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WFT - Q4 2015 Weatherford International PLC Earnings Call

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OVERVIEW:

Co. reported 4Q15 revenue of $2.01b and loss per share, before charges and credits, of $0.13.

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PRESENTATION

Operator

Good morning, my name is Laurie and I will be your conference operator today. At this time I would like to welcome everyone to the Weatherford International fourth-quarter 2015 earnings conference call. (Operator Instructions). As a reminder, ladies and gentlemen, today's call is being recorded. Thank you. I would now like to turn the conference over to Ms. Karen David-Green, Vice President of Investor Relations, Corporate Marketing and Communications. You may begin your conference.

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

Thank you, Laurie, good morning and welcome to the Weatherford International fourth-quarter conference call. With me on today's call from Geneva we have Bernard Duroc-Danner, Chairman, President and Chief Executive Officer, and Krishna Shivram, Executive Vice President and Chief Financial Officer. Today's call is being webcast and a replay will be available on Weatherford's website for 10 days.

Before we begin with our opening comments I'd like to remind our audience that some of today's comments may include forward-looking statements and non-GAAP financial measures. Please refer to our fourth-quarter press release that can be found on our website for the customary caution on forward-looking statements and a reconciliation of non-GAAP to GAAP financial measures. We welcome your questions after the prepared statements. And now I'd like to hand the call over to Krishna.

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

Thank you, Karen, and good morning, everyone. Let me start with a brief recap of our operating performance in the fourth quarter. Loss per share for the quarter before charges and credits was $0.13. Revenue of $2.01 billion for the quarter decreased 10% sequentially and 46% year on year. Operating income margins before R&D and corporate expenses declined by 255 basis points sequentially to 2.8%.

Excluding the rigs business our core business revenue decreased 9% sequentially with a 115 basis point deterioration in operating income margins to 3.9%. These margins do not benefit from any of the asset or other impairment charges recorded this quarter as these impairments were accounted as of December 31. In other words, the margins reflect the tightly run operations and cost management actions, something Bernard will touch on later.

North America revenue declined 15% sequentially, in line with the reduction in rig count coupled with continued pricing pressures with operating income margins dipping 312 basis points to negative 9.6%.

International revenue reduced sequentially by 4.9%, marginally better than each of our larger peers, while operating income margins decreased slightly by 80 basis points to 12.1%.

Eastern Hemisphere results were resilient in the face of activity and pricing reductions with revenue dipping only 2% sequentially, comfortably beating our peers, while margins improved 20 basis points to remain steady at 10.6%.

In Latin America revenue declined 11% and margins dropped by 245 basis points to 15.2%, reflecting client led spending cuts in Brazil, Colombia and Mexico coupled with our self-imposed reductions in activity in Venezuela and Ecuador.

In the Europe/Caspian/Russia/sub-Sahara Africa region, revenue was down 7% reflecting seasonal winter declines in Russia and the North Sea, coupled with project cancellations across sub-Sahara Africa principally in Angola, while margins remain resilient at 11.4% as proactive cost management offset the impact of revenue declines.

The revenue in the Middle East and Asia Pacific region grew 2% with a 64 basis point improvement in margins to 10%, with advances in Kuwait, China, Indonesia, Oman, Malaysia and Abu Dhabi more than offsetting declines in Iraq.

Overall margins were positively impacted by our continued proactive cost management actions across all the regions.

Our Land Drilling Rigs business recorded a 22% sequential revenue decline with the end of several drilling projects across the Middle East and North Africa region, mainly in Chad, Kuwait and India. The rigs business slipped to an operating loss of $17 million as cost reduction actions were not quick enough to stem the loss of revenue.

Below operating margins R&D costs reduced by $4 million while corporate costs were flat. Our budget for 2016 comprises cutting nonessential projects to reduce R&D spend to $150 million for the full year. Corporate costs will also be reduced to $150 million for the year.

The tax benefit recorded in the fourth quarter reflected the tax benefit on the losses in the US, partly offset by tax provisions internationally where we continue to be profitable. The tax rate for 2016 will be dependent on the geographical mix of earnings and will be heavily weighted by results in the US.

The fourth-quarter results include after-tax charges of $1.1 billion, which includes impairment of asset and inventory carrying values, mainly in the United States, in the pressure pumping and rental tool businesses due to the low activity levels. In addition, several international rigs, which are idle and not likely to sign contracts in the foreseeable future, were also impaired. The bulk of these charges are non-cash in nature and reflect the difficult operating conditions of the current down cycle.

We also conducted our normal annual goodwill impairment test in the fourth quarter. As always, a detailed analysis was prepared in consultation with external experts and this analysis was stringently tested. The conclusion was that there was no impairment of goodwill.

Given the sudden deterioration of commodity prices most recently, and as a matter of abundant caution, we updated our projections and analysis and retested the goodwill for potential impairment. Again the conclusion was that there was no impairment of goodwill.

Moving on to net debt and cash flow now. Net debt reduced by $191 million to reach $6.994 billion at the end of the year. This was the first time our net debt has dipped below $7 billion since March 2011. Free cash flow from operations in the fourth quarter was $168 million resulting in a positive full-year free cash flow number of $129 million.

CapEx in the fourth quarter was high at $140 million, about $32 million higher than previously forecast. In order to preserve key vendor relationships we took and paid for deliveries from vendors that had been delayed for several quarters. Cash severance costs paid in Q4 amounted to $43 million, which was $23 million higher than anticipated, mainly as a result of quicker execution of our headcount reduction program. Without these two cash overruns our free cash flow for Q4 would have been $223 million. Both items will benefit free cash flow in 2016.

