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# EDITED TRANSCRIPT

## WFT - Q1 2017 Weatherford International PLC Earnings Call

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**OVERVIEW:**

Co. reported 1Q17 sequential revenue decline of 1% and loss per share (excluding charges and credits) of $0.32.





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## PRESENTATION

**Operator**

Good morning. My name is Kim, and I'll be your conference operator today. At this time, I would like to welcome everyone to the Weatherford International First Quarter 2017 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, Investor Relations, Marketing and Communications. You may begin your conference.

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

Thank you, Kimberly. Good morning, and welcome to the Weatherford International fourth quarter -- first quarter conference call. With me on today's call, we have Mark McCollum, President and Chief Executive Officer; and Christoph Bausch, Executive Vice President and Chief Financial Officer.

Today's call is being recorded, and a replay will be available on Weatherford's website for 10 days.

Before we begin with our prepared statements, I'd like to remind our audience that some of today's comments may include forward-looking statements and non-GAAP financial measures. These matters may involve risks and uncertainties that could cause our actual results to differ materially from our forward-looking statements.

Please refer to our Form 10-K for the period ended December 31, 2016, and more recent reports on Form 8-K for risk factors and the customary caution on forward-looking statements.

A reconciliation of GAAP to non-GAAP financial measures is included in our first quarter press release, which can be found on our website.

Christoph will now provide a financial and operational update on the first quarter, followed by Mark's comments on the current macro environment and his initial views about the company and the way forward. Following these prepared statements, we welcome your questions.

And now I'd like to turn the call over to Christoph.

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

Thank you, Karen. First quarter revenue decreased by 1% sequentially, mainly as a result of the closure of our pressure pumping operations in the United States and year-end product sales in the Middle East and Asia in the fourth quarter 2016.

Excluding U.S. pressure pumping, revenue increased by 3% sequentially. Segment operating loss before R&D, corporate expenses and charges and credits improved by $24 million, with sequential operating income margins improving by 166 basis points to negative 3.8%.

During the first quarter, we recorded $130 million of charges and credits, net of tax. These charges included severance and restructuring costs of $69 million. A noncash charge of $62 million related to the fair value adjustment of our outstanding warrant and $1 million of net income related to other credits and charges.

Excluding charges and credits, loss per share for the quarter was $0.32.

North America revenue increased 1% sequentially and operating income margins improved by 811 basis points, but remained negative at 3.7%. Excluding the impact of the U.S. pressure pumping business that was shut down in the fourth quarter 2016, sequential revenues improved by 16%, as both the U.S. and Canada land businesses continued to grow strongly, while the offshore activity in the Gulf of Mexico remained subdued.

The overall margins continued to improve with an operating loss in North America of $18 million, including a loss of $8 million related to the pressure pumping business.

Outside of pressure pumping, improved utilization and pricing in our drilling services, well construction and wireline product lines, combined with higher completions activity, supported the sequential improvement. However, margin improvement to date has lagged our expectations due to the continued reduction of activity and pricing pressure in the Gulf of Mexico, combined with higher than expected cost to ramp up as land activity in some of our product lines has resumed faster than expected.

Our Drilling Services product line had successful runs in our hostile environment logging tools in the Eagle Ford shale, which enabled an operator to drill 57 wells, with 0 measurement while drilling failures, saving more than $1 million in nonproductive time and related costs.

Over the offshore market in the Gulf of Mexico declined, our completions product decline has seen multiple successes in the Deepwater Gulf of Mexico, with our TerraForm openhole packers. These packers save operators approximately $15 million to $20 million per well by achieving secure and compliant well integrity in an open hole, without added expense of casing.

In Canada, our Artificial Lift operations had strong performance, showcased by our recent win of a significant contract to supply pumping units for a customer in Western Canada.

We believe that in the second quarter, revenue in the U.S. will continue to grow quickly, but this will be offset by the usual seasonal breakup in Canada and by the continued challenging offshore market in the Gulf of Mexico. As a result, we expect margins in the second quarter to be below the first quarter.

International revenue declined by 2%. Latin America revenue decreased by 3%, mainly coming from lower activity levels in Argentina as the government and industry stakeholders negotiated natural gas pricing and subsidy levels as well as labor agreements going forward, which led to a temporary delay of investments and disruptions during the first quarter.

This reduction was partly offset by higher revenue in Colombia as rig count continued to increase.

Despite the lower revenue, first quarter operating income of $9 million, with corresponding operating income margins of 4%, improved compared to the previous quarter, mainly as a result of a favorable product mix, with increased margins in well construction and managed pressure drilling.

During the quarter, we were awarded a $178 million contract for integrated services in the shallow-water field in Mexico. All the work related to this project will be managed through our new integrated services and projects product line.

We helped an operator in Colombia through the installation of our Red Eye meter, enabling a higher frequency of testing, with less personnel and while using significantly less diluent fluid. This will save the operator about $10 million per year.

We expect second quarter activity in Argentina to improve, and in addition, we see incremental revenue from several other projects in Latin America. As a result of this increased activity as well as the incremental cost savings from our restructuring initiatives, we expect slightly better margins in Latin America in the second quarter.

In the Europe, Caspian, Russia, Sub-Sahara and Africa region, revenue increased by 14% sequentially, benefiting from product sales in both Europe, representing the sale of an offshore MPD system, and in West Africa, with the sale of expandable sand screens.

