines will be more pronounced versus capital expenditure budgets announced earlier this year. Internationally, reductions in customer spending and activity are also expected, but less pronounced than in North America.

We expect reductions in customer spending to be more heavily weighted towards drilling and completion activity with a lower impact on production spending. To be clear, production spending will not be immune, but given lower capital outlays versus drilling and completing new wells and the associated return profile, we believe operators will prioritize spending on incremental barrels, and this presents an opportunity for them to optimize their production.

In closing, while we did have some successes in 2019, we still have a lot of work to do as an organization, and we're not satisfied with where we stand today. We expect meaningful headwinds during the coming year, but we're committed to making improvements to our operations and throughout our organization. I believe Weatherford's geographic footprint and product mix offer us a differentiated position, particularly in this market environment. And we have a healthier capital structure today. We're actively adjusting our cost base to prioritize cash flows and returns, and are committed to improving our profitability and cash flow during 2020.

Operator, this concludes our prepared remarks. Will you open the call for Q&A?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And the first question comes from Marc Bianchi with Cowen.

Marc Gregory Bianchi - *Cowen and Company, LLC, Research Division - MD*

Good to talk to you guys again. First question, just in terms of plans to list on a major exchange, could you offer any updated thoughts on that, please?

Christian A. Garcia - *Weatherford International plc - Executive VP & CFO*

Yes. So Mark, this is Christian. Let me take that one and see if Mark has additional comments. So currently, the company is in the gray sheets, which allow for institution to institution trading, and we are expecting to be in the OTC pink sheets in the coming months. As for listing on a major

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exchange, we had a plan before the market volatility that occurred in the last couple of weeks now. We are now revisiting that plan with our Board. So at this point, we just stay tuned.

Mark A. McCollum - *Weatherford International plc - CEO, President, CEO &Director*

Yes, our hope, Marc, is to try to get out as obviously as soon as practical. We wanted to make sure, we obviously needed to get fresh-start accounting finished and our filing done before it made any kind of sense. One time, we were hoping that maybe having another quarter under our belt before it made time. We -- again, our Board will meet in a couple of weeks, and we'll be revisiting whether it makes sense to move faster than that, just given the market volatility. It was kind of a jump ball on our earlier decision-making.

Marc Gregory Bianchi - *Cowen and Company, LLC, Research Division - MD*

Okay, okay. And in terms of the progression of results from here, looking at first quarter, you mentioned the kind of low double-digit revenue decline year-over-year, but EBITDA would be up slightly. If I just kind of put a normal decremental margin on your year-over-year revenue comment, that's about $50 million of headwind that you're obviously not going to see because of cost cuts. Could you talk about the cost cut that you're expecting in the first quarter and beyond? And what type of, kind of, benefit that could be for EBITDA? And if there's any cash associated with that, that we should be thinking of?

Christian A. Garcia - *Weatherford International plc - Executive VP & CFO*

Right, right. Let me focus on the impact on cash because that's clearly an important component on how we are moving forward. So going into the year, we had actions in place to generate about $150 million to $200 million of savings for the year to address the reduction in the U.S. market and improve our profitability. In addition, we were putting in place processes to improve working capital by about $80 million. And we were having really good traction in the first 2 months of the year, that is why you see really good improvement in our EBITDA year-over-year. Now clearly, that is no longer enough. We are now augmenting those actions. And I provided a number of initiatives we are embarking on, increasing the headcount reductions in both U.S. and global support, reducing manufacturing capacity, exiting some countries and so forth.

Now at this point, we do not want to be prescriptive on the total amount we're aiming for because this is going to be a moving target. We'll have to see how the industry will progress in the coming quarters. But just to give you how I'm thinking about this and as you know, Marc, the oilfield industry has very high decrementals, right, because it's a fixed cost business and generally, it's around 40% to 50% depending on geography and product line. So it gives you the magnitude of the impact of the lower revenues.

