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EDITED TRANSCRIPT

WFT - Q4 2016 Weatherford International PLC Earnings Call

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OVERVIEW:

Co. reported 4Q16 sequential revenue growth of 4% 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 will be your conference operator today. At this time I would like to welcome everyone to the Weatherford International fourth-quarter 2016 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 Karen David-Greene, Vice President Investor Relations and Marketing and Communications. You may begin your conference.

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

Thank you, Kimberly. Good morning and welcome to the Weatherford International fourth-quarter conference call. With me on today's call we have Krishna Shivram, Chief Executive Officer, and Christoph Bausch, 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 would 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 the forward-looking statements.

Please refer to our Form 10-K for the period ended December 31, 2015, Form 10-Q for the quarter ended September 30, 2016 and recent current 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 fourth-quarter press release which can be found on our website. We welcome your questions after the prepared comments. And now I would like to hand over the call to Krishna.

Krishna Shivram - *Weatherford International plc - CEO*

Thank you, Karen. Ladies and gentlemen, Weatherford is back. We have a new team, a fresh outlook, a new strategy which I will describe later, and a high level of energy within the Company not seen in recent years. We have just been through the most brutal down cycle in our industry's history

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and we have not only survived, we have transformed the Company internally and positioned it well for the multi-year up cycle that is just about beginning.

Let me start by reflecting on several of our 2016 achievements. During the past year, we reduced costs by an annualized $601 million exceeding the targets we set for ourselves at the beginning of the year. Our support ratio was rationalized down to 35% at year end, which signifies a much leaner fixed cost support structure setting us up for strong incrementals.

In addition, we upgraded our leadership team and now we have a talented, experienced group that can run seamless global operations combined with strong regional customer relationships. We also successfully termed out our debt maturities to 2019 and beyond. This financial runway, including covenant management, is now clear for the next few years. And we did all of this with the best safety record in the Company's history and a 24% reduction in nonproductive time in our core businesses.

We are proud of these achievements and I would like to thank our investors, employees, and our customers for their unwavering support during this difficult period.

During the fourth quarter we launched a final cost reduction initiative named Project 300, to target an additional $300 million of annualized cost savings before we get into the up cycle.

In addition, we appointed a new CFO, a new President of Regions and a new Head of Quality & HSE reporting directly to me. Employee and customer communications and engagements have been significantly stepped up and these are already paying dividends.

Overall I am pleased with our fourth-quarter results. Revenue grew by 4% sequentially, with operating income incrementals of 68%, easily exceeding our targeted 50%. North America revenue grew 8% and would have grown 17% had we continued our Pressure Pumping work for the full quarter. The incrementals in North America were 104% as we took costs out right through the quarter.

Internationally, revenue grew by 2% while operating margins improved slightly, reflecting stronger than expected year-end product sales, increased market share driven activity in the Middle East and North Africa, partly offset by seasonal winter slowdowns in the North Sea and Russia combined with lower activity levels across Latin America.

First-quarter revenue will be impacted by $70 million as we suspended our US Pressure Pumping activity and a further $40 million as product sales return to normal levels, coupled with continuing seasonal weakness across the North Sea and Russia.

On the positive side, we will see a seasonally stronger Canada, increased service revenues in the Middle East, North Africa region and higher rigs revenue with the startup of the operations of three additional contracted rigs in Algeria. Operating income will be helped by the absence of the US Pressure Pumping losses and cost savings from the Project 300.

In 2017, absent the US Pressure Pumping business, we expect strong growth in North America driven by Completions, Artificial Lift, Managed Pressure Drilling and Drilling Services with pricing power improving right through the year as supplies tighten. Internationally, for Weatherford, we expect to see growth in the Middle East and North Africa region as we work ourselves into the market share we gained in the second half of 2016.

Barring the resurgent Colombia, Latin America will remain subdued for the rest of this year and is therefore a cost reduction play for us. Europe will be stable overall while Russia will grow. The deepwater markets in sub-Sahara Africa and Asia Pacific have bottomed but we do not foresee any dramatic growth. So again, the focus here is on cost reduction.

Overall, while international pricing is under pressure as several operators have locked in current pricing for long-term contracts, in the case of Weatherford specifically, the revenue growth should result in improved margins and with incrementals of 50% or better as fixed cost are recovered much more efficiently.

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I would like now to set out Weatherford's strategic goals and directions.

We have developed a strategy with four pillars. Firstly, we will reduce our net debt to below $3 billion over the next four years. Secondly, we will position ourselves as specialists in Well Construction and Production Optimization. Thirdly, we will work to create new sales channels and pursue external integration opportunities with partners. And lastly, we will get back to basics in the way we work. Let me start by describing these to you one by one starting with our debt reduction objective.

Our net debt at the end of last year was $6.5 billion. There are two equity linked structural reductions that will occur over time. Firstly, we issued share warrants to an investor last November granting the investor the right to purchase up to 84.5 million shares at a strike price of $6.43.

With the recovering industry conditions, steadier oil prices, increase in E&P spending, increasing activity and more gradually pricing, we believe these warrants will be in the money in 2017 and will likely be exercised, giving us an additional equity injection of $543 million.