Seasonally lower activity in the Norwegian Continental Shelf and in parts of Russia, was offset by a favorable exchange rate impact in Russia and increased activity in Nigeria.

Operating income margins fell slightly, driven by lower margins in the North Sea and increased repair and maintenance costs in Russia, in order to prepare our tool fleet for the seasonal rebound in the second quarter.

Operational highlights during the quarter include the completion of a Deepwater operation in the North Sea, in which we saved the operator 2 days of rig time by deploying an RFID-enabled reservoir isolation valve.

Additionally, in southern Russia, our Drilling Services product line finished a drilling operation 17 days ahead of schedule, providing significant cost savings to the customer.

For the second quarter, we expect the seasonal increase in both the North Sea and in Russia, offset by lower product sales, and we expect that additional cost reductions will improve margins.

Overall, we expect margins to improve materially in Q2 as activity resumes, supported by incremental cost savings.

In the Middle East, North Africa, Asia-Pacific region, revenue decreased by 12%, reflecting the high amount of product sales during the prior quarter, combined with continued pricing pressure, mainly in the Middle East.

Operating income margins deteriorated by 343 basis points as a result of lower product sales revenue, combined with retroactive pricing concessions as well as onetime start-up expenses in Kuwait for our wireline contract, which started at the end of the quarter.

During the quarter, Weatherford was awarded a 3-year contract for directional drilling services in Algeria as well as a 3-year pressure pumping services contract and a 3-year contract for open and cased-hole completions in Saudi Arabia.

We expect the Middle East and Asia region to rebound in the second quarter as new contracts are now ramping up; and as a lot of cost has already been in place in the first quarter, we expect to see strong incrementals.

Revenue for our land businesses -- land rig business declined 6% sequentially due to overall lower rig utilization, mainly as a result of increased inspection and certification requirements and increased technical downtime. In addition, the startup in Algeria was delayed beyond our initial expectations, but all rigs are now operational and are expected to contribute revenue, going forward.

As a result of the low utilization, combined with increased repair and inspection costs, operating margins decreased by 718 basis points and leveled at a disappointing negative 33%.

Despite select operational issues that weighed on the quarter, there were some bright spots. After starting up in Algeria, we achieved a new record for one of our customers by drilling 7.5 days ahead of plan. Our land rigs also set multiple field records for a customer in Oman.

In addition, we have extended contracts with 2 large NOCs in the Middle East through 2018, giving us a solid base of continuous work. We expect the second quarter to significantly improve, as rigs in Algeria are now fully operational.

In addition, we do expect operational efficiency to improve. Both items should have a meaningful impact on the margins.

We progressed on our cost-reduction efforts, which were announced on our last conference call. As of the end of March, we reduced a total of 2,500 employees out of the planned reduction of 3,000 employees. The remaining cost reductions as part of this exercise will be completed at the end of the second quarter, pending statutory notice periods, union negotiations and the completion of other contractual requirements.

As part of this initiative, we ceased operations in an additional 6 manufacturing facilities during the quarter, which is 2 more than what we have anticipated at the end of last year.

We have now a good foundation to optimize our manufacturing operations to meet the increased requirements in North America, and to operate at a lower cost level in order to be competitive in this market environment, going forward.

As explained previously, we see no capacity constraints based on our roofline and machining capabilities. And we have started to add qualified personnel in some of our key manufacturing operations.

We've also started to work with our key suppliers to prepare for a ramp-up in operations in some of our geographic areas.

We will continue to review our cost structure in order to improve our efficiency, including further rationalization of operations and assets in geographies with a low level of activity, sub economic pricing or a low level of strategic importance.

R&D and corporate expenses remained broadly flat compared to the prior quarter at $39 million and $33 million, respectively. We have decided that the savings obtained from our cost-saving measures in these cost lines will be reinvested in new technologies as well as medium- to longer-term process improvements to substantially and permanently improve the overall efficiency of the company.

As such, it is fair to assume that the current run rate for R&D and corporate expenses remains broadly flat for the remainder of 2017.

The tax charge recorded in the first quarter of $33 million represents mainly cash taxes paid internationally, predominantly in deemed profit countries, where taxes are levied on revenue without regard for income levels. These cash taxes were partly related to prior years and as such, offset by release of provisions.

During the first quarter, we have elected to change our methodology to calculate income taxes from applying an estimate of the annual effective tax rate for the full fiscal year to calculating income tax based on the quarterly results. Reason for this change was that small changes in the estimated ordinary annual income can result in significant changes in the estimated annual effective tax rate, with misleading results. Keeping the old method would have led to a significant tax credit during the first quarter, which in our opinion, was not appropriate.

Our current estimate for tax charge remains at approximately $40 million, representing largely the cash taxes paid, that can vary on a quarter-to-quarter basis, depending on the geographical mix of revenue and earnings.

Net cash used in operating activities was $179 million for the first quarter of 2017, including adjusted EBITDA of $85 million, $144 million of debt interest payments, $43 million related to payments for severance and restructuring costs, $43 million related to tax payments, $30 million SEC legal settlement costs and partly offset by reductions in working capital balances totaling $3 million, and $7 million of other items.

Customer receivables reduced, as DSO decreased by 6 days to 84 days, which was largely offset by increased payments to suppliers. Capital expenditures totaled $40 million in the first quarter, and in addition, we spent $240 million to buy out our pressure pumping leases.