For working capital, which is -- we expect to have a benefit of that to support cash. Our days working capital is about 110, 120 days, which we're trying to improve. There's always a lag, of course, between when you see the revenue decline and when the working capital improves, and we may not get all of that improvement for a variety of reasons. But this gives you an idea of the -- on the opportunity we have on the working capital side.

And then the third component, as I mentioned, Marc, is lower CapEx. Last year's CapEx is $270 million, and we are reducing it to be somewhere in the $100 million to $150 million range this year. So I hope that helps.

Marc Gregory Bianchi - *Cowen and Company, LLC, Research Division - MD*

Yes, that's great, Christian. And maybe if I could just one more. Mark, you made a lot of comments about digitalization and as it relates to the lift offering that you have. Can you provide some commentary as to where Weatherford is today in terms of the mix of lift offerings? And maybe specifically on the rod lift side, that used to be very important business for Weatherford, and I think some investors are starting to have some questions about that market, especially with some of the other large competitors discussing about exiting the business.

Mark A. McCollum - *Weatherford International plc - CEO, President, CEO &Director*

So yes. So -- I mean today, particularly with some of our joint venture relationships, right, Weatherford can offer customers every form of lift. We've got everything in our portfolio and our catalog to be able to offer them. And what we've tried to do in building on our digitalization strategy is to make sure that, that platform can optimize any form of lift as well. Clearly, when you spoke specifically about the rod lift business. To be certain, the rod lift business has been stressed in North America, particularly as unconventionals in the Permian Basin, particularly, has been basically an ESP market. And so that certainly has been a struggle over the last couple of years. The good news about Weatherford and its portfolio is we're a global business, and we're in every basin across North America. And so while the Permian is somewhat stressed, there are other basins that are not. And of course, you go -- you step into the international markets, the rod lift business continues to do pretty well. And so I think that some who may be thinking about exiting, have a narrow platform, it's not possibly a fully integrated offering and see it. But for me, as I think about production itself, if our customers are serious about generating returns and cash flows, and Wall Street becomes increasingly agnostic as to whether customers are spending CapEx or OpEx, but are really looking for what's delivering to the cash flow bottom line and returns, then that today means that the incremental barrel, the cheapest highest return on barrel, is that next barrel that can be produced out of an existing well.

And I think increasingly, particularly in a stressed market when customers are trying to figure out how to generate more with substantially less recoveries, production has to get more attention than it is. And at some point, every single well needs to go on to rod lift. Economically, I mean, at some point, the rod lift business remains. And so we're -- if anything, I'm trying to, in some ways, lean into that business right now because I think it's going to be increasingly important. A little different strategy, but that's where I'm at.

Operator

And the next question comes from Sean Meakim with JPMorgan.

Sean Christopher Meakim - *JP Morgan Chase & Co, Research Division - Senior Equity Research Analyst*

Mark, Christian, historically, there's been a lag between changes in oil prices and changes in your customer activity. North American E&P sound like they're going to be much more reactive. We've already heard from more than a dozen that they plan to reduce budgets. As you mentioned, perhaps down 30% or 40%. Internationally, budgets historically are pretty set in stone once we got into the year. But when now you've already heard from a few NOCs and IOCs that maybe there's going to be more flexibility, could you just talk about how that dynamic could be changing in the current environment? And then the read-through to the opportunity set for Weatherford?

Karl Blanchard - *Weatherford International plc - Executive VP & COO*

Yes, thank you. This is Karl Blanchard. I'll take a shot at that. It is very dynamic. Clearly, the expectation is a dramatic drop off in cap spending in the United States. To be honest with you, while we're seeing those announcements and clearly, those actions will execute, the activity internationally today is more disrupted. I mean the last couple of weeks has been more disrupted around COVID-19 and issues around movements of people and ability to execute. But on the capital side, we've actually had a couple of clients come to us talking about being prepared for increasing activity in the international sector. And this relates some to the results of the OPEC meeting a couple of weeks ago. So it is a mixed bag. But as a general rule, we are seeing steady as it goes in the international markets. There will be some up and there will be some down. But I don't think that we can forecast yet today, the actual impact that will happen in international markets still a little bit more clear, and we've all seen history in the U.S. So we can see that a little bit with a clearer lens.

