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WFT - Q3 2016 Weatherford International PLC Earnings Call

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OVERVIEW:

WFT reported 3Q16 sequential revenue growth, excluding revenue impact of Zubair project, of 1% and loss per share before charges and credits of $0.39.

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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 third-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 call over to Karen David-Green, Vice President of Investor Relations and Corporate Marketing and Communications. You may begin.

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

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

Before we begin with our opening comments I 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 our forward-looking statements.

Please refer to our Form 10-K for the period ended December 31, 2015, Form 10-Q for the quarter ended June 30, 2016, and current reports on Form 8-K for risk factors and the customary caution on forward-looking statements. We welcome your questions after the prepared (technical difficulty). And now I would like to hand the call over to Krishna.

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

Thank you, Karen, and good morning, everyone. Let me start with a recap of our operating performance in the third quarter. Excluding the revenue impact of the Zubair project, which is now completed and which had an extraordinary adjustment in our second-quarter results, the revenue grew by 1% sequentially, marking the first sequential increase after seven consecutive sequential quarterly declines.

This clearly marks a troughing of the cycle for the industry and for us. And from now on, we expect to see a steady recovery on a sequential basis.

Operating income before R&D and corporate expenses improved marginally by $5 million, with sequential operating income margins improving by 48 basis points to negative 8.2%. Incrementals excluding Zubair were strong at 77%.

Loss per share for the quarter before charges and credits was $0.39. EBITDA at $68 million was $10 million better than in the second quarter.

In the third quarter we recorded after-tax charges of $1.4 billion. The principal items included a non-cash charge of $718 million for the impairment of assets and inventory that have remained idle on a persistent basis and cannot support their carrying value any longer. And a non-cash charge of $683 million for tax valuation allowances principally in the United States, where accounting guidance dictates that deferred tax assets based on tax benefit and losses cannot exceed certain thresholds.

If we had been able to record a similar tax rate as in the second quarter, our loss per share for the quarter would have been $0.27. The economic value of these tax benefits are not lost. The tax benefit on the US losses can be carried forward for 20 years and we can use these losses in the future, resulting in negligible cash taxes for several years to come.

Going forward, for the next several quarters we will not be able to record a tax benefit on our US losses. This means that our future tax charge will largely reflect cash taxes paid internationally, mainly in jurisdictions where deemed profit and withholding taxes apply. Lastly, we also recorded charges of $20 million for severance and restructuring.

Getting back to the third-quarter operating results now. North America revenue increased 12% sequentially versus an average US rig count increase of 14%. Canada resurfaced after the spring breakup benefiting completions, artificial lift and well construction. Operating income margins improved by 394 basis points but are still weighed down by four pricing levels and remain negative.

Internationally, excluding Zubair, revenue declined by 4%. Latin America revenue improved by 2% principally coming from increased activity in Mexico, Bolivia and Colombia. This revenue uplift coupled with cost actions taken in late Q2 and into Q3 resulted in a 453 basis point improvement in operating income margins to reach 5.1%.

In the Europe, Caspian, Russia sub-Saharan Africa region continued sharp activity declines offshore West Africa and on land in Nigeria dominated a reasonably resilient performance in Russia and the North Sea resulting in a sequential revenue reduction of 8%.

Operating income margins improved in Russia and the North Sea Continental Europe region due to cost control measures and activity mix, while sub-Sahara Africa margins plunged in line with revenue to reduce the overall region margin by 123 basis points to minus 1%.

In the Middle East/North Africa/Asia Pacific region excluding the Zubair contract the sequential revenue decrease of 5% reflected activity reductions across the Asia Pacific region, while pricing headwinds in the Middle East more than offset activity increases.

Operating income margins declined 213 basis points to a small loss essentially coming from the Asia Pacific region where activity levels are at historic lows. Revenue for the land rigs business declined 10% with lower sequential utilization rates and margins and were hampered by rig maintenance and delays in equipment and personnel reactivations in Nigeria.

On the cost side we have completed the headcount reduction plan of 8,000, generating annualized savings of $504 million. Also we ceased operations in three manufacturing facilities during the quarter bringing the year-to-date total to 10 which is an excess of the nine plant closures for the year. Finally we closed five operating facilities mainly in the United States for a total of 59 for the year.

Given the current market context and the anticipated increase in activity levels we have chosen to preserve capability to address the upcoming growth. Below operating margins, R&D costs reduced by $8 million while corporate costs were down by $4 million, reflecting continued spending cuts. These levels are now sustainable going forward.