Working capital generated $250 million of liquidity this quarter and $567 million for the year, with strong customer collections and a lower yearend DSO compared with any of our peers, coupled with a significant drop in inventory balances of $743 million for the year.

The Zubair project was cash positive in the fourth quarter as several milestones were achieved triggering cash payments as per contract. Overall at the Company level this was the first time we have generated positive free cash flow for the full year since 2010 in spite of much more challenging business conditions. As of December 31, available liquidity was $1.7 billion, meaning we have a large borrowing cushion available to us.

I would now like to offer a view on free cash flow in 2016. We expect to generate between $600 million and $700 billion of free cash flow in 2016, taking our net debt at the end of this year well below $6.5 billion and a targeted net debt level of below $6 billion by the end of 2017. Our long-term net debt target is $4 billion which will get nearer when we sell the rigs business once market conditions improve.

There are four key variables that give us enough confidence to protect free cash flow at between $600 million and $700 million for 2016. The first variable is the net cash flow from the Zubair EPF contract in Iraq. As of today, all of six trains have achieved mechanical completion and five of the six trains have achieved the next milestone RFC, or ready for commissioning, milestone. We have also successfully introduced hydrocarbons in three of the trains.

We now have a clear line of sight on the final milestones which will trigger additional contractual payments. We also expect to reach a settlement on change order claims after contract completion. As 2015 was a net cash flow negative year for this project, the year-over-year swing is expected to be in the range of $200 million.

The second key variable is cash severance and restructuring cost. In 2015 we spent $193 million in cash. In 2016, given the reduced level of headcount reduction of 6,000 versus 14,000, we expect to not exceed $80 million, meaning that year on year we will have an improvement of about $110 million.

The third key variable is capital expenditure. Based on the quantity of excess equipment we carry at year end, we do not envisage any growth CapEx for 2016 even if activity levels increase. As a result of the acceleration of CapEx spend into Q4 of 2015 with a higher acceptance of (inaudible) deliveries; we have reduced the CapEx budget for $2016 to $300 million, which is roughly the maintenance CapEx level we need for the estimated operating activity levels. If activity levels reduce further we have the ability to dial back CapEx even more.

On the back of reducing CapEx by 53% in 2015 versus 2014, we have developed a strong review and approval process which forces equipment sharing and intensifies utilization. The value of approved but unspent AFEs going into 2016 is 81% lower than 12 months ago, which should allow us to comfortably meet the $300 million target.

Finally, the last key variable is inventory. Despite a relatively large pipeline of vendor orders coming into 2015 from 2014, we managed to reduce inventory balances by $743 million in 2015. Our target for 2016 is to reduce inventory balances by a further $550 million, generating cash in the process.

With a low vendor order pipeline going into 2016, which is 66% lower in value compared with 12 months ago, and a systematic process to approve new orders while encouraging sharing among locations, we believe this target can be achieved with relative ease. These four variables, namely the Zubair contract, cash severance cost, CapEx and inventory reductions, are factors within our control and relatively independent of business conditions.

When you at the impact of these four variables together, the incremental cash flow in 2016 versus 2015 is about $500 million. We are confident that variations in earnings and accounts receivable should nullify each other. Given the free cash flow for 2015 was $129 million, adding the $500 million on the key variables will provide -- that the key variables will provide allow us to realistically target a free cash flow goal of between $600 billion and $700 million in 2016.

We believe that the free cash flow performance in 2015, the available liquidity at year end, and the expected free cash flow number for 2016 should allow access to more than enough cash to repay both the maturity of $350 million this month and the June 2017 debt maturity of $600 million.

I would now like to update you on our short-term credit facilities. You will remember that our current facility expires in July 2017. Having said that, it is good practice to proactively address the replacement of this facility early. We will launch a new facility shortly after this earnings call, maintaining the overall size at $2.25 billion, but extending the facility out over the next three to four years.

We have ongoing discussions with our bank group with respect to the terms and conditions of such an extended facility and we are confident we can conclude this new facility by the end of the first quarter.

Also, purely as a measure of abundant precaution, and mostly to reassure our equity holders, we have successfully renegotiated the covenant on our current revolving credit facility from a 60% debt to cap ratio to a 70% ratio. At the end of the year the calculated debt to cap ratio, including the extraordinary asset and inventory impairment charges taken in Q4, is 55.6%. This includes a $1.6 billion adjustment for the accumulated currency impact on nonmonetary non-US dollar assets.

As previously mentioned, all our assets, including goodwill, were tested stringently for impairment in Q4, resulting in an after-tax charge of $1.1 billion. Without this impairment charge the covenant calculation would have been 51.4%, which is slightly better compared to the third quarter. Nevertheless, the newly negotiated covenant of 70% leaves ample headroom of about $2.8 billion to trigger the new covenant. This means that there is no realistic possibility of a covenant breach.

We enjoy an excellent working relationship with our banking group, and this is evidenced by the unanimous acceptance of the recent change in our debt to cap covenant. We anticipate no difficulty in renegotiating and extending out our short-term financing facility.

I would like to also remind you that our long-term bonds totaling $5.8 billion at year end represent 77% of our total debt and do not carry any debt to cap or any other ratio driven covenants. With that I will now turn the call over to Bernard.