Next, we expect the convertible debt issued in June 2016 to convert into equity in 2021. The conversion price is $7.74, which should be reached in this intervening timeframe. As stated previously, we will issue equity shares against this convertible debt in 2021 and reduce our debt by $1.3 billion.

The next element in our debt reduction journey is the monetization of our US Pressure Pumping business. As you know, we suspended our US Land Pressure Pumping operations in the fourth-quarter, idling the last of our nine working crews on December 30. This was done primarily to reduce the steep book and cash losses we were incurring due to sub-economic pricing levels.

Already, we are seeing signs of improved pricing of roughly 25% on average versus December levels. There is considerable optimism, particularly in the equity capital markets, recently evidenced by the successful IPOs of Pressure Pumping companies ascribing valuations of up to $2,000 per horsepower.

Based on these factors, we have decided to pursue a disposition strategy rather than reenter the frac market on US land. We intend to consolidate our US Pressure Pumping business with another industry player to create scale in the market and jointly reap combination synergies with cost and supply-chain savings. Alternatively, we will also pursue an outright sale strategy if we receive a reasonable offer. We expect to fully monetize the disposition of this business during the 2017 and 2018 timeframe.

Today we have 1.04 million horsepower in the United States comprising roughly 20 operating fleets. Nine of these fleets are ready to go back to work with zero CapEx as they were demobilized just over a month ago. One additional fleet is hot stacked. The remaining 10 fleets are cold stacked and require between $5 million and $7 million of CapEx per fleet to reactivate them. In other words, we have a strong well-maintained fleet.

In addition, we have an operating team that is conversant with the business, three service centers, trans-loading capacity of 58,000 tons, 750 railcars and long-term sand supply contracts at fixed prices in what is becoming a rapidly tightening market. In summary, this is a complete and valuable business and should attract several interested parties.

We also expect to divest the land rigs business when utilization levels improve across 2017 and 2018 and we are able to improve the business' EBITDA and consequently valuation. Today, we have 110 rigs in our fleet. In 2017 we plan to upgrade 90% of our active fleet with our state of the art TRS and MPD kits, including a software upgrade to make these rigs much more value added to customers just as we are doing with Nabors' rigs on US land.

All of these rigs that are targeted for an upgrade are located across the Middle East and North Africa region. We expect these upgraded rigs will gain market share and better pricing in 2017 and into 2018, allowing as to materially improve the financial performance of the rigs business.

Additionally, we will push for closer integration with our other product lines to be more competitive on integrated services. With these steps we expect to improve the performance of the rigs business so that we could monetize this business in the back half of 2018.

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In total, we expect to monetize these two businesses for between $1.5 billion to $2 billion. These numbers could be conservative depending on market conditions at the time of disposition.

When you adjust for all of these items I set out above, our pro forma net debt reduces from $6.5 billion at the end of 2016 down to a range of $2.7 billion to $3.2 billion at the end of 2021.

We believe this debt reduction journey, as I have explained it, is eminently achievable and it is the single highest priority of the Company to reduce net debt below $3 billion by 2021.

We cannot conclude the discussion on debt reduction without discussing free cash flow. Free cash flow from operations will continue improving with a recovery and the business cycle.

CapEx in 2017 and 2018 will remain tightly controlled as we improve asset utilization and mop up the enormous amount of excess equipment and manufacturing capacity we have on hand. In the medium to longer term we expect our overall CapEx to run in the 5% to 6% of revenue range annually after 2018.

We continue to be long on inventory and we expect to continue liquidating inventory into 2017 as activity levels pick up. Starting in the second half of 2017, working capital will begin to consume cash at approximately $0.15 to $0.20 on every dollar of incremental revenue. Offsetting this we expect to generate better earnings and EBITDA.

Other items that have bled the cash flow in recent years will have disappeared after 2017, such as the SEC fine payment and severance costs for the several rounds of headcount reduction.

We have demonstrated discipline on capital spending and working capital management. However, the key to sustainable free cash flow going forward is improved profitability. With increased activity levels and gradually improving pricing and also enjoying the full benefit of the cost reduction actions taken over the last two years, without the cash drag of paying for it, will put us in a much better position to improve profitability and sustainable free cash flow.

The second pillar of our strategic direction is to reposition Weatherford appropriately. Instead of trying to be a one-stop shop for everything from greenfield exploration to well abandonment, we need to recognize and focus on the sweet spots of Weatherford.

Weatherford plays largely in the production arena rather than exploration, and is more well centric rather than reservoir centric. Our focus is to become the best Well Construction and production optimization Company. We define Well Construction as including planning, designing and drilling a well, ensuring its integrity and completing it. In Weatherford this is represented by our Drilling Services, Well Integrity, Well Construction and Completions product lines.

In this portfolio, Weatherford has unique value adding technologies such as managed pressure drilling, or MPD, Tubular Running Services, or TRS, and today we are global leaders in Well Construction Products and Fishing & Remedial Services.