The tax charge recorded in the third quarter of $32 million approximately reflected the cash taxes paid internationally, comprising withholding taxes in deemed profit countries where taxes are levied on revenue without regard for income levels.

As already explained, for the foreseeable future we cannot benefit the losses in the US 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 and our current estimate is a quarterly charge of between $30 million and $40 million dependent on the geographical mix of revenue and earnings.

Moving on to the near-term outlook now. We expect continued robust recovery in activity levels in both the US and in Canada with growth in rig count on land. The growth will be driven by both completions and artificial lift which are expected to improve sequentially with customers aggressively working through the DUC, which is drilled but uncompleted inventory of wells.

Additionally, we expect to put two more pressure pumping fleets to work, bringing the total number of active crews to nine by year end. While pricing remains challenged in the US pressure pumping market, the first step to recovering pricing is increased utilization. There are industry-wide signs of slowly tightening capacity.

While year-end holidays and seasonal factors will weigh on the results, we expect to grow both revenue and margins in North America.

Internationally we expect to see continued modest growth in Latin America, a reasonable growth in the Europe/Caspian/Russia/sub-Sahara/Africa region with growth in the North Sea, based on recent contract awards and the deployment of an offshore MPD package on a deepwater rig coupled with a bottomed out but stable sub-Sahara Africa which more than offsets a seasonal slowdown in Russia.

In the Middle East/Asia Pacific region we expect activity increases in the GCC region based on recent contract wins and some positive pick-up in product sales. While pricing continues to be under pressure across the entire region, we do not expect any further deterioration in pricing from current levels.

In summary, we expect a solid quarter of growth coming up in the fourth quarter with improved margins.

Moving on to net debt and cash flow now. Free cash flow in the third quarter was a disappointing negative $147 million. Included in the third-quarter's cash flow were capital expenditures of $62 million, $101 million of debt interest payments, and $38 million of cash severance and restructuring costs.

Although working capital generated $65 million of cash principally from a reduction in inventory balances, this was well short of expectations as a large number of customers are actively managing cash flow and further delaying payments to service companies across the board.

As of Q3 we are light about $200 million on customer collections. Many of our customers are paying as well outside contractual credit terms. We have never experienced this degree of willful disregard of contractual terms by several of our customers. Obviously these customers have solid credit and recoverability is not in question, but the timing of collections is clearly delayed.

As our customers will benefit from better oil prices going forward we expect them to improve their payment cycle in the fourth quarter and into next year. At the same time we have been making normal payments to our vendors, which in a sense is similar to paying down debt obligations.

Free cash flow in the fourth quarter is expected to improve sequentially with better expected operating margins, higher customer collections, continued inventory reductions and lower cash severance payments.

Net debt in the third quarter increased by $271 million to reach $7.1 billion as of September 30, reflecting the neck of free cash flow during the quarter and certain rig lease buyouts at the end of the lease period.

As of September 30 available liquidity remained very strong at $1.4 billion, including $1 billion of revolver capacity and $440 million of cash balances. With no substantial debt maturities in 2017 and 2018, we have enough liquidity to manage our needs.

And with that, I will now turn the call over to Bernard.

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

Thank you, Krishna. Q3 marked an end and a beginning. We believe it is the end of the retrenchment and the end of the legacy clean-up for Weatherford. We believe it is the beginning of the recovery and over time an expansion, but a more efficient and profitable expansion than ever achieved.

Operationally Q3 was a transition quarter with a tail end of pricing running through our P&L offset by last of cost cuts. It made for flat sequential revenues for the beginning of an improvement in EBITDA. Of course in the quarter we had higher activity increases in a number of markets and a significant increase in incremental business order book.

Q3 was also the last market-related reserves and write-downs. You should not expect any further material charges going forward. The valuation allowance for use of tax losses in US taken in Q3 is different from write-downs. With evidence of a US recovery and return to sustained profitability, this should be gradually reversed and re-credited with each quarter.

Lastly, Q3 was also the final step towards closing all legacy issues from the administrative problems of 2010 and 2011 and 2012. I am referring to the recent settlement with the SEC concerning the tax restatements of 2011 and 2012.

At quarter's end all issues, and I mean all issues, involving governmental agencies and civil lawsuits, all of them have now been settled and closed. There are no exceptions, there are no tails, and there are no exposures. Weatherford is done.

Looking back at regional results, in NAM Q3 can be marked as the first sign of a turnaround. By mid August, client inquiries were substantially increased; September was materially stronger. We are in recovery mode for NAM.