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

Thank you, Krishna, and good morning, everyone. It is difficult to describe a quarter in which we remain unprofitable and with large asset impairment as successful, but operationally it was. The obsessive focus and discipline on core, cost, cash is paying dividends and will continue to do so. Our direction won't move an inch. The drive and intensity will only increase.

Decrementals are a good metric of operational performance. Decrementals overall were 28.1% on 10% sequential decline in revenues. Without rigs the core decrementals were 16.6% on 9% declined revenues which is just about best in class.

Our performance was a tale of two hemispheres. The Eastern Hemisphere was essentially flat both on revenues and operating income which is best in class. We gained share in a wide cross-section of the Hemisphere and stringent cost cuts of prior quarters helped. Both factors made up for continued market erosion and severe pricing pressures which are widespread in the Eastern Hemisphere.

The Eastern Hemisphere is a growing area of relative strength for Weatherford. The revenues and profitability declines occurred in Western Hemisphere, both NAM and Latin America. North America did markedly better than Latin America. North America reported a 15% decline in revenues but held the decrementals to 10.9%.

The outstanding decrementals are a reflection of structural changes brought about in the operations. North America has been entirely reorganized and transformed. Its costs, operating practices and talent benched forged a new operation. The results of the prior four quarter's relentless drive.

Latin America stood out as the low performer with a 10.6% decline in revenues and a punitive 38.4% detrimental. The explanation was in part a further market weakening in Colombia and Brazil, but by far the larger factor was a self-imposed reduction in activity in Venezuela and Ecuador. Venezuela alone was half the quarterly revenue decline and more than all the profitability decline.

By contrast, Argentina and some of the smaller regional markets continue to grow. Put another way, Latin America's Q4 reflect primarily self-imposed discipline more so than performance. In fact, without our Venezuela and Ecuador purposeful pullback the region would have shown level profitability on Q3 or slightly up, very much like Eastern Hemisphere.

Taking stock of the full-year 2015, two markers of how much the Company has changed and performed. The year-on-year 2015 on 2014 operating income decrementals were held at 28.1% on 36.7% revenue declines. This is ignoring the effects of foreign exchange on revenues, incidentally. By comparison 2009 on 2008 decrementals were 153.6%.

Second, in a year of massive decline and reduction in force, Weatherford achieved its highest metric for employee safety worldwide in its recorded history. Safety achievements are seldom compatible with the disruptions of retrenchment. The safety is a proxy for quality and reliability.

I will focus the rest of my comments on three areas: further operating underpinnings of the Q4 results; forward views and our direction; and the endpoint for transformation of the Company.

Operation underpinnings of Q4 -- rather than a superficial oversight of all regions in Q4, I want to provide granularity on North America as an illustration of the transformation of Weatherford. I'll focus more specifically on the US while the same commentary could be made on the Canadian operations.

NAM's outstanding decremental performance was earned through the systematic transformation of our operating organization. The driving factors were -- cost cuts; we were early and we went deep and we didn't pause. Yearend 2015 versus yearend 2014 we lowered our payroll and headcount by 41%. This quarter in Q1 we are taking down another 15% of our US headcount, meaning that from January 1, 2015 to date, or just about 15 months at the end of Q1, we'll have lowered our US headcount and payroll by 50%.

What we addressed goes beyond lowering headcount. We delayered the organization, rationalized facilities infrastructure and upgraded the talent bench both internally and through outside hires. Specifically we rationalized the infrastructure with a total of 126 facility closures. There's another 25 or so scheduled for Q1. We went from seven sub regions to three and we moved from five reporting operating layers from regional leaders to the well site to an average of three.

Beyond the payroll reduction numbers it is the structure and the culture of operations which has been fundamentally changed. The other thing we worked on is product line focus. Close to half of the sequential revenue decline in Q4 for NAM was with pressure pumping and drilling tools, otherwise known as rentals. This decline was one of choice; we purposefully scaled back operations for those two product lines and therefore share.

By all measurement we continue to gain share steadily in our other product lines, which is the intent here -- for here and now and highly desirable long-term. The stark reality is that without pressure pumping, NAM in Q4 will be close to profitable even in this deep depression. In fact, with our pressure pumping and drilling tools, which together combined in Q4 still add up to about 20% of our NAM revenues, NAM will be profitable, and compared to the operating income margins of our larger peer group.

In both cases the pressure pumping and rigs tools, there are essentially no barriers to entry, vast over supply of equipment and unsustainably punitive economics. We won't pursue contracts that have punitive returns, we don't have to and we won't; we would rather let others do so.

We are doing fundamental efficiency work in the US addressing the structural as well as the cyclical and the talent bench. The US will be a transformed operation when we are finished, should expect this trend to continue in the first half of this year. We are ready to address any market conditions both to manage down decrementals in the event of further market declines in the first half of 2016 and exploit large incremental gains when the recovery comes.

We are in the midst of the same operating changes internationally as we have effected in NAM. You should expect the same results, which brings me to the outlook for the first half of 2016 -- or the outlook for 2016 altogether.

The overall market and (inaudible) results will be weaker in Q1 than in Q4 in both NAM and the international markets. First, seasonality suggests a lower Eastern Hemisphere and Latin America and is always the case in the first quarter.

Second are the consequences of oil pricing. We will experience in all markets further volume declines and pricing pressures. We are ready for this. We are addressing both with continuing to aggressively managing down our cost structure and a very focused product line strategy by geographic market.