Christian A. Garcia - *Weatherford International plc - Executive VP & CFO*

Right. Sean, so if I can add to that, and Karl is absolutely right, it varies by region. And the way we're thinking about this, there will be some components of the international regions that are susceptible to short-term fluctuations of the oil price, and therefore, you know how they would be going. There are others, as Karl mentioned, like the Middle East that are longer-term projects, plus their plans are actually getting more robust and therefore maybe help us provide some stability to our international operations.

Sean Christopher Meakim - *JP Morgan Chase & Co, Research Division - Senior Equity Research Analyst*

Got it, thank you for that. And then in the prepared comments, you mentioned plans to reduce your footprint in certain geographies as part of your cost savings initiatives. Can we talk about how you see the overall portfolio today in terms of services and products? We talked about lift a little bit, but maybe kind of where are you best positioned? Where are there opportunities to high-grade or maybe exit other parts of the portfolio? Just -- and how that's impacting your CapEx budget for this year, would be helpful?

Christian A. Garcia - *Weatherford International plc - Executive VP & CFO*

All right. So Sean, let me take a stab at this and maybe Mark and Karl can provide additional color. First of all, as I mentioned in my prepared remarks, we're not going to provide kind of a more detail -- a lot of detail around this area, simply because there are customers involved here. So we really think about it in 3 segments of our international operations. Those that we absolutely need to fix. Those are important countries for the oil and gas business, and therefore, we have to have a strategy on how to fix it. The second is those that are just unprofitable and will continue to be unprofitable, and they do not really matter much on the oil and gas industry. And as such, we will have to really materially shrink our footprint for those, and that's just a handful. And then there's those that, as you pointed out, is there a way to actually change the way we go-to-market there, whether it's using more product-focused rather than service and all of that. So those are the kind of the thought process that we're having to do right now. We've identified some of those that we will be exiting, it's just a handful, and those that we will be changing the way we go to market.

Mark A. McCollum - *Weatherford International plc - CEO, President, CEO &Director*

So you also asked the question about the portfolio, and just let me take a stab at that. You recall, prior to our financial restructuring, we sold several businesses. A couple of those were obviously very capital-intensive, not very profitable to generate cash flows, big capital requirements. The pressure pumping business in North America that we sold back in 2017 and then the international land rig business, which we've sold in pieces. We still have -- there's a few countries of such things that we still have to wrap up, but we're basically about to finish all that up, wrap it up, hopefully, in the next quarter or so and get all those done. Then there are a couple of businesses that we sold in part, trying to find ways to address our financial situation, where they had -- we thought that they might have more traction to another buyer a higher multiple than the broad business that we carried that would serve as a delevering mechanism. One was -- in particular, was our Labs business.

Beyond that, there was nothing that we felt like was unnecessary in the portfolio. And so on the other side of financial restructuring, I'm very happy with the portfolio that we have. I think it's kind of important for the markets that we address. And so we want to hang on to those. I still would like -- there are a couple of places that we would like to expand our business. We have a great fluids business in Latin America, which I think we would like to organically grow as we think about expanding our ability to execute integrated projects in the Middle East and elsewhere. We -- while we have alliances around ESP, I'd like to have a stronger and broader offering in the ESP business. We've always talked about that, and so that necessarily hadn't changed.

But beyond that, we're pretty happy. Of course, we recognize currency is scarce right now for us. And I think that while I have those dreams, I don't see that as something that's probably here in the next little while until markets get their legs underneath them. And we particularly -- our first order business is generating cash flow and returns and getting our business profile operating the way it should before we decide we're going to take on too much more. But I think that the portfolio itself, I'm really happy with. And I think, as we said, we're going to make tweaks around the world based on where we do those. But I think what we do continues to be very, very important, having the current integrated profile we have.