In directional drilling our capabilities in smaller hole sections are unmatched while our LWD measurements are best-in-class. Our high-pressure high-temperature capabilities in DD/LWD/MWD are industry-leading.

In the completion's realm, we have well-built out portfolio products for both land and offshore applications. You will notice that I did not mention frac anywhere. While hydraulic fracturing is an essential part of Well Construction, and we retain the full capability internationally, we believe that frac market in the US is commoditized and best left to expert practitioners of that business.

To synthesize, we believe we can plan, drill, case, secure and complete a well, or in summary, construct a world-class well for our customers better than anyone else.

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Secondly, we are leaders in the production arena. Our wireline suite is unique for field development and cased hole work, our reservoir solutions group is concentrating more and more on production optimization, and, with our wide range of artificial lift technologies, we are ideally positioned to optimize the production across the lifecycle of a well or a field.

We believe the next five years belongs to the land development arena and Weatherford is uniquely positioned to benefit from both of these trends, which are land and development. This also means that capital intensive product lines, such as US Pressure Pumping and land rigs, will be disposed and monetized, making Weatherford an asset light Company with improved returns.

The third pillar of our strategic direction is to open new sales or service channels to the market and pursue what we are calling external integration opportunities. We believe the entire industry should gear itself for a medium-for-longer oil price environment. This means that for the foreseeable future we should expect oil prices to oscillate within the $50 to $70 per barrel band as the US becomes a swing producer and provides both bookends to this pricing range.

For the industry to survive everyone in the value chain has to make an acceptable economic return, starting with the operator, the drilling contractors, the service companies and the equipment manufacturers. The only way to do this is to lower the cost of producing a barrel of oil to the point where everyone makes a decent return within this oil price band.

Today, that is certainly not the case. The only way forward is a step change in automation, mechanization and digitization. In all my meetings with customers this theme is often repeated. While integration is the way forward, the old, monolithic style of heavy R&D spent developing me-too technologies and competing on price is not entirely valid anymore.

While technology development remains key for the future of the industry, what I call external integration is emerging as a theme with regularity in our customer conversations. Weatherford will engage actively with other companies to collaborate on the themes of automation, mechanization and digitization to develop value-added processes and technologies that will reduce friction costs while drilling a well, reduce personnel on site through automation while creating a safer environment and work on predictive maintenance programs that can make the production cycle super efficient.

These partnerships or alliances would benefit all participants as their access to the market gets enhanced and customers will undoubtedly benefit from lowering their overall drilling and production costs meaningfully. Today Weatherford is in active discussions on many such collaborations. The agreement with Nabors that was announced yesterday is a good example.

Firstly, this arrangement provides a compelling proposition to operators on US land to reduce costs by automating a significant part of the drilling operations and delivering wells efficiently. Secondly, for Nabors, their rigs become much more attractive in a highly competitive but growing market, while for Weatherford, we open a significant new sales channel for our technologies and services to fuel our growth on US land in our core businesses. This growth we expect will offset the loss of revenue from exiting the Pressure Pumping business. This is a key strategic direction for Weatherford and we call it external integration.

The last pillar of our strategy is rebooting Weatherford with a back to basics agenda. Our key focus areas for operations are customer engagement, flawless execution based on excellent service quality and safety, talent identification and management with a specific focus on field operating managers and country level product line managers, the roll out of the Next Gen Weatherford program, Engineers program, continuous cost improvement, and finally, enforcing a culture of accountability throughout the Company.

These are all reflected in our 2017 objectives which were rolled out to the 2,700 managers from country product line level upwards to myself on January 3 of this year. The entire organization has already spent the last 30 days working on achieving these objectives. We are wasting no time. Our day to day actions back these themes and is generating a new sense of purpose within the Company. With that I will now turn the call over to Christoph.

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

Thank you, Krishna, and good morning, everyone. Fourth-quarter revenue increased by 4% sequentially as a result of increased activity in North America, year-end product sales and market share gains in Middle East and Asia. This was partly offset by lower activity in offshore markets such as West Africa, Brazil and the Gulf of Mexico as well as continued pricing pressure and international markets.

Segment operating loss before R&D, Corporate expenses and charges and credits improved by $35 million, with sequential operating income margins improving by 273 basis points to negative 5.4%. Incrementals were strong at 68% and 73% excluding rigs.

Excluding charges and credits loss per share for the quarter was $0.32. During the fourth quarter we recorded $246 million of charges and credits net of tax. This included charges for an additional workforce reduction, the shutdown of our Pressure Pumping business in the US, litigation costs, as well as closure and impairment costs as we continue to rationalize manufacturing and operational facilities.

In addition, we took a charge of $10 million relating to the devaluation of the Egyptian pound and a $16 million credit related to the fair value adjustment of our outstanding warrants.

North America revenue increased 8% sequentially and operating income margins improved by 938 basis points, but remain negative at 11.9%. The decision to close our Pressure Pumping operations negatively impacted our revenue in North America, which would have grown 17% had we continued our Pressure Pumping work for the full quarter.