Assuming $25 to $30 average pricing for the first half of the year, that is for oil of course, we believe our Eastern Hemisphere and Latin America operations will trough in Q1. We expect Eastern Hemisphere to seasonally recover some in Q2. Latin America will also, but it will be a slower and more pained recovery. Still, international in our judgment will trough in Q1 and we expect Eastern Hemisphere to remain in Q2 and there on an island of relative strength for the balance of the year.

The rig operations will see modest improvements in financial results most likely by late Q2 there on. By midyear a number of stacked rigs will have been mobilized on location and operating. This will lead to better results for the second half of the year. Our rig operations remain segregated from the core in management, operations, IT and financial results all the way to separate audits. They remain a non-core asset which we nonetheless manage very carefully. They will be divested when market conditions improve, the proceeds will be used to further delever the Company.

Lastly, we have set as an internal target to reach earnings breakeven by Q3 based on cuts in 2016 and carryover from 2015 as well as Eastern Hemisphere performance. This will be a hard objective to achieve given what we expect the marketplace, but one we believe is achievable.

Free cash flow remains an unyielding priority. The range of free cash flow for 2016, as Krishna mentioned, will be $600 million to $700 million. Net debt by year end will decline to well under $6.5 billion. The objective is well understood, planned for and prioritized by all in the organization, both financial and operations. We will deliver this level of free cash flow.

Direction -- our direction is clear to all within Weatherford. We are changing the rules of engagement in all of our business dealings. We're focused on core cost cash, we build on our operating progress to date with more efficiency, cash discipline, systematic talent upgrades and selected market share focus. We delever at the balance sheet through free cash flow quarter after quarter with no exceptions and eventually with more divestments. This is our direction.

Our action centers around improving four things and doing so in a perennial way. Lower cost structure through cycles, capital allocation and cash generation as a companywide discipline, leapfrog talent bench and talent development as a culture focused on quality and reliability for all product lines.

I will summarize some of the accomplishments in 2015 and the work in progress for 2016. Reduction in force, reduce our payroll overall by 41% over 2014 and 2015. As a reminder, we had 67,400 employees on January 1, 2014; 55,400 on January 1, 2015; and we stand at 39,500 employees at year end 2015. We will reduce our employment further by 6,000 positions to 33,500; this will get done in Q1 and completed before the end of Q2.

We took down our support ratio from 59% in 2014 to where it presently stands at 38.0%. A 21% decline in support ratio is a colossal structural change in record time. To do this during a cyclical downturn is doubly difficult. It is also a structural change that will provide us with outsized incremental margins through the recovery years. We'll push down further our support ratio to 35%.

Operations will streamline with consolidation of geographic segments, flattening of the reporting organization, scaling down regional headquarters and push the country closer to the sand face. Supply chain initiated a two-year restructuring of productivity leapfrog; manufacturing, logistics and procurement are in the midst of a fundamental productivity and efficiency change. This is an economic breakthrough for our operating cost structure and flexibility of adjustment to changes in business volumes.

Now here comes a synthesis of all the work done in 2015 on the cost side. So acted upon cost cuts in 2015 add up to $984 million cost cuts in headcount and $402 million in supply chain and facility closures. We add them together that is in total $1.386 billion of which just over half has been realized in 2015 because of timing. The full balance, or roughly $650 million, will accrue 2016 results.

Moving over to the balance sheet, inventory declined by about $600 million before any book impairment. We expect similar reduction of inventories in 2016. We remain long equipment and inventories as we enter 2016. Receivables are run with the tightest control. You will find that our Q4 and year end DSO's are best in class amongst our peers.

As Krishna mentioned, CapEx was cut by 55% in 2015 to $650 million; we will take them down to $300 million in 2016. And R&D will be cut by 35% from $230 million to $150 million, preserving only essential technological research.

With the exception of R&D, which can be caught up quickly with a recovery, we are not cutting into muscle. We entered the depression with a large pool of excess equipment and heavy organizational structure. Much of what we are doing is as much perennial efficiency transformation than volume-related direct cost adjustments.

And we are continuously adding muscle by high grading our talents. We are, in fact, constantly acting our new hires into now internal promotions for operating positions worldwide to strengthen our bench. This also reaches out to senior operating management levels. By the end of Q1 we will bring on as an officer a new leader for our product lines to complete the senior operating team.

Product lines require a number of focal points with the most critical centering around quality and reliability. At the other end of the spectrum, this year we are hiring upwards of 500 new graduates from engineering schools around the world. It is an ongoing commitment which we will do in good and in bad years, they are the future of the Company.

Weatherford is in the midst of a transformation from cost structure, cooperating practices and quality focus, returns objectives and a culture of sales, we are a completely different company in the making. Our performance in this trough through the first half 2016 will bear this out on all metrics. Our performance and recovery will surprise to the upside. Our incrementals will stand out like our decrementals did.

Our synthesis -- a word about the macro. The oil industry, as you know, is massively underfunded and massively underinvested. It defies the imagination what is going on in reservoirs around the world. Pessimism rules in all aspects of analysis and interpretation. Yet if current oil pricing and oil selectivity endure, the industry will not be able to manage required oil demand as early as 2017. This means oil demand would not be met by existing oil capacity.

Existing oil capacity just about equates to existing production rates. Inventory overhang will help; but by definition that isn't more than a stopgap solution. All this is a physical fact, or -- even though it has no effect on the psychology of oil pricing and forward curve.