Net debt of $7 billion increased by $448 million during the first quarter, reflecting mainly the items mentioned before.

On April 17, we amended the terms for both our revolving credit facility as well as our secured term loan. The amendments allow a higher amount of restructuring charges to be added to EBITDA when calculating the covenants, and allow excluding certain collateralized letters of credit from the specified debt.

The EBITDA changes apply for the first 3 quarters of 2017. In return, we agreed to reduce the overall commitment of our revolver in term loan facility several months earlier than originally anticipated, from $1.4 billion to $1.2 billion.

At the end of the quarter, we were in compliance with all covenants on all of our financing facilities, and we expect to remain in compliance going forward.

To be specific, our calculations at the end of March were as follows: 1.5 for specified debt divided by specified EBITDA versus the covenant of 2.5 ; 2.7 for specified debt plus letter of credits divided by the specified EBITDA versus the covenant of 3.5; asset coverage of 23 versus a minimum covenant of 4.

As of March 31, we had $546 million in cash and an undrawn revolver facility of $1.3 billion.

During the first quarter, we signed an agreement with Schlumberger to create OneStim, a joint venture focused on completion products and services for the development of unconventional resource plays in the United States and Canada land markets.

The joint venture will offer one of the broadest multistage completion portfolios in the market, combined with one of the largest hydraulic fracturing fleets in the industry.

Once the transaction closes, Weatherford will own 30% of this joint venture and will receive a onetime $535 million cash payment from Schlumberger. After closing, Schlumberger will manage and consolidate the joint venture for financial reporting purposes.

Since we signed the agreement, we have submitted all required antitrust filings, and we have also started to work on other tasks required for closing and a successful integration.

We have also made some progress related to our alliance with Nabors as we jointly-identified commercial opportunities in the U.S. market, and we started to work on the software integration allowing Nabors rig control software to communicate and interact with Weatherford's OneSync software platform.

With that, I will now turn the call over to Mark.

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

Thanks, Christoph, and good morning, everyone. I'm very happy to speak with you this morning. I'm wrapping up my first full week here at Weatherford, and it's been a busy one.

Weatherford has a reputation for great technology and collaborative customer relationships as well as a strong global market presence and a high-caliber, diverse workforce. My experiences over the past few days have confirmed that impression. I've also gained an even greater appreciation for the fundamental strengths at Weatherford's core.

From a technology perspective, our leadership in managed pressure drilling is unique and unparalleled. I've also been impressed by our high-temperature LWD systems, the advances we are driving in digital production optimization, and our automated tubular running solutions.

These are just a few examples among many from across the portfolio. Our core strengths remain well construction and production optimization. By integrating, automating and digitizing our best-in-class offerings, we believe we can construct better wells than anyone else, and we can empower our customers to produce more barrels at a lower costs.

I've spent my time this week meeting with as many people across the organization as I could. They are all fully aware of the challenges we face in today's environment, and they still remain determined to achieve our shared goals. It's clear to me that the people at Weatherford are among the strengths that we can also build upon.

Another one of Weatherford's core strengths, one that only a few companies can match, is our global footprint of service and manufacturing locations. In response to the recent downturn, we have and we'll continue to optimize our presence to best match market demand. As a result, we have retained our ability to capture opportunities in key regions without further significant investment. We will adapt to changing market cycles, while maintaining a lean, efficient mindset focused on process discipline and execution.

Our largest challenge is to address the debt load on our balance sheet. Weatherford has already taken several significant steps to improve its financial position. As you know, I've spent most of my 36-year career in accounting and finance roles, and I am keenly aware of the fundamental significance of having both a strong P&L statement and a sound balance sheet.

Given the importance of restoring our financial strength, I intend to heighten Weatherford's focus on financial accountability and cost management.

We've got work to do to push toward profitability. We're going to focus on growing our bottom line through the combination of pricing and contracting improvements in a more disciplined cost management process. Simultaneous to and in parallel with our drive for improved financial accountability, we will also continue to drive greater service quality and reliability for our customers in the field.

Weatherford is on the path to becoming a leaner and more efficient operation. We will continue to trim on the cost side as we adapt to the new pace of business in the diverse markets in which we work, each of which has its own unique cycles and influences.

I see a lot of opportunities to increase profitability within our control and we're going to get after them. Improved profitability will in turn drive cash flow, and stronger cash flow will result in sustainable improvement to our balance sheet.

As we continue on this path, our actions will be guided by our core values. We are committed to acting with discipline in every aspect of our work and to delivering reliable services and technologies that provide maximum value to our customers.

We strive for flawless execution, maintaining the highest levels of safety and service quality. We'll continue to foster collaboration and partnership, sharing resources and capabilities to develop new solutions that help operators produce hydrocarbons at a lower cost per barrel.

By remaining committed to these values, and by working together in pursuit of our shared goals, we can forge a solid path toward improving returns and renewing shareholder trust and value.

The new market reality is a range bound oil price that we expect to remain between $50 and $55 for the year. The reduction in oilfield activity over the past 2 years has resulted in a significant underinvestment that now must be corrected. As production levels come back into balance with demand, the oilfield service sector will slowly become stronger.

North America is clearly leading the recovery. Understanding where I came from, North America's first quarter results are clearly disappointing. Going forward, I intend to make sure that our operating strategy is in line with the underlying market improvement, and that our financial performance ultimately reflects that.