In Latin America we expected Q3 to be further challenged. Q3 actually improved over Q2, driven by cost cuts but mostly by early gains primarily in Mexico and Colombia. We are changing our prognosis based on all we see; we are in early recovery mode in enough parts of Latin America they should carry the whole region. Latin America will recover initially more slowly than NAM, but it is nonetheless the beginning of a recovery.

Eastern Hemisphere saw its low in Q3, a combination of pricing concessions running through the whole quarter but predominantly further activity deterioration in Asia and SSA. They have been the two most challenged regions and to date the worst performance in the hemisphere.

The rest of the Hemisphere improved, but not enough to offset these declines. Europe/Caspian/Russia continue to improve. MENA improved quarter on quarter but not as much as expected. MENA had some client project delays but they are not long delays as the forward views will highlight. By the end of the quarter the trend was clear; Eastern Hemisphere as a whole is turning.

The synthesis is the same] for all regions. Q3 marked the end of the decline for all regions. We are in recovery mode. Different spending on region and product lines were recovering, nonetheless. And to be completely clear, both NAM and international are in recovery mode.

From this point forward we should expect improvements in profitability, improvements in margins, on the back of a very lean cost structure and a thoroughly improved operating bench and leadership.

Forward views. The following forward views are for Q4. They have relevance to 2017 as a directional extension of Q4. A summary and in order of contribution for Q4, from the highest to the lowest.

First, MENA will improve markedly in Q4. Second, NAM will improve. As a simple marker for NAM, revenue growth is expected to exceed that of the rig count. Third, Latin America will continue its gradual recovery; there will be modest further improvement in Q4. Four, Russia and Europe Caspian will be flat.

Seasonal trends affect the rate of improvement, Europe, Caspian and Russia behaved very well throughout the decline, they remained profitable throughout 2015 and 2016 albeit at a fraction of their 2014 levels. But Q4 flat most likely.

The last two regions, Asia and SSA, sub-Sahara Africa, will not deteriorate further. They are at their trough. I add below more granularity from -- geographically going from west to east which is I will cover in more detail NAM, Latin America and MENA. That is not by -- in order of contribution, but just going from West to East.

In Q4 NAM will show volume and improving margins, driven by fixed cost absorptions. All product lines will benefit, but some more and earlier than others. For us the first movers are clearly completion, lift, drilling services, wireline and even drilling tools, otherwise called rentals. These product lines will deliver quarter-on-quarter high incrementals.

Completion is a star performer. Obviously, a reduction in DUCs is one issue, but we are also gaining share in the plug and perforated segment. Similarly, the completion of DUCs will accelerate the turn in our lift. And our lifts are also inventory movements, in fact, in many forms of lifts, which will cause added market impetus above and beyond increased activity. Let me explain.

We are the largest player worldwide, including NAM, in all forms of lift except ESPs. Normally lift is an [island of] resilience and stability, but with the unprecedented collapse of NAM activity, lift experienced unusually large by any historical standards client destocking of new and past inventory, as well as severe curtailment of the new well market.

This deterioration was much worse in our forms of lift than the ESP segment because of the types of wells ESP addresses. As a correlation, our lift and all non-ESP lift peers have much more to recover with a turn in the market effective pretty much now.

Rig service will see very large absorption benefit with volumes finally rising from very distressed levels. The complexity of some of the well designs open opportunities for both our high angle RSS and high-temperature LWD. These applications and opportunities are greatly diminished in the US since 2014.

This is very helpful for our drilling services profitability in NAM much of the engineering and applications planning, planning core of NAM drilling services was kept intact as precious muscle to the recovery. The carrying cost overhead burdened heavily the US region; volume increases will be therefore incrementally very rewarding.

Some of the most distressed product lines, ones we very seldom talk about, will show life. Probably best example, the easiest illustration is drilling tools or rentals. Our rentals product line restrained their market participation since pretty much the end of 2014. Pricing levels had reached levels where use of tools was grossly unattractive on all levels. We gave up share. Our rental asset utilization in Q3 was barely 7%.

In addition to sitting out part of the market, we secured the integrity of our stack rental fleet through methodical inspection and rigorous maintenance. All of it is ready for market deployment with improved demand.

Now, demand will come with drilling activity, but there are already developing pockets of equipment shortages. We had two years of wear and tear and no replacement capital. The excess tubular and pressure control equipment is much diminished and of course the increase in laterals is an additional factor and overall rise in market demand.

So, in other words, you will find some positive trends in rentals but pressure bumping will also rise commensurately. But marginal contributions won't be comparable to the other product lines. Unless pricing rises in pressure pumping incrementals simply won't be comparable.