The black swan issue is a possibility of a worldwide recession which would abruptly arrest the growth in oil demand. There is much focus on the sustainability of GNP growth rates in the various countries particularly all important China. And obviously worldwide recession would adjourn all considerations oilfield recovery for the duration of the recession.

To the extent though there are no apparent factors that could precipitate a domino effect of country recessions, and there is a web of stimulating counterbalancing factors, the obsessive focus from an oil standpoint ends up being on whether demand growth in 2016 will be 1 million barrels a day or 1.5 million barrels a day or anything in between.

Those are important differences but they pale in comparison to the gathering storm of decline in production akin to declines in capacity. Other than a few barrels came from Iran. By our assessment the industry has no spare capacity beyond the present operating rates.

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

At one level it is unthinkable; at another those are the choices made by market economy in response to geopolitical decisions. But even the latter will become soon enough academic when supply curve crosses demand on its way down with no immediate or obvious short-term solutions to address it.

It isn't all bad. The present state of industry depression offers us great opportunities. We are positioning Weatherford in a very focused industry segment, deemphasizing or exiting others, using our product line strength, infrastructure and specific technological leadership. We are using the brutal recession to fundamentally change our cost structure, quality, efficiency, returns culture and emphatically our talent bench.

This is a unique opportunity for us to make a quantum change, keeping what is good and promising at Weatherford, but fundamentally changing what wasn't. We are today already a very different company. Our operating and management capabilities are immeasurably stronger than they historically were. We have still a worldwide infrastructure of service support second to none.

We are confident of our technological strength, product line breadth and market potential for organic growth. And finally, paramount to us in bad and good markets, we maintain a strong free cash flow and that will not change. Our numbers will prove out the merits of our direction in this brutal down cycle and just as much when the market turns. Our direction will deliver high shareholder returns at the lowest risk and this direction will not change.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Bill Herbert, Simmons.

Bill Herbert - *Simmons & Company - Analyst*

Good and comprehensive summary. Krishna, could you run through the components of the free cash flow generation in 2016? Because it seems like you arrived at a $500 million number plus adding the $150 million thereabouts for 2015 to get to $650 million.

When I think you said Zubair $200 million year-over-year positive delta for free cash flow, severance and restructuring severely reduced in 2016 versus 2015, so that is $110 million. Capital spending down $380 million. And then I thought you said inventory reduction of $550 million but then you -- those four buckets you arrived at a net free cash flow increase of $500 million. Am I missing something or no?

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

Yes, Bill, basically I am saying that inventory will come down $550 million, but inventory came down in 2015 by $750 million. So, the net between the two years is lower liquidity from inventory by about $200 million. So that is your missing piece.

Bill Herbert - *Simmons & Company - Analyst*

Okay, got it. And --.

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

(Multiple speakers) all that you get $500 million and then you add the $129 million, we are very comfortable between the $600 million and $700 million number.

Bill Herbert - *Simmons & Company - Analyst*

$129 million, got it. And then the February debt maturity, that gets paid out of your credit facility or what?

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

Yes, it is going to be paid out of our credit facility next week.

Bill Herbert - *Simmons & Company - Analyst*

And the amendments to your covenants and the extension of your credit facility, what does that do to your cost debt?

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

Well, that is to be determined. We are going to work with our bankers in the next six weeks to put in place a longer-term credit facility, as I said. And there will be the customary type of slew of guarantees and securities that are commensurate with our credit rating and the cost will be marginally higher. But it is not going to be material to Weatherford's results. We are talking in the -- probably in the $10 million to $20 million annual range. So it is not really material.

Bill Herbert - *Simmons & Company - Analyst*

Got you. And then Bernard, back to your outlook. Assuming that essentially when you roll up kind of national oil company and large natural resource holder international capital spending declines 2016, it seems as if -- at least the early indications point to a 20% reduction year over year. Juxtapose sort of Weatherford's revenue performance against that benchmark, if you will. Why would it be better, why would it be worse, why would it be in line?

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

First, if you just look at 20% decline, our rough judgment would be that we'd probably, just in terms of national share gains, pick up about half of the decline. In other words, if it is down 20% we'll probably be down 10%. This is the first judgment. Why? Simply because we have low market shares in a number of places which we are gradually inching back.

This is a continuation of what we have done. It really happens in the Eastern Hemisphere, happens in Latin America, ex-Venezuela and Ecuador, which we in essence we are not -- we have a very, very small presence in and will keep it small.

The other factor, and when we look at our assessment for 2016, is not a top-line factor, it is a cost factor. In reading the prepared comments it's always hard to be able to highlight the parts that are particularly useful. But when we count everything that we have done in 2015, and we are very honest about it, we have just under $1.4 billion of measurable -- I mean really measurable cost action, $1.385 billion, exactly.

And we know that only just about $730 million were actually realized as we went through the P&L in 2015. So maybe it was the timing of these things. So we got a little over $650 million on the cost side which have been acted upon that are coming in now in January and February, etc., in 2016. And we are taking further actions as we are taking down 6,000 people more companywide and some more actions around supply chain.

So the point being that a combination of natural share gains that are nothing spectacular, they are just -- they are, at the end the dollars are not that large so we are not that large of a Company at the end of the day. But in a number of areas we have unnaturally low market share.