Both the US and Canada grew strongly on land while offshore Gulf of Mexico weakened. The incrementals in North America were 104% as we continued to reduce costs throughout the fourth quarter. The operating loss in North America of $58 million includes a loss of $29 million related to the Pressure Pumping business and would have been worse by approximately another $20 million had we continued this business through the quarter.

Outside of Pressure Pumping improved utilization and pricing in our Well Construction and Drilling Services businesses combined with higher Completions activity and reduced facility costs supported this sequential improvement.

Internationally our revenue improved 2%. Latin America revenue decreased by 2% principally coming from lower activity levels in Venezuela, Mexico and Brazil. This reduction was partly offset by higher revenue in Columbia, benefiting from an increased rig count. As a result of the reduced revenue as well as an unfavorable mix, operating income margins declined by 281 basis points resulting in fourth-quarter operating income margins of 2.3%.

In the Europe/Caspian/Russia/Sub-Saharan Africa region, revenue declined 5% sequentially as offshore activity continued to decline in West Africa. Our operations in Europe and Russia were negatively impacted by the usual seasonal decline partially offset by increased revenue in the Caspian. As a consequence, operating income margins deteriorated by 306 basis points despite strong cost control measures.

In the Middle East/North Africa/Asia-Pacific region, revenue increased by 10% reflecting product sales combined with increased revenue from startup of new contracts partly offset by continued pricing pressure. Operating income margins improved by 454 basis points with reasonable incrementals of 46% as mobilization expenses and pricing pressure partly offset margin improvements resulting from increased sales.

Revenue for our land rig business declined 4% with overall lower rig utilization, higher downtime and delays of the startup in Algeria.

On the cost side we initiated a further headcount reduction plan totaling 3,000 employees. In addition to a general streamlining of our support cost structure, it includes pulling back our Pressure Pumping operations in the US, closing additional uneconomical field locations, removing regional structures in the two largely deepwater dependent regions, namely Asia-Pacific and sub-Sahara Africa, and combining them with the Middle East and Europe regions respectively, and further rationalizing our manufacturing footprint. These actions are expected to generate additional annualized cost savings of about $300 million.

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At the time of this call we have already reduced 2,000 employees out of the 3,000 mentioned before and most of the other cost reductions have been put in motion. During the fourth quarter, we ceased operations in an additional five manufacturing facilities bringing the 2016 total to 15.

As part of the incremental savings mentioned above, we expect to close another four manufacturing facilities in the first half of 2017, which allows us to strategically consolidate our manufacturing footprint with presence in each of our operating regions while retaining additional capacity to address the expected growth.

R&D costs went up by $7 million sequentially to $40 million in the fourth quarter, reflecting increased commitments to develop new product and service offerings. Corporate costs increased by $2 million following exceptionally low costs during the third quarter. The current levels for both R&D and Corporate costs can be considered as run rate for 2017.

The tax charge recorded in the fourth quarter of $6 million represents mainly cash taxes of $21 million paid internationally, predominantly in deemed profit countries where taxes are levied on revenue without regard for income levels. These cash taxes were partly offset by a release of provisions related to expected withholding taxes in a variety of countries which did not materialize.

As mentioned last quarter, we will not be able to benefit from accumulated tax losses in the US and in some other jurisdictions in the short term, until we reach a level of sustained profitability. This means that the tax rate for future periods will largely reflect the cash taxes paid internationally. Our current estimate is a quarterly charge of approximately $40 million dependent on the geographical mix of revenue and earnings.

Free cash flow in the fourth quarter was $171 million. Included in the fourth-quarter cash flow were capital expenditures of $68 million, $105 million of debt interest payments and $39 million of cash severance and restructuring costs. Working capital generated $263 million of cash principally from a reduction in inventory balances, a reduction in DSO by five days to 90 days as well as extended payment terms with suppliers.

Although we reduced our DSO at year-end to 90 days, this is still materially higher than the DSO at previous year ends which have ranged between 74 days and 81 days. I want to take this opportunity and thank our team for their relentless efforts to improve our working capital and I'm sure we will continue to see improvements over the year 2017.

As we are benefiting from a robust infrastructure and surplus equipment in most of our product lines around the world, we expect total capital expenditures in 2017 at around $250 million, depending on activity levels as well as market opportunities. This excludes the buyout of operating leases in our US Pressure Pumping business amounting to $240 million, which we finalized in January 2017. This buyout will not only increase our EBITDA in 2017, but it will also give us increased flexibility for our plans for this business going forward.

Net debt of $6.5 billion decreased by $507 million during the fourth quarter, reflecting the proceeds from the equity issued during the quarter as well as the improved working capital partly offset by the net loss. During the quarter we deployed a small portion of our available cash to pay down an additional $50 million of our term loan. At the end of the quarter we are compliant with all covenants on all of our financing facilities and we expect to remain compliant going forward.

To be specific, our calculations at the end of the year were: 1.6 for specified debt divided by specified EBITDA versus the covenant of 3; 3.0 for specified debt plus LCs divided by the specified EBITDA versus the covenant of 4; asset cover of 22 versus a minimum covenant of 4.0. As of December 31, we had $1 billion in cash and an undrawn revolver facility of $1.3 billion.