Operator

And the next question comes from James West with Evercore ISI.

James Carlyle West - *Evercore ISI Institutional Equities, Research Division - Senior MD*

Mark, you're a returns guy. You always have been in your predecessor companies. You're at Weatherford, how do you think about maximizing your return profile in the context of a cost of capital that's going to go up a little bit here, a volatile market situation in North America and in the international environment? What are the levers that you can pull to make sure that Weatherford is earning its appropriate return relative to peers and then -- and just in general?

Mark A. McCollum - *Weatherford International plc - CEO, President, CEO &Director*

Well, it's a great question. And of course, there are multiple levers. When I came here, I saw -- it felt like Weatherford itself was an under-returning business. Its cost structure was too high relative to the business it was supporting. I think that the lack of integration across the portfolio required a too large footprint fixed cost structure relative to what it was doing. And so those are -- first and foremost, it's really working on and continuing this journey of integrating the company, standardizing the way that we do everything from the frontline in terms of locations and how we go to market, but then also even in the back office, in the support structure and how payroll has done as something as basic as that. And so that continue to reduce the fixed cost structure itself, is actually a pretty dramatic upward lift on returns itself.

The second thing was, by introducing a different discipline in the way that we tend to work, we plan projects and all that. I mean we've got now mechanisms built in so that they are business cases around what our sales force bring in. If we're looking at participating in tenders around the world, it's got to be profitable, and we're going to make money at it and we have to understand what the return -- what the capital investment is going to be and build that in. And doing so allows us to actually have a sharper pencil in the way that we execute CapEx. So rather than giving people a lot of discretion about spending, we're a bit stingier about continuing to use.

And of course, then I thought everybody who's walked in the door sees significant working capital investment that sits on the balance sheet, continue to draw that down, again, through better processes, creates a huge amount of uplift. Now all those are things that are obviously working on the EBITDA, the top part, the numerator in this. But the other side of this is also thinking about the cost of capital, exiting, restructuring. We still have -- we've got a more comfortable amount of debt, but we certainly are going to try to do things that we're going to continue to pull that down. We're going to look for opportunities to reduce the cost of capital, particularly associated with that cost of debt. If there are mechanisms that can do that, we want to be able to do that.

And then the final thing, of course, for me, I also understand that in the relationship with our equity cost of capital, our lack of predictability for over time has been an issue. And so we're going to -- part of Mr. Garcia's presence here is helping me do a better job of making sure that we're -- not only we are making good commitments, but that we're following through on the commitments that we make to Wall Street so that ultimately, that equity cost of capital begins to narrow a little bit. All those sort of drive at generating better returns.

James Carlyle West - *Evercore ISI Institutional Equities, Research Division - Senior MD*

Okay. Okay, then I'll maybe...

Mark A. McCollum - *Weatherford International plc - CEO, President, CEO &Director*

We changed our compensation -- we changed our compensation structure coming into this year. We are now going to be -- our bonus scheme is going to be generated -- based on cash flow and returns. So we're -- that's Weatherford is come full circle. That's where we are.

James Carlyle West - *Evercore ISI Institutional Equities, Research Division - Senior MD*

That's good to hear. And then maybe just a follow-up for me on the international side of the business. There's obviously puts and takes. I know we're 7 days into oil price crash. But could you maybe give us at least your initial -- first blush of kind of how international plays out. Do you have some pockets where Weatherford is traditionally have been very strong, where spending should go up? And then, of course, there's going to be pockets where spending goes down. But how do you guys think about this year playing out? And again, I won't hold you to this as we are only 7 days in.