Looking at the international market, our revenue declined by only 2% sequentially, a relatively small contraction when compared to the numbers reported by our peers. Operating margins fell modestly due to seasonal adjustments, including the usual winter decrease in activity and the absence of year-end product sales as well as lower activity levels across Latin America.

We believe international activity has now reached a bottom. International pricing, though, remains under pressure as several operators have locked in current pricing for long-term contracts.

For Weatherford, contract-driven revenue growth and more efficient recovery of fixed costs should result in improved margins with solid incrementals.

Based on my first week, I'd consider our company's opportunities to significantly outweigh our challenges, and I'm excited to be a part of the Weatherford team. As we open a new chapter, our opportunity is here and now and we stand together, resolved to deliver. And I look forward to guiding our company to reach its full potential.

Now I'll turn it back over to the operator for questions and answers.

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## QUESTIONS AND ANSWERS

**Operator**

(Operator Instructions) And your first question comes from the line of David Anderson with Barclays.

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**John David Anderson** - *Barclays PLC, Research Division - Research Analyst*

So you've looked at Weatherford as a competitor in the past and also as the potential target. So you clearly have a good handle of where the company's product line mix stands. Can you tell us kind of how you feel about it from a competitive standpoint? I mean, I guess a bunch of us think that there's a lot of holes in the business lines, just wondering if you agree with that? And kind of maybe what business lines you want to build around, and maybe anything else on the divestiture side, outside our land rigs.

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

As I look at the company itself, I don't necessarily perceive that there's the holes that others might think of. I mean, I think that across the business itself, I'm actually very impressed with the technologies and breadth of technologies across the spectrum of product lines that they are in. I think that we've got some work to do to better integrate how the product lines work together, and thinking about how we approach customers with solutions and selling those solutions. But you think about it -- we talked about emphasizing, well completions and production optimization, I think that's at the core of Weatherford's strengths itself. And as I look at the tubular running services, MPD, the Artificial Lift business itself are very solid businesses. I love the completions offering and the expansion of the product offerings and the completions side of the business unit, actually impressed me very much. So I don't sit here and say, hey, we've got big holes in the portfolio. Now I think that what we've got to do is, as I made in my comments, we need to get the organization to profitability. And I think that the path to our profitability and improved performance is going to be unique across the product lines, based on with their relative market positioning and also the geographies within which they work. And so a part of what we'll be working on here in the next several months is sort of a real strategic review to say, okay, what -- where are we, what do we need to do to continue to improve performance, how are we aligned with our customers, and where they are working, and what can we do to continue to drive the business forward. And if -- and as a result of that strategic review, if it's -- if we see that there are holes or we see that there may not be a path and there might be different decisions that we make.

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**John David Anderson** - *Barclays PLC, Research Division - Research Analyst*

Obviously, one of those business lines, which is pretty critical here, is Artificial Lift, something that you've been looking at for ages and now you finally have it under -- in your portfolio here. I suppose with pressure coming out of 170 takes on even greater importance, you'd mentioned that you weren't thrilled with your North America results this quarter. So on the lift side, now that you have it, what do you want to do with it, I guess? Is this something you think you can build around? Do you think -- it sounds like you think there's more costs to come out. I don't know if you're talking specifically about Lift, and you also mentioned kind of other collaborations. Is this one of the candidates where you can see kind of alternative models developing around?

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

I don't know that I'm there at this point. I mean, look, Artificial Lift is one of the, I think, the jewels in the Weatherford portfolio, and I think, that there's a lot that we can do. When you look at it on a global basis, Lift's performance looked very well and Canada did exceptionally well. I mean, I think that we clearly I think there's a platform upon which to build, and it's a fairly broad offering, the one area that we don't have something in is in the Sperry business. And so I think that -- as we think about the idea of extending the enterprise through strategic partnerships, that might be an area that we look out for partnership to come with someone to broaden the market offering that we work with, but basically everything else in the Lift portfolio looks very good and I think, on a global basis is performing relatively well. So in North -- I think in the U.S. itself, we need to work on it a little bit. But it's -- Lift is a later-cycle product line, as activity picks up in the products that Weatherford offers, we do expect that there will be pickup in activity for them coming in the next quarter or so.

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**Operator**

And your next question comes from the line of James West with Evercore.

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**James Carlyle West** - *Evercore ISI, Research Division - Senior MD and Fundamental Research Analyst*

Mark, I've known you for 10-plus years and your new role here at Weatherford, I've always thought of you as kind of a process guy, if you will, and Weatherford strikes me as, Bernard was a great entrepreneur and put together a lot of very good businesses and product lines, but the integration was never as good as it could have been. Is that something that you see, is that something you're going to focus on, having the product lines talk more, I guess, is probably the way to best put it? Is that an accurate statement?

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

Clearly. I mean, I think, that's -- you're right. I'm a process guy. I mean, I think it's very important. I think, Christoph, who I'm looking at across the table, would agree. He is a process guy. When I arrived here, I think, one of the things that I was encouraged by, there's already a lot of work around improving product line integration, and we've got a number of different projects across the company that we are working on to improve and streamline back-office processes. So it's under way, I think, as I said in my remarks, it's also encouraging the organization at large understands it. Everybody sees the need, and so they're really, really driving at it. But we've got more work to do. It's clearly we've got more work to do and so part of what I've -- we're going to be working on is really making sure that all of the effort is -- we're being aligned as we work to improve processes, and that we are creating the most efficient organization that we can, as fast as we can possibly get it done.