As the new CFO of Weatherford my top priorities are: debt reduction, free cash flow generation, improving profitability, disciplined capital allocation and improved predictability going forward. And now I will turn the call over back to Krishna. Krishna.

Krishna Shivram - *Weatherford International plc - CEO*

Thank you, Christoph. I would like to close out our prepared comments by repeating the four pillars of the strategy for Weatherford.

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Number one, we will reduce the net debt to less than $3 billion by 2021. Number two, we will position Weatherford as the best Well Construction & Production Optimization Company in the world. Number three, we will open new sales channels and pursue external integration opportunities with partners to enable automation, mechanization and digitization. Number four, we will run Weatherford's operations with a strong back to basics approach revolving around customer engagement, flawless execution, talent management, cost control and fostering a culture of accountability.

We believe that with this strategy Weatherford will reinvent itself and thrive. You will see a new revitalized Weatherford with disciplined growth and improved returns with no surprises and better predictability. Being predictable is usually boring, but for Weatherford being predictable and boring is a damn good thing. Thank you. And now we will open it up for Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Jim Wicklund, Credit Suisse.

Jim Wicklund - *Credit Suisse - Analyst*

Krishna, I agree, it is a damn good thing.

Krishna Shivram - *Weatherford International plc - CEO*

Thank you, Jim. Good morning to you.

Jim Wicklund - *Credit Suisse - Analyst*

With the comments about strategy going forward and the fact that the word interim doesn't appear in the press release, are we to assume that you are the full-time continuing CEO of Weatherford?

Krishna Shivram - *Weatherford International plc - CEO*

All right, so, Jim, you will have to understand that for a Company as large as Weatherford having one CEO for over 25 years the Board has to run a professional process to pick a permanent CEO. That process is still ongoing. And it is the right way to do it; it is the professional way for Boards to behave. So that process is still ongoing. And we expect in the next several weeks the Board -- the selection committee and the Board will reach a decision on who the permanent CEO is going to be.

We have a Board meeting scheduled for around March 10, which is just over a month away. And we -- our expectation is that by that time they will reach a conclusion on who the permanent CEO is going to be. I have been informed by the Board that I am one of the candidates in the running for that position. So I think we just have to take it from there.

Jim Wicklund - *Credit Suisse - Analyst*

All right. With the strategy that you have laid out I think that is very positive. So I wish you, in the decision making process, the best of luck.

If I could, on the divestitures program -- and I think the debt reduction plan as a priority is clearly a positive, I think all investors think that. Looking at the land rig fleet, I know that you guys have had a [scalp] bid or two over the last some period of time and there is no reason to hit it at this point.

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You mentioned monetizing it hopefully by the end of 2018. What is the CapEx that you are going to have to put into the rig business to upgrade 90% of the fleet over the next two years?

Krishna Shivram - *Weatherford International plc - CEO*

That is the beauty of the whole strategy. We are talking about upgrading it with stuff that Weatherford makes on a daily basis. We are talking about mechanized TRS, we are talking about NPD systems -- land NPD systems which are not that expensive, and we are talking about upgrading it with Weatherford's software -- with a new Weatherford software called OneSync that integrates all of these measurements in one platform and makes the rig operations much more effective and automated.

Much of this CapEx that we talk about is already sitting in inventory in Weatherford product lines. So it will be largely going out of our inventory levels and going into the CapEx of the rigs business, so really from one pocket to another. In terms of cash flow, there is hardly a dent that can be made on our cash flow. It is just, like I said, different categories of -- or different lines on the cash flow statement. So, no, the CapEx is not significant at all.

Jim Wicklund - *Credit Suisse - Analyst*

Okay, and my follow-up if I could, you mentioned just as a bookkeeping item -- what is your exposure, in terms of North American revenues, what is your exposure generally to the offshore sector? How much is onshore land, how much is offshore?

Krishna Shivram - *Weatherford International plc - CEO*

Well, we are largely (multiple speakers) onshore. We are largely onshore -- well, let me just look at these numbers here. In Q4, for example, excluding Pressure Pumping we are -- well, I will give you the exact number, 89.4% onshore, on land, and only 10.6% offshore. So a largely land focused Company.

Jim Wicklund - *Credit Suisse - Analyst*

Okay, perfect. Thanks very much (multiple speakers).

Krishna Shivram - *Weatherford International plc - CEO*

And that is going to be the big growth [pocket] going forward, as you know. I mean, offshore is going to grow very gradually. Thank you, Jim.

Jim Wicklund - *Credit Suisse - Analyst*

That is a much better mix than most of the other -- your peers have. Thank you very much.

Operator

Bill Herbert, Simmons & Company.

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Bill Herbert - *Simmons & Company - Analyst*

Great call, Krishna, very compelling plan that you have put forth and also detailed. So well done. With regard to examples of kind of additional external integration let's talk about the Nabors alliance as a paradigm. It sounds compelling with regard to the marriage of your Drilling Services with their rig platform and yet it is nonbinding. So can you talk about that, one? And two, other sort of examples of external and integration that we might expect going forward?