So it is sort of a quite easy to gain if only because in the areas we specialize in we have good performance. And then you have that and then you have simply a very strong tailwind which is on the cost side, probably stronger than just about any other company's because we have been obsessive about it and we had more to cut.

Bill Herbert - *Simmons & Company - Analyst*

Right. And the three [markets], if memory serves with regard to your market share gains where you have essentially been marginalized or, for whatever reason, not nearly as active as you have been historically. Saudi, Algeria and Angola, are those the three?

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

Yes, yes, I think you have -- first of all it is Middle East are the primary ones. Not only the Middle East, but you have got pockets also in SSA, you are absolutely correct and you are spot on. You also have certain areas of Asia-Pacific also which is a very, very difficult market. I am not minimizing the difficulty of the market, it is quite the contrary.

But within difficult markets you can have relative performance. And also we had very, very presence in Asia-Pacific in a few markets. I will tell you the management that we have in the field is -- and I hope they are listening to this call -- is immensely more talented than they ever were.

So the drive in Asia-Pacific, the drive in the Middle East, just to name those two, and also some other areas in the Eastern Hemisphere here and there, is (inaudible) get back or get at least some market share and then we can. And the product lines are what you would expect, including services or formation evaluation, completion of course and well construction -- more so than lift.

Bill Herbert - *Simmons & Company - Analyst*

Thank you very much.

Operator

Ole Slorer, Morgan Stanley.

Ole Slorer - *Morgan Stanley - Analyst*

Nice to see that free cash flow, Bernard.

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

Yes.

Ole Slorer - *Morgan Stanley - Analyst*

Krishna, just to clarify on the cost of -- clearly most of the questions we get on most companies right now are centered around the balance sheet and financing and sustainability. So sorry about getting back to that.

But the $10 million to $20 million you specify, was that to do with the cost of changing the covenant from 60% to 70% or was it a total cost of that and what you expect to be the case on the $2.25 billion facility extension?

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

No, it is anticipated increase in cost for the extension we are talking about. There was hardly any cost for the change from 60% to 70%, miniscule. So it is a range, okay, that is in our minds. But it has to be still negotiated and nailed down with the banking group. And we feel very comfortable that we will be able to do so.

Ole Slorer - *Morgan Stanley - Analyst*

Okay, so you are comfortable that you can extend and incur an incremental cost within $10 million to $20 million. I think that would be a great relief for a lot of us. And when it comes to the cash flow, to what extent will the $500 million be backend loaded? Do you see any chance that you will be free cash flow positive in the first quarter?

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

We will be marginally free cash flow positive in the first quarter. As you know, first quarter is always seasonally challenged not only from a results standpoint but also from a cash flow standpoint. As customers, mainly national oil company customers, they typically slow down payments to operating companies, to service companies and this year is no exception.

And also you have a kind of a lot of payment for the prior year bonuses for employees and all the rest of it. Working capital does take a little bit of a hickey in the first quarter which is seasonal.

So, I do expect to be marginally cash flow positive in Q1 and then building up as the year goes on. If you look at our history, Q1 has always been the most challenged free cash flow quarter and this year is going to be no exception with the one difference being that we expect to be marginally positive.

Ole Slorer - *Morgan Stanley - Analyst*

Well, that would be a very strong start if you can do that. Just finally, Bernard, just your thoughts on Iran, if you could share what opportunity you see for the international service industry or your kind of high-level thoughts on what can be easily done in Iran with respect to export capacity.

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

Look, the capacity that Iran can operate at circles around 3.5 million barrels a day. Before -- just before the opening of the markets, best of my knowledge, they were around 3.15 million giving a swing of 350,000 barrels a day. Then you get into issues of grade of oil and I wouldn't even belabor the point because there are issues of marketability of the oil. So that is 350,000 barrels looking for a home.

Now it is also true that the 350,000 barrels a day is not really available from a production capacity. It will require a few months just to -- because that 3.5 million barrels a day capacity is not truly functional, but it will be functional shortly.

More interestingly -- that is actually a very, very small number. More interestingly to go above 3.5 million barrels a day for the next 500,000 barrels a day to the best of my knowledge -- and I don't have a bias either ways, neither optimistic nor pessimistic, just realistic -- you are talking at about not far from a couple of years, regardless of public pronouncements, to go from 3.5 million to 4 million. So if you want to be reasonable I think you could get there by the end of next year.

And I would also say that given the nature of the reservoirs, their size, the level of fractionation that they have, their vintage or exploitation, I would say that my particular view, and it is not my own -- I am not the only one to have that view -- is that on and around 4 million barrels a day Iran is capped. Iran is above all a gigantic gas cap, it is above all an issue of gas. Gas is an entirely different discussion for Iran.

I mean very quickly, the time and attention and the capital and so forth and so on will be moved to gas and then oil will be an issue trying to keep production capacity in that range of 3.4 million to 4 million. Iran is not an oil issue, Iran is a gas issue and that is where the money is for them. And ultimately for the oilfield service industry will also be where the money will be made, it is all supporting the gas development, but that is a very long-term discussion.

Ole Slorer - *Morgan Stanley - Analyst*

Thank you very much for your results.

Operator

Jim Wicklund, Credit Suisse.

Jim Wicklund - *Credit Suisse - Analyst*

Krishna, thanks for so directly addressing some of the issues around debt. Like both Bill and Ole have said, the questions we get are on debt as much as equity these days. But the details about the debt to impairments and a good job on the 70%. Guys, when is Zubair going to actually be finished? I mean like done and we don't talk about it anymore?