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**James Carlyle West** - *Evercore ISI, Research Division - Senior MD and Fundamental Research Analyst*

Right. Okay, got it. Great. And then, just a question -- follow-up question for me on the balance sheet. I was maybe focused here, is there anything with respect to the balance sheet you think you'd like to do that is, I guess, more creative than the sharing of free cash flow and paying down debt?

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

Not that I see today. I mean, clearly, when I look at the balance sheet, there is a lot of cash sitting on the balance sheet in the form of working capital. And while we're coming down, I mean, I think that we've still got a long way to go, particularly in the inventory area. And so I don't -- there's nothing -- in my view, creative to do with that, it's just heavy lifting, right? You've got to get focused on it. You have to have a plan and strategy for pulling it down. And so it's one of things that Christoph and I are working on right now is getting those plans in place to start bringing that cash off the balance sheet and beginning to use it to pay down the debt.

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**Operator**

And your next question comes from the line of Jim Wicklund with Credit Suisse.

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**James Knowlton Wicklund** - *Credit Suisse AG, Research Division - MD*

Congratulations, Mark, and thank you for being there. The one question that's on everybody's mind is the concern that you're going to come out and do a $1 billion equity offering just any minute now. You've made some comments about the balance sheet. You're getting a check from Schlumberger here shortly, is there a real fear? Should we be concerned that you're going to come out and drop $1 billion worth of equity in the market any day now?

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

I wonder how long it will take to get to that question. No, you should not be concerned. I think, I could never say never on this, but I think that as I look at the balance sheet, I look at the opportunity set, look the -- at where we are in the path toward profitability, and then, as Christoph mentioned, you know that our -- the forecast and the outlook around compliance, I don't see that urgency. And I think that there's plenty of opportunity to try to get this thing done. I think -- besides the completion of the -- getting the OneStim venture solidified, the cash there, we've got the rigs business that is on the block to sell and there's value there, I think, as we unlock value across the rest of the chain, there's plenty of opportunity out there to go after right now. And that's our first priority. I think it's there. I think it's actionable. I think it's well under our control, and so I just don't -- I don't see the need for that. I just don't. And so that's where we're going to get busy on. And we're just not even -- I'm not even thinking about it right now, in terms of going to the market.

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**James Knowlton Wicklund** - *Credit Suisse AG, Research Division - MD*

I appreciate, that. I'm bad about asking blunt questions, I apologize. My follow-up, if I could, is, the previous management was compensated if you look at the proxy on free cash flow generation as way to incentivize management to actually pay attention to it. I admit I haven't read your comp package proxy part yet, but what is the primary -- what's your primary bonus goal, if you would? I'm a believer in compensation drives behavior. What is your primary bonus for the next 3 years based on? Is that cash flow generation, stock price or what's your -- when you go home and your wife says are we getting paid, what's the answer?

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

Well, clearly in the short term goals, cash flow continues to be a performance goal, heading EBITDA -- hitting EBITDA targets is a part of the short-term performance goals, but, look, the real juice for me and I think, the real juice for the management team across the board is shareholder value, right?

Getting the stock price up. That's -- we're incented on both an absolute and a relative basis. And so that's where it is. And that's my big goal. Looking across the organization here, it hasn't had a bonus for a while, and they have options underwater. And so we -- that's if we -- we're going to work hard to get the stock price up. But I think in the end, when you sort of run that corollary, right, getting the stock price up is a function of not only getting the results and the profitable up and debt down, but also then improving our reliability and consistencies as an organization in terms of delivering results, and so there's intangible as well as tangible factors around achieving that. So our goals here are going to drive on both fronts. But not just hitting the results, but also the execution, the discipline around making -- and accountability around making sure that we deliver what we've promised to both our customers as well as to Wall Street.

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**Operator**

And your next question comes from the line of Ole Slorer with Morgan Stanley.

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**Ole Henry Slorer** - *Morgan Stanley, Research Division - Global Head of Energy Research, MD, and Oil Service and Shipping Analyst*

What was the biggest, that you caught over there, over the break?

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

I'm sorry, say again, what's your question?

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**Ole Henry Slorer** - *Morgan Stanley, Research Division - Global Head of Energy Research, MD, and Oil Service and Shipping Analyst*

With your fly fishing world. What was the biggest one you caught over the break?

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

16 inches. No. It was a nice break. But it was challenging because I'm fishing, but I'm thinking about what I'm -- what's ahead of me. And the short sabbatical was a nice opportunity to kind of get my head around what we needed to accomplish there. And as Christoph and the team knows, I really wasn't -- I was away, but I wasn't really away. I was in constant contact and working with the team and so it was -- I'm glad to be on the ground and in the seat and working now to get stuff done.

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**Ole Henry Slorer** - *Morgan Stanley, Research Division - Global Head of Energy Research, MD, and Oil Service and Shipping Analyst*

While you were standing in the river, what went through your head in terms of the challenges that lie ahead?