Krishna Shivram - *Weatherford International plc - CEO*

Okay, so let me talk about the opportunity with Nabors, first of all. As the rig count grows in North America and we listen to our customers (technical difficulty) we talk to our customers all the time here on US land. We are talking about some customers thinking of going to super specced rigs with 30 pads around it, 30 well pads. I mean, you are talking about a completely different paradigm shift.

It is going to be only some companies that can actually drill effectively in a cost-effective manner on US land and make the economic cut at let's say a medium oil price environment. So our customers are driving this. They want much more automated drilling; they want lower-cost, much more efficiency, lower people on the well site and drag the cost per barrel downwards.

So for Nabors, they have very strong super spec rigs, they have a good position on US land and, of course, it is a highly competitive market. But by adding Weatherford technologies on Drilling Services, MPD, TRS, all of these things, particularly MPD and Drilling Services, they cross the paradigm from being a very efficient driller to being a fully automated Drilling Services provider as one compelling drilling package. They can offer the entire package to customers in one fell swoop, which is exactly meeting the customers' needs today.

For Weatherford Nabors, from what I gather, they have about between 70 and 80 rigs operating on US land today and it is growing rapidly with the increase in rig count. We operate on just a handful of those rigs. So it is a great huge new channel to the US land market. And this is one of the ways we are going to supplement the loss of the US Pressure Pumping business with let's say more profitable and more core product lines for Weatherford going forward.

So we will tap into [their] sales channel and increase our sales. Now it is a nonbinding MOU at this stage because we have a strong meeting of minds and we are working -- our engineering teams and our commercial teams are working together. And as we knock out the details in the next few weeks going forward on all of those -- dotting the I's and crossing the T's, and put rigs to work on the ground, let's say the union will become more binding, as you would imagine.

Now other examples, we are indeed in discussions with other companies along similar lines. The basic premise here is we have to move quickly as an industry to lower the cost of production. And there is not one services company or one equipment provider or one drilling contractor that has all the technologies needed to automate the entire drilling process. So it takes years of engineering and investment to get there if one wants to pursue that strategy.

The much quicker way to get to market on this and address customer needs is for companies to collaborate. And we are certainly in the middle of these discussions and we think customers -- actually everyone we've spoken to about this strategy, they absolutely love it. They want to see this happen. So I am very pleased with this alliance that we have struck with Nabors. We are going to put the first let's say fully automated rig on the ground as partners very shortly.

Bill Herbert - *Simmons & Company - Analyst*

Okay, that is great. Thank you. And then secondly, with regard to monetizing your frac business in the US. Are you -- first, are you in dialogue with prospective counterparties with regard to JVs? And then with regard to outright sale, would that also possibly encompass a public market alternative in the form of an IPO or what have you? If you could elaborate in terms of where you are in your discussions on frac and what the [forward] path may include with regard to divestiture possibilities.

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Krishna Shivram - *Weatherford International plc - CEO*

So, Bill, I mean there is a huge amount of interest in our frac business. We have had numerous inbounds from every quarter that you can imagine. The market is very active now, as you know. And we are in discussions actually already with some interested parties discussing all of the above. We are discussing combinations, we are discussing outright sales and the potential -- we have not discussed IPOs so much, but the first two we have discussed.

And we think at the speed of the discussions that are ongoing right now, the monetization part is actually going to probably -- will most likely be much quicker than what I set out in our prepared comments. I said 2017-2018 because if we get into a partnership with an industry player we might get some cash now and then a stake in the business going forward and that might take a little bit longer to monetize as we let that state go over time. But if we pursue the sale strategy we might be able to monetize it much, much quicker.

Bill Herbert - *Simmons & Company - Analyst*

Very good, thank you, sir.

Operator

Ole Slorer, Morgan Stanley.

Ole Slorer - *Morgan Stanley - Analyst*

Thank you very much and, again, very clear presentation, Krishna. And I can't understand why the Board wouldn't endorse your plan here. And also Christoph, congratulations with your CFO role.

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

Thank you, Ole.

Ole Slorer - *Morgan Stanley - Analyst*

So, if I could just ask a little bit about -- there's many moving parts here and clearly you have quite a ramp in the Middle East based on contract awards. That was also something we heard when we were out there last and I'm glad to see it come through, North America improving. But now without the Pressure Pumping and streamlined, can you give us a little bit of guiding on how your regional businesses are performing right now in the first quarter from a margin standpoint?

Krishna Shivram - *Weatherford International plc - CEO*

So let me just take you quickly through that. In North America clearly we will have the virtual absence of the drag on Pressure Pumping results. So Q1 will benefit from that. Canada is obviously much stronger in Q1 seasonally. And in fact, most of our other product lines are performing quite robustly right through Q1 with increased rig count, increased activity levels.

So, you will probably see a reduction in revenue because of the absence of Pressure Pumping, but an improvement in margins in North America. In Latin America we are taking our (multiple speakers) as we speak --.

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Ole Slorer - *Morgan Stanley - Analyst*

(Multiple speakers) can you give us some kind of guiding on the magnitude of that improvement? Would you be willing to share where you are running right now?