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

Is actually not in our hands; it is in the hands of the client. We really fundamentally are waiting for oil to be able to put it through the facility. The scope and scale of the work we are doing is now down to almost skeleton. Now as we finish the work we are waiting just for the hydrocarbons and running through the facilities for 90 days and that is it. So we are just waiting on the hydrocarbons is the answer.

Jim Wicklund - *Credit Suisse - Analyst*

And is that wait, I mean --.

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

(Multiple speakers) provided by the client, not by us.

Jim Wicklund - *Credit Suisse - Analyst*

Okay. But that is going to be this year you think?

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

Oh, yes.

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

Oh my goodness, yes. I mean, look, if it is not we would beyond the scope of the contract completely. We are looking at between Q1, and depending on when the hydrocarbons (inaudible) Q1 or early Q2.

Jim Wicklund - *Credit Suisse - Analyst*

I just wanted to hear you all say that in public, okay.

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

Yes, that is why I said it (laughter).

Jim Wicklund - *Credit Suisse - Analyst*

My second question, Bernard, the transformations that you describe sound very impressive -- a quantum change, you are a very different Company. But you are the CEO. What changed in your outlook, your management focus? What caused you to make and start this transformation over the last two to three years after many years of running Weatherford?

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

That is a very difficult question to answer in public, so I am just going to answer it as honestly as I can. Normally what happens when a company grows as fast as we have grown since 1987 from nothing, and is very successful, possibly too successful. And then of course discovers at some point in time it is not terribly well-managed.

The person that was responsible for the growth and everything else, but probably did not pay enough attention to how well it was being managed, is replaced and someone else comes in and doesn't have to answer that question. I au contraire get to answer the question which makes it a little bit difficult. So I will tell you.

Above all I want Weatherford to do well. This has nothing to do with me personally. I want Weatherford to do well. I know what Weatherford has and what it doesn't have. I know the wealth at Weatherford that is there to be harvested, I know what is missing. A little bit like one would know a child.

When I realized all the trouble we went through, and it was extraordinarily painful for our shareholders, for management too but for our shareholders above all, that was before oil declined, I realized what had to be done. And to the extent I am able to guide the Company so that it does what needs to be done, which is essentially operational and financial discipline, that is it. There is no strategic issues.

You can argue we should have this, we should have that, but it doesn't matter really. What we have is enough. To the extent that I can help the Company guide both operationally and financial discipline -- on the financial discipline I rely immensely on my close colleague Krishna. And then I think it is quite straightforward the progress that we will deliver.

Now oil tends to both mask all of this, and [its impact] facilitate all of this. It helps also, we can go much further much faster. It also masks to a degree the level of progress because it's such a horrific environment. But our shareholders or the financial markets should know that when it comes to us, we are not just fighting hard to adapt to a lower level of activity, we are transforming the Company.

And it is first and foremost an operational issue and the financial underpinnings are there to accelerate it and also measure it and keep it disciplined. But it is above all an operational issue. And it is -- we are way advanced in it, far more than we would have hoped.

Jim Wicklund - *Credit Suisse - Analyst*

Okay. Bernard, thank you very much. Thanks, guys.

Operator

James West, Evercore ISI.

James West - *Evercore ISI - Analyst*

Bernard, I want to go back to the international markets where you talked about increasing market share as we go through 2016. And even with the market probably being down the 20% that Bill mentioned, and we certainly agree with that, you would only be down about half of that. Is this market share gains that you've already achieved or contracts that are won? Or is this -- and are in the bag? Or do need to win more contracts to achieve that type of result?

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

It is not in the bag, James, insofar as I wouldn't take any contracts that we bagged as being reliable. The point being that --

James West - *Evercore ISI - Analyst*

Right.

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

-- in a time of extreme strain it would be dishonest for me to tell you how well we booked it. The fact is that when we look at what we have it is essentially committed to, but I am taking a discount simply because I know that in this world and at this time clients can adjourn, they can postpone. And what is the oilfield service player going to do about it? Nothing, just wait.

So the answer is there is some risk that we don't -- that the assessment that we can hold back, if you will, the volume declines to about half what the market will be. There is some risk that we are not successful. I will point out to you that the place where we will play the hardest, which is Eastern Hemisphere, so far -- and we haven't really gotten our stride yet, we kept our own. In fact we have done more than keeping our own.

So I will summarize by saying we have the business. It is not in my judgment reliable because it is not reliable for anybody in this environment. But we do have the business already. Let's assume we lose some, we will be have to paddle our canoe harder to gain some more; I think we can.

Of all of the calibration we gave 2016, they are all sort of midpoint between conservative and more aggressive, this one is also the same. We actually have a more conservative view, but also a more aggressive view. This is really the reasonable midpoint.

Jim Wicklund - *Credit Suisse - Analyst*

Okay, got it. And then if we switch over to North America where the decline has been and is probably going to be a lot worse, at least based on initial CapEx guidance from your customer base. You have a lot of -- you have the positives of the artificial -- strength in artificial lifts but you have a little more exposure to Canada. How do you think you fare in the North American market versus your peer group?

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

I think our -- look, to the extent we are backing off, remember 20% of what we do is identified into our two product lines that we personally will only play if we can make a living, which is pressure pumping and drilling tools.