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

Ole the -- as I said, in my -- our remarks, right, the biggest single challenge ahead of us is getting the debt down. I mean, we've got -- that's just an overhang that it comes with real caution now in the form of interest. It comes with cost in the form of limiting the company's ability to invest as it wants to in new technologies and seizing opportunities that are out there, particularly as the market begins to improve. And so that's probably the biggest single thing, is always thinking about the urgency within which we need to really get the company generating cash to get that debt paid down.

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**Ole Henry Slorer** - *Morgan Stanley, Research Division - Global Head of Energy Research, MD, and Oil Service and Shipping Analyst*

Yes. Absent (inaudible) the $1 billion equity offering, the land rigs, is clearly the most nonstrategic liquid assets that you have or maybe not so liquid, because it might require quite a lot of CapEx before it becomes the prettiest girl at the dance. So what's you're thought around selling it as oppose to investing in it for a one land rig or something equivalent to the pressure pumping transaction?

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

Well, it's funny, because the rig business always requires some level of investment. So we are continuing to invest. If you look at our CapEx, there's a fair chunk of that, that's continuing to keep those rigs improving, as we've had some contracts as they go to work, the -- so that -- we'll continue to do that. I think that as I look at it, one of the initial goals was to try to sell the business as a complete package, sort of one transaction. I think that as we look ahead, I think that the likelihood that it will be a series of transactions, the rigs are spread across a number different markets, and their performance in each of those markets varies. We have got some really good, solid contract in areas like Kuwait. There are other areas where they are sitting idle, and they need some work, and so we'll probably, as we approach it, probably think about how you break them up in a series of packages and maybe there could be some joint ventures that we entered into to use some of them. But I think it's going to require a different level of creativity to get those redeployed than just sort of a one-transaction type deal.

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**Ole Henry Slorer** - *Morgan Stanley, Research Division - Global Head of Energy Research, MD, and Oil Service and Shipping Analyst*

Okay. Well, that's interesting color. And if you look at the Weatherford organization, just take Karen, very competent IR person as your benchmark, and she's probably worked under 2 or 3 CFOs, 3 CEOs. If I go that -- one level down below that, I cant even count it anymore, it becomes -- I need more than the fingers in both my hands. So what is it that you're -- how are you going to bring stability to the organization, which I think must be a priority number one for you?

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

Well, I guess, philosophically to me, stability comes with performance that as the performance of the company improves, that as we get the right -- I'm a big guy about finding the right guys on the team, making sure that everybody understands what their objectives are and then we create clear accountability for what needs to be done. And so trying to be more hands-on, work with the team, and then start to perform. I think when you start performing, it lifts all boats. People get excited about working as you get better engagement from the organization as a whole. And that level of engagement create stability. So it's not -- it's beyond making promises and things like that. It's really around, okay, just sort of being a part of the winning team in and of itself creates that stability. I think, this team is a good solid team. That's the thing that sort of impressed me, is that, look -- you have the capabilities here. What they -- what I need to do as a leader is to empower and to create a vision for the organization that creates a path toward winning for them that they're going to be wanting to follow. I think, that's going to do it.

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**Operator**

And your next question comes from the line of Angie Sedita with UBS.

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**Angeline M. Sedita** - *UBS Investment Bank, Research Division - MD and Equity Research Analyst - Oilfield Services and Equipment Sectors*

So certainly congrats on the new position, and clearly a big surprise, but also a huge win for Weatherford. So, Mark, knowing you, of course, is the due diligence. Obviously, you did a lot of due diligence on Weatherford before you came across, and maybe you can walk us through the factors that made you decide to take the role, and then where do you believe you could have the greatest impact on Weatherford, going forward right out of the gate? And I would think being a Chief Integration Officer at Halliburton over the last 1 year, 1.5 years, has given you some thought processes that -- for your plan of attack.

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

Yes. I mean, as I articulated before, right, I think, that the -- there's opportunity there. I think that, as I evaluate the cost structure, at least from my perspective, sort of evaluate the level of integration between the product lines on a regional basis, and how we go to market, I just felt like that there's opportunity there. There's just -- I know that they're on the path, but that there was still opportunity to be able to go out and get. I looked at the balance sheet and I started evaluating relative to benchmarks that I'm always used to using, that there was opportunity to wring cash off the balance sheet that could be used to pay down the debt. And so when you evaluate and say, okay, this can be manageable, we can get the organization toward a level of profitability, this can be done, and it's in our things that are within the control. The ultimate requirement, though, is process and process discipline, right? When you sort of evaluate, you look back and you think about, okay, what were the things that really sort of burden the financials in the past? There were lawsuits and things that are not going to hopefully happen again. And so part of what you've got to do is ensure that you got process and procedures across the organization that ensure quality, both quality internally, as you execute your business in the day-to-day, but also quality as a you execute your business with your customers. And so -- and I think those are things that in the -- my experience with the integration team as well as former organizations, are things that I know how to do and bring. So that's really the key -- to me, what I intend to try out to help the organization do, is to sort of get to a level of process discipline that can get us to the goals that we need to reach now in terms of getting corporation to profitability and paying down that debt. Part of that is just as a leader being actively engaged with what's happening as well as empowering people across the organization, to make the right decisions and rewarding them for doing that. And so it's going to take some work around, just working with the management team to understand objectives, create division for what we need to do and to create the sense of urgency that we've got to get on it. We've got to get it done yesterday. And that's what I'll be focused on.