Krishna Shivram - *Weatherford International plc - CEO*

It is going to be good, but we are not going to give specific numerical guidance on the call. We can only talk directionally, and I think directionally it will be pretty noticeable, the improvement in margin, because of the reasons I mentioned.

In Latin America, Ole we are going to take out more cost as we speak; we are working on that. And so you will see a cost driven margin improvement. We don't expect, except for Colombia, a major shift in sentiment of our customers in the first quarter. Europe will remain subdued because of seasonality. So you might see -- again, there is a cost implication there, so maybe a slight improvement there.

Russia will remain subdued because of seasonality. Middle East will actually -- Middle East and Asia Pacific benefited the most from let's say a higher level of product sales in Q4 which will then abate in Q1. So the revenue and the margins associated with that higher level of product sales will reduce in the Middle East.

Having said that, the service footprint in the Middle East is increasing day by day because of all the contracts we won in the last six months. And we are gradually working ourselves with control into all of these contracts. So, for example, the large wireline contract we won in one of the countries there, we just put our first nine trucks on the ground in Q1 and the first jobs were performed last week. Three jobs were performed last week; they were the first jobs under the contract.

So, you are going to see a buildup of service revenue in the Middle East, which is quite remunerative and quite profitable -- offsetting part of the product sales (inaudible). So overall I would say just from a percentage margin level I think we will do fine.

Ole Slorer - *Morgan Stanley - Analyst*

Very good, good help. Thanks for that, Krishna. And again good luck. I will hand it back.

Operator

Angie Sedita, UBS.

Angie Sedita - *UBS - Analyst*

I echo the sentiment of others on the very strong game plan, Krishna. Impressive to hear and we appreciate the details.

Krishna Shivram - *Weatherford International plc - CEO*

Thank you.

Angie Sedita - *UBS - Analyst*

So on the $300 million in cost cutting and savings that you think for 2017, you implied that some of it was completed in Q4. Could you talk about how much was computed in Q4, I assume modest? And the timing as we go into 2017 on the rest of that coming out of the system? And is that generally internationally weighted or both internationally and North America?

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Krishna Shivram - *Weatherford International plc - CEO*

I am going to ask Christoph to respond.

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

Yes, Angie, I will take that one. So that Project 300, as we call it, a big portion of that was the shutdown of Pressure Pumping, which we had already talked about. That will have significant cost savings in North America. In addition to that, as I have mentioned in my prepared remarks, we are reducing support call staff and we are consolidating our regions. That is internationally.

So we have already taken out 2,000 headcount, as I have mentioned, at this point in time. So that means that reduction is already in the Q1 results. There will be some going into -- towards the end of Q1 and into Q2, but by the -- I would say towards mid-end Q2 we will have achieved the full reduction potential.

Angie Sedita - *UBS - Analyst*

Okay, okay, very, very helpful. And then on the -- Krishna, on the new sales channel that you are considering, does that include -- maybe you could talk a little more color there? Does that include looking at some of the local oil service companies internationally? Or are you more focused on an integration approach?

Krishna Shivram - *Weatherford International plc - CEO*

No, we are not looking at the local service companies internationally, not at all. I think what we are looking for is meaningful partners that we can work on a large scale. And I don't want to waste my time on small countries with small channels here and there. The Nabors, for example, alliance is a very large market in the US land and that materially moves the needle for both Nabors and Weatherford. So those are the kind of channels that I am interested in pursuing.

Secondly there are some discussions on technological let's say integration with other companies, which make eminent sense, which could open new markets. So those we will pursue as well. But we will not pursue local companies to deliver our either combined technologies or individual technologies to different customers internationally.

Angie Sedita - *UBS - Analyst*

Okay, good, good, thanks. I will turn it over.

Operator

Marc Bianchi, Cowen and Company.

Marc Bianchi - *Cowen and Company - Analyst*

Thank you. First question as it relates to the 50% incrementals that you discussed. Is that a companywide comment and is that something we could expect to see here in the first quarter?

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Krishna Shivram - *Weatherford International plc - CEO*

Well, it is a companywide comment. And it is generally true for all quarters going forward, depending on where the revenue moves. Now first quarter is going to be a little bit peculiar because you are going to see a revenue reduction because of the absence of US Pressure Pumping in North America that is. But you are going to see a pickup in margins because of the absence of the Pressure Pumping losses. So it is going to be skewed positively because of that.

So I would not say from Q4 two Q1 is a regular transition because of these peculiar movements of revenue and bottom-line. But on a more sustainable basis, yes, that is the companywide number that we are targeting.

Marc Bianchi - *Cowen and Company - Analyst*

And, Krishna, that would include the full benefit of the cost reductions you are talking about as well as perhaps some price increase? Or is the price increase adding some upside to that?

Krishna Shivram - *Weatherford International plc - CEO*

Certainly the full benefit of the cost will be there. And pricing is going to be gradual, Marc. It is -- depending on the market -- internationally, for example, as we said in our prepared comments many operators internationally, mainly NOCs, have issued a slew of tenders in the last six months, eight months and have tried to lock in current pricing levels for multi-year -- for many years going forward, between one and three years typically. And so Internet surprising is going to be recovered more gradually.