Mark A. McCollum - *Weatherford International plc - CEO, President, CEO &Director*

Let me start, and I may ask Karl to provide some additional color. But as he said, I think the puts and takes, it's been quite interesting, right? Something we didn't necessarily see. The COVID-19 roll through, everybody, of course, you in New York are shut down. Well, Kuwait has been shut down. The UAE has been shut down. I mean we're seeing that sort of rolling few -- 3 to 4 to 5-week kind of disruption through Asia and the Middle East and now moving into Europe, Romania and other -- Italy, of course, and other locations as the pandemic sort of moves around the world. So there's that little disruption thing. But separately, what we're -- we're also in the initial conversation, those countries that have basically said, we're dialing up production as a result of the lower oil prices or their commitments, their ability to dial up production in this price war, are also coming in and saying, okay, that dialing up production means we're -- we got to be prepared to support that higher production level, and we need you guys to be prepared to be flexible and shipped with us. So you can kind of walk through -- I mean, who's talked about that, it's been Saudi Arabia. It's been Kuwait. The Emirates have mentioned those things. I mean clearly, even in Russia, Russia is talking about it. So we're just -- did a lot of this conversation right now, but we're trying to make sure that we retain plenty of flexibility to be responsive in those markets. And of course, for us in the Middle East, that's a hugely important market.

Karl Blanchard - *Weatherford International plc - Executive VP & COO*

Yes. James, I think real quick, the other aspect is that in the international, the -- you've got a lot of large IOCs, a lot of offshore projects, and there's much more stability and steadiness, even in the recent few days, in those organizations about managing through this as opposed to any kind of big reaction. I mean I think, it'd be a little bit not prudent to believe that it's not going to have an impact overall, but significantly less overall impact in the international arena between the NOCs being long-term and IOCs being long-term players.

Operator

And the next question comes from Kurt Hallead with RBC.

Kurt Kevin Hallead - *RBC Capital Markets, Research Division - Co-Head of Global Energy Research & Analyst*

Christian, welcome back. Some might say you're a little bit crazy for doing that, but I can understand. I can understand the persuasion of Mark McCollum. So all good, all good. So I appreciate all the color and all the challenges, Mark, especially on your end, you've gone through since you've taken over that role. So I'm just kind of curious in the context of maybe you can give us a little bit more color around kind of the free cash flow targets you have that kind of drive that compensation. And then just given all the dynamics that have played out over the course of the past week, how are you stress testing those cash flow dynamics? And maybe just give us some color around that. I know everybody is thinking about this on the fly, but in a real time, but any additional color you could provide would be great?

Christian A. Garcia - *Weatherford International plc - Executive VP & CFO*

Right, right. So maybe -- obviously, I talked about the working capital and widening of the working capital and the cost initiatives we have. But just to give you kind of what we -- what outgoing cash outflows we need to cover to breakeven and -- to breakeven on the free cash flow basis. So we have interest of $230 million, taxes of about $100 million and CapEx of $150 million, right? So -- and then we will have restructuring, obviously, and other sundry items that is at about $150 million to $200 million. So those outflows need to be covered by both EBITDA, the cost initiatives that we have as well as the unwinding of the working capital. So it gives you kind of the math of how I'm thinking about how to cover this to make sure that we breakeven cash flow for this year.

Kurt Kevin Hallead - *RBC Capital Markets, Research Division - Co-Head of Global Energy Research & Analyst*

Great. And then maybe a follow-up in terms of the debt reduction, or how you can go about reducing your debt load over time? And what that might require from an overall activity or cash flow standpoint, can you give us some color on that?

Christian A. Garcia - *Weatherford International plc - Executive VP & CFO*

So in terms of the notes, we have $2.1 billion of notes that is -- matures in 2024, so we have a lot of time here. But the way we think about this is that there's $500 million that's callable, right? So depending on how we do it, either refinancing it or actually getting some sort of funding from kind of a different funding source, then that is one of the things that we are very focused on.

Sebastian Pellizzer - *Weatherford International plc - Senior Director, Investor Relations*

With that, I'd like to turn it back over to the operator to close the call. Thank you all for joining us today.

Operator

Ladies and gentlemen, that concludes today's conference call. Thank you for your participation. You may now disconnect your lines.