**Angeline M. Sedita** - *UBS Investment Bank, Research Division - MD and Equity Research Analyst - Oilfield Services and Equipment Sectors*

All right. That's very helpful. And then I guess as an unrelated follow up, just the thoughts on the goals of reducing debt to $3 billion by 2020, and if you see that as achievable, and then along with that, the timeline to be able to generate consistent free cash flow as you work through working capital and all the other organizational changes.

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

I guess, in my mind, I don't think we have till 2020 to get the debt down. And so I'm not sure Christoph does, either. I mean, I think that our goal is we've got to figure out a path to get that debt paid down faster. And part of that is trying to make sure that we are executing quickly along the objectives that we already laid out in terms of M&A, in terms of the dispositions that need to happen. Get those done. I think that the -- as well, trying to get the cost structure correct so that the organization starts generating cash right now, which wasn't necessarily part of that 2020 calculus. That's -- We are going to get focused in on that. But still, the $3 billion is the right number, but it's, I think, it's the time. We need to get it done faster than that.

**Operator**

And your next question comes from the line of Kurt Hallead with RBC.

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

Different logo, same color. All good, right?

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

All good, I still got all of my red ties.

**James Knowlton Wicklund** - *Credit Suisse AG, Research Division - MD*

Excellent, so, Mark, indeed a lot of work to be done here going forward. Just want to get your sense, as you mentioned, the balance sheet dynamics and focused on inventories, and inventories have come down pretty dramatically over the last 12 months. I don't know if you had an opportunity yet to kind of assess the inventory levels. Do you think that entire inventory level has an opportunity to get monetized? Or do you think there's some products or other things in that inventory that's just probably never going to see the light of day?

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

I don't know at this point. I mean, I think, that's one of the things I better go figure out. I know that the organization has been through a series of restructurings and they have done impairment charges. And so there's been the opportunities, if it was not going to ultimately be sold, that it could have been dealt with. I think that the tyranny that we'll be faced with in the coming months, is that as the market begins to improve and you have new products coming out of the market, I mean, there are new technologies that we are on the doorstep of releasing, particularly in areas like Lift, that whether customer demand and acceptance, will they what those new technologies and will that create certain issues. I mean, it's a part of what I want to do is to make sure that the organization is focused on clearing those inventories now before new product introductions or whatever, is to make sure that we are out there working with customers to sell and value to clear the inventories as much as we can. You'll never get it down to 0, right? Because you've got a portion of that inventory that's manufacturing inventory, raw materials and then you've got your finished products. I mean, one of the other things that obviously, I'll be keenly focused on is looking at our supply chain logistics and making sure that as we work through the system, that we are minimizing the amount of field inventories necessary to sort of have a sustainable business. You want to make sure that you've got the products there to supply customers, but not too much. And that's just something I don't know yet.

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

Got it. Okay, good. And maybe just in the context of cash generation and/or cash usage, you look at the OneStim transaction, right? How much CapEx is needed at this point to get the frac equipment in workable order as per the agreement? And I'm assuming, right, of that $535 million that's coming in from Schlumberger, that they'll be a significant part of that, that will go toward getting that equipment into working order. So just kind of looking at that dynamic, what the cash draw might be for that OneStim? Any sense of that right now?

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

I'll let Christoph take that one. Yes, go ahead.

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

Kurt, the -- as we've said in our previous call, we had 10 fleets, which are essentially deployable with very, very minimal cost. And the remaining 10 fleets, our estimate are between $5 million to $7 million of reactivation cost per fleet. That is our total cost. Now if you look at that in context with OneStim, we are both, Schlumberger and us, looking at the fleets and looking at the relative basis, how much investment is needed to go in. And if that relative basis is in the proportion of the ownership, then there's no additional adjustment on that -- on that number. So from that perspective, within Weatherford, I think you should not expect any additional cost, and if the joint venture closes, then the joint venture will incur that cost. Does that answer your question?

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

Yes. It does give me some additional insights on it and I do appreciate that. I don't want to bog down the call on that kind of stuff. So I do appreciate that color, though. And, Mark, good luck and I look forward to seeing your process and work here.

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

All right. Thank you, Kurt.

**Operator**

And we do have time for one more question. Your final question comes from the line of Scott Gruber with Citigroup.

**Scott Andrew Gruber** - *Citigroup Inc, Research Division - Director and Senior Analyst*

Congrats, Mark. Truly a win for Weatherford. So over the past several years, Weatherford has been streamlining the product portfolio, Dave was asking about it earlier on in the call. On the geographic side, Weatherford still operates in over 90 countries. Is the focus of the strategic review going to be whether the geographic reach should be streamlined as well and can Weatherford be profitable in over 90 countries around the world?

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

Absolutely, absolutely. Without a doubt. I mean, it's sort of one of questions that I laid out even when I was talking to the board and I think and continue to look. It's kind of interesting, because, because Weatherford is a strong product sales company as well as services, there are certain countries that I think that are on the list, where you're selling products and that actually don't have an infrastructure behind it. And some of the ones that may seem unusual, actually could be more -- some of your more profitable ones. But I think that there are also when you look at the extension of various product lines, there are going to be even countries that probably, maybe mainstream countries -- there could be mainstream companies -- countries that aren't profitable right now but we need to take a hard to look at -- we've got some interference, I apologize. So we're going to be taking a look at all of that, with the sort of fix it or exit mentality around each of the countries that we do business in by product line. And it's not necessarily that we want to exit but I think people sort of focus that we want to make sure that, okay, sorry for the interference. But anyway, we are going to be focused on making sure that we get each of those product lines to profitability and have the unique plan in place based on where they're located to get them there as fast as possible.