North America pricing is going to recover in a more robust fashion. In the product lines that we will remain, which is Well Construction, related product lines, MPD, Completions, etc., the pricing trajectory is quite nice and we will continue to enjoy that.

But I would like to basically say that for Weatherford, even internationally, because of the cost actions we have taken and the very large fixed cost infrastructure and equipment infrastructure that we have, we are increasing our market share. And as we work into that market share increase the incrementals are going to be very strong even if we don't get that much of a measured price increase, because we will just recover and grow into that infrastructure without any additional cost.

So, for us it is a little bit of a different play. We were vastly underrepresented in market share internationally and that is what we are trying to get back and we are getting it back now. So you will see despite -- not a measurable price increase you will still see reasonable very good incrementals internationally.

Marc Bianchi - *Cowen and Company - Analyst*

Certainly, a lot of spare capacity to fill up. Thank you for that I will turn it back.

Operator

Ken Sill, SunTrust Robinson Humphrey.

Ken Sill - *SunTrust Robinson Humphrey - Analyst*

Congratulations again, like everybody else. I wanted to clarify something you just said, Krishna. You talked about North America revenue being down sequentially. I guess Pressure Pumping is going to be down, but the rig count in the US is already up 15%, 16% and still rising, Canada up

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huge seasonally. So was that just kind of reference to Pressure Pumping or do you expect North American revenues to be down sequentially in Q1?

Krishna Shivram - *Weatherford International plc - CEO*

It was a reference mainly to Pressure Pumping, you are absolutely right. We are expecting growth in the other product lines, not only with the US rig count, but with Canada being stronger in Q1. So that will be an offsetting. But if you just look at North America as a whole for Weatherford, the two will offset each other. We could likely end up maybe flat, potentially.

Ken Sill - *SunTrust Robinson Humphrey - Analyst*

That seems a little bit low, but I am not going to push guidance at this stage. And I wanted to kind of dig in a little bit, get ahead of the game here. So, you guys have historically been pretty big in Canada and it was stronger in Q4, it is starting out strong here. And it is a little bit ahead of the game.

But in terms of how you see that progressing with the spring break up, I mean how big is Canada now that Pressure Pumping is gone? And what kind of impact is spring break up going to have on the sequential improvement for Q2?

Krishna Shivram - *Weatherford International plc - CEO*

The spring break up is still in the future, I mean it is kind of hard to predict when it is going to start, right. I don't want to predict weather here. So far so good, I mean we are experiencing a very strong quarter in Canada. So in the short term Canada is proportional. North America obviously increased because we have an absence of the Pressure Pumping revenue in the US.

But over time the other product lines in the US will pick it up and offset the loss of the US Pressure Pumping revenue. So we will probably end up at roughly the same kind of proportion we used to enjoy in North America. But I want to come back to your -- when you said the flatness of North America from Q4 to Q1, it seems to be low. I just want to put a number to it.

We are going to lose $70 million of revenue. Pressure Pumping revenue in Q4 was $70 million, 7-0. That is going to go away, which means -- what I am saying is we are going to grow everything else by $70 million, that is not insignificant.

Ken Sill - *SunTrust Robinson Humphrey - Analyst*

Thank you for clarifying that, I had the impression that revenues in Pressure Pumping were less than that in the fourth quarter. My bad. Could you give us an idea of how big Canada is proportionally to North America right now?

Krishna Shivram - *Weatherford International plc - CEO*

I think we would prefer not to divulge that level of detail on the call, Ken. Sorry about that.

Ken Sill - *SunTrust Robinson Humphrey - Analyst*

That is fine. And then one final question -- go ahead. No, never mind, I will turn it over.

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Operator

Byron Pope, Tudor Pickering Holt.

Byron Pope - *Tudor Pickering Holt - Analyst*

Just one question from me as I try to calibrate North America in the context of the disposition strategy with regard to US Pressure Pumping. And I am not looking for -- obviously not looking for numbers here, but just framing ex the Pressure Pumping business.

You guys have always been strong in Artificial Lift in North America but strong in Completions and Well Construction as well. So as we think about North America in 2017, just trying to size those relative businesses to make sure we don't get out over our skis in terms of how we think about top-line growth for North America for you guys.

Krishna Shivram - *Weatherford International plc - CEO*

Well, Pressure Pumping in North America in 2016 -- revenue was for us was about just under $300 million. And that will disappear effectively in 2017. And like I said in my prepared comments, we absolutely expect to at least make that up in the growth of the other product lines. So we will not only offset it we probably will more than offset it with the growth in rig count and activity in North America.

Now all of the growth there is going to favor our Well Construction and Production portfolios, which will benefit disproportionately from the North American activity -- the type of North American activity increase we're going to see.

Byron Pope - *Tudor Pickering Holt - Analyst*

Thanks, that is helpful, appreciate it.

Operator

And I will now turn the call back over to the presenters for closing remarks.

Krishna Shivram - *Weatherford International plc - CEO*

Well, thank you for participating in today's call. And we will turn it back to the operator for closing the call.

Operator

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

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