To the extent we deemphasize this, I would say that perhaps on the revenue side we won't fare so well because we may step back from these businesses -- not entirely, but as the case may be more than anybody else. At this time I would say on the profitability standpoint we may actually fare better.

So my suggestion is that as the Q1/Q2 sort of roll out going into Q3, which, as I mentioned, we -- our (inaudible) objective is to bring it into a breakeven quarter, we may very well in North America show -- continue to show great resilience at the profitability level, but not so great revenue performance simply because deemphasizing [lost leaders] -- as the other product lines do more than hold their own.

James West - *Evercore ISI - Analyst*

Got you, okay. Thanks, Bernard.

Operator

Angie Sedita, UBS.

Angie Sedita - *UBS - Analyst*

So on the CapEx side, and certainly I understand you are sitting on quite a bit of inventory. But as you slash CapEx in 2016 and 2015, are there business lines or regions that continue to be obviously your top priority? And then certain business lines or regions that you are a lower priority obviously in this type of market? And are there product lines or regions that you could exit and may be unlikely to return to in the coming near-term years?

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

I will say a few words and then, Krishna, you might want to come and also on this. This is a very good question, Angie; it is a bit difficult to answer it on a call. But we have -- we have and we are going through a meticulous process. We are not doing it ourselves, it has been done by the field and the product line leadership. We are going through every single segment in which we play around the world.

And you can imagine that with 12 different product service lines as we are organized and with the worldwide infrastructure we have there is lots and lots of questions to be asked. And we ask ourselves, could we do more? Should we stay? Should we do less? Should we pull in simple terms? We are doing this. And what are our metrics, financial metrics. And also strategic as incline and reservoir metrics. They balance one another.

So, yes, we will pull out of certain country and regions on certain product lines and so forth. At the same time we will push much harder on others, not only for now because they -- as little business as there is we can do better than we have. But also because of the potential longer term.

There isn't an overriding theme though, Angie, as in we are pulling out of this, pulling out of that, no. I would say in general that overall it is fair to say that Eastern Hemisphere -- overall there are differences in Eastern Hemisphere -- we'll tend to fare better. I am not saying this -- fare well but better than any other parts of what we have. Although, there are pockets that I see in America which will fare well.

In North America we will become -- and have become a fortress of efficiency. So net-net we will pull out of certain involvement in certain countries, certain product lines, but there is an overriding theme. The core is the core. We like the core. We try to make it as profitable as we can for now and for long-term, but the core hasn't changed.

Angie Sedita - *UBS - Analyst*

Okay, that is helpful, I appreciate that. So the cost side, obviously transformation, as you have said for some period of time here, has been necessary. But when you think through your headcount as well as your non-labor portion of your cost base, how much of that do you see is structural and necessary and permanent and how much is cyclical which could return in 2017, 2018 and beyond?

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

Krishna will answer that.

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

So, Angie, we estimate that about one-third of the cost reductions right across 2014 and 2015 are structurally permanent. Because they have to do with de-layering the organization and working on the support structure with a lot of focus. So if you add the two years together, we had $1.4 billion of annualized savings in 2015, another $600,000 in 2014, which we did not talk about on the call. One-third of that is I would say permanent.

And this is -- when the recovery does happen we just have to constrain two things, we have to constrain the support cost, of course, and keep the permanent reductions permanent, of course. And the second part is to constrain CapEx. And we believe our incrementals, both in earnings and in cash flow, free cash flow will be enormous (technical difficulty). We are not even talking pricing here, we are just talking (multiple speakers).

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

Yes, it seems a bit academic for us to focus on the upside in a recovery. And we don't speculate, notwithstanding my comments on oil which probably were not terribly, terribly new. We don't speculate at all at any time in the market. We operate the Company as if we are in a dismal environment for the very long-term.

We still also think though that is not going to be the case about structurally changing the economics of the Company at a high level of operations. Clearly a strong recovery, if that was to happen, we would not be able to hold the indirects flat where they are today forever. But there would be a period of time and level of volume increase where we can and hence the strength of the incrementals.

This one-third of $2 billion is not just a Wall Street story. We've long given up on Wall Street stories. This is actually real. So $600 million to $700 million in our cost structure at Weatherford today are perennial. That means $0.60 to $0.70 per share, if you want to look at it that way, in a normalized manner in our cost structure have gone away in an up market, that is all.

Angie Sedita - *UBS - Analyst*

All right, okay. That is helpful. And then one final quick one. You said that you gained some share on the artificial lift side in the international market. Is there a bigger push in this environment in the Eastern Hemisphere with artificial lift? And is there more to be gained on the market share in 2016? It looks like that is helping your margin there?

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

I think actually, Angie, I would love to say yes. The reality is that lift, yes, but not any more than any completion probably is just as much and probably more -- share gains. I think things that we very seldom talk about like liner hangers for example or cementation have share gains that are possible. Managed pressure drilling share gains are in an expansion of a type of technology which is not used very much. And I think in general formation evaluation has.

And it sounds like it's almost everything, but it really depends where. But if I was going to say which one has the -- of all of them has probably the strongest share gains in percentage and all that sort of stuff today, I would say completion probably more so than lift. Lift is fine, but one is actually likely to grow at a higher rate than the other.

Angie Sedita - *UBS - Analyst*

Great, thanks, fair enough and I will turn it over.

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

Thank you, Angie, and thank you all for joining us today. We have approached the hour, so this does conclude our conference call. You may now disconnect.