**Scott Andrew Gruber** - *Citigroup Inc, Research Division - Director and Senior Analyst*

Got it. One other question. One of the issues I've seen with Weatherford in the past is what I would call an underappreciation of contract risk. Mark, given your background, can you just offer some perspectives on contract strategy in light of the inherent risk the global oil service company faces?

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

No. Look, I think that your point is well taken. I mean, I think that has been an issue. So I mentioned in my prepared remarks that one of the things that I'll be focused in on is making sure that we have a contract management and enhancement process that make sure we understand the types of contracts that we are running into. Already -- they are already in place, a number of different processes that Weatherford has adopted and is using to make sure that the organization is zeroed in on the terms and conditions, the -- we are understanding that the risks that are being taken on, and what I really want to make sure is that as we go forward that in the tendering process as we sharpen our pencils to make sure that we're winning our fair share of work around the world that we're also thinking about how we're going to execute that work to both minimize risk but also maximize profit opportunity. And so there will be some workaround that area as well to make sure that the process is in place, so that we're getting consistent execution through the tendering process as well.

**Operator**

And we do have time for one more question, Sean Meakim from JPMorgan.

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

Mark, I guess, I think my question is just when do you think -- obviously, it's early days for you, as you go through that strategic review, is there kind of a timeline we should expect to get some greater level of specificity on the -- what do you define as low-hanging fruit versus longer-term initiatives in terms of your process improvement to drive cash flow? I think that past to their free cash flow stream is really what's investors are looking for out of Weatherford. So maybe you could you give us a little color on that, how you could differentiate some of those buckets and what the timeline would be to get some more transparency there.

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

No. It's a fair question. I mean, I think, clearly, the area that we can work on the fastest is going to be making sure that the cost on the cost side that we're getting after the things that we can. There are already initiatives underway. Christoph and his remarks commented about the headcount reductions that are under way. There were a number of actions that we're taking in the first quarter. There are more that are scheduled to happen in the second quarter. Some of those, particularly in the international markets take a little bit of time because of notice periods and things like that. We are expanding that program. I mean, we are not done, and so we're going to extend it. It's my goal that we have a process so that in the second, third quarter, that those actions are taken such that we can begin to realize the savings on the cost side and get ourselves toward profitability very, very fast here. My goal is to try to get us there in second quarter. And then continue to press forward to generate better cash flow as the year progresses. The balance sheet side is going to take some time, right? Wringing working capital out as -- is a process, it typically takes a lot of different actions and you need a little bit of wind at your back from a market standpoint to be able to clear inventories, as an example. So we're going to have to -- that's going to take a little bit more time, but that doesn't mean that you can't get the initiatives in place and start working. The process side takes a little bit longer, because one of the things that we want to do is we're going to need build -- you want to change process, you want to get people trained, you've got to get documentation, all those kinds of things, but I don't -- I'm not going to run out and hire an army of consultants to go do that for us, right? I mean, we don't need to be spending that money. So we'll be -- we'll be take -- doing that on a measured basis to make sure that we'll get the cost out, but that ultimately does cost takeouts becomes sustainable for us. In the last bucket I would say is on the M&A front, right? Obviously we have a path on the OneStim transaction and getting that done. The strategic review of other businesses and what we'll do will happen in the next 3 to 6 months, over the course of the summer. So we'll have that done. And I want to try to create some more urgency around getting the land rig business sold, and that's probably the one area that right now I feel like is we're a little behind and we need to press forward. But get those things done as rapidly as possible and that sort of targeting, hopefully by the end of this year, first of next.

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

That's very helpful. And I guess maybe just a more -- a smaller point. Thinking about the agreement with Nabors, they commented yesterday they're largely sold out of their NDS equipment. As you're kind of hammering out the details there and working on that, is that initiative, in and of itself, can that be material for the North American business or it counts for Weatherford overall? And then just thinking broader, are there a number of those types of opportunities out there that you think you can pursue to get more product into market and build revenue that way?

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

Clearly, there are. I mean, it's still kind of early days on the Nabors venture, but the fundamental concept of extending the enterprise by having strategic partnerships with other parties where we can use our products and services and sort of jointly go to market is a -- I think a viable strategy and one that plays well to where Weatherford is right now and what we can do. In the TRS, MPD area, it feels like there's just huge opportunities to continue to build enhancements, to work with rig contractors, both in North America and around the world. I mean, you just sort of see it. And I think the more interesting is as time progresses in the Deepwater market begins to come back the idea of associated with Deepwater rigs, there's a lot of opportunity that's there. In the pressure pumping area, I think OneStim itself in the total completions opportunity here in North America is great. Are there other opportunities elsewhere around the world? That's something that we'll continue to stay focused on. But, yes, I think that there is a lot of opportunity there. The question is sort of finding the right ones and making sure that we're going to maximize value for Weatherford shareholders in the processes. We want to make sure that we're aligning with the right partners for the right reasons in the right markets.

Thanks, everyone, appreciate you guys joining the call. Operator, you can close it down now. Thank you.

**Operator**

Ladies and gentlemen, this concludes today's conference call. You may now disconnect.