Now in pressure pumping volume is increasing. Our pressure pumping evaluation moved from six spreads in September to eight in October and most likely will end the year at nine. Our completion and [wireline] product lines are added on most of our spreads, they are bid purposefully as a bundle or integrated offering. This is a trend likely to increase with utilization.

With nice spreads deployed after 10 active will reach about 90% utilization of our marketable capacity. The remaining 10 spreads, or 500,000 horsepower, have not been cannibalized. They have been kept cold stacked but with full periodic maintenance and upgrades. The cost to bring them back on the market will be modest.

The larger challenge will be labor and efficiency. This will limit the speed at which we decide to scale up our market presence. We have to keep highest efficiency on our deployed spreads. For pressure pumping we will prioritize efficiency and individual returns versus rushing for fleet utilization.

Overall in NAM there are small upward price movements in a few instances and for different product lines. It is not widespread. Pricing on all NAM products and service lines, not just pressure pumping, remains therefore for now at extraordinarily low levels.

The industry has never operated at such pricing levels, let alone for long periods of time. It serves to describe part of what went on in 2015, and even more so this year as a process of industry liquidation. This pricing level is not sustainable and it can't work even with large-scale efficiencies and the like. Pricing will need to improve for all.

With the exception of pressure pumping where upward pricing correction will take longer and/or is uncertain we think NAM pricing for most product lines will gradually increase in a measured way, but increase nonetheless in the quarters ahead.

Internationally, MENA and Latin America are the largest expected movers in Q4. Europe and Russia will be well behaved, but entering seasonal slowdowns that limits their upside. Latin America is likely to show a modest improvement building on Q3's first steps. Mexico and Colombia were at unheard of historical lows first half of 2016. They improved some in Q3 and are both showing further recovery in Q4.

Now it is important for us because both were historically our largest markets in the region, which makes their move meaningful. Argentina and Brazil are unlikely to improve for now and neither is Venezuela. But we don't expect our Argentina or Brazil business to soften either. Flat.

Venezuela in our case is more sort of an example of self-discipline. Venezuela kept to a minimum with less than $25 million a quarter for PDVSA. We have brought operations in Venezuela to the absolute bare bones. We can't shrink it any further without exiting the country altogether.

MENA is not about first steps in recovery. MENA is all about self-help, the rebuilding of lost presence in key (inaudible) Middle Eastern markets. Laying the seeds to recover our position has been a long two-year process in the making. And length of time as course is typical for this part of the world. There are now tangible results.

By the end of Q3 MENA had already been awarded $1.5 billion net incremental contracts for a time period between three and four years on average. Pricing reflects market conditions and is reasonable. Furthermore, absorption effects will be powerful in that region and allow for significant margin expansion. This incremental activity specifically for Kuwait, Abu Dhabi, Oman, Algeria and Saudi Arabia.

Q4 will run at significantly higher levels than Q3, and 2017 even more so. The product line exposure is broad-based, but completion and formation evaluation that is drilling services and wireline have the most gain. Managed pressure drilling and well construction are a strong second.

In short, effective Q4, MENA is back at Weatherford, growth and margins. As a synthesis, Q4 will be a first-quarter recovery. Q4 is essentially all MENA and NAM. Revenues will rise, EBITDA will rise, and earnings will improve. And free cash flow will be positive and catch up as much as we can of prior-quarter shortfalls.

It is too early to be specific about 2017; signs point further recovery building on Q4, this feels reasonable. We are at exceptionally low levels of activity and pricing. If oil does no more than hold at $50 throughout 2017, we would have further activity gains and improved financial performance on the back of an extremely lean cost structure and much improved operating bench and leadership. This is what we believe.

Now, will oil stabilize and oil rise further? We have views like everybody else, but rather than make personal commentary, which is probably not worth very much, I will state a recent quote from Saudi's energy minister to sum up our own conclusion from a far more authoritative source. Read the quote, it is not long.

Beginning of the quote, rapid non-OPEC production growth has reversed with major cuts in upstream investments and a steepening of decline rates. Without investment, that trend is likely to accelerate to the point that some analysts are now sounding warning bells of future supply shortfalls, and I am in that camp.

A few last words on our direction. The direction is focused and disciplined; it is -- today right now it is all operations, managing the expansion underway. What does it mean? We will market our bedrock of technology through our 1,000 strong base infrastructure. We will develop and use our technology strength like we never have before to carve out proprietary innovative solutions.

Not all client-based solutions are revolutionary in nature; many or most are evolutionary. We have a deep base of technology which has not been harvested the way it could. It is being harvested here and now and will be developed further.

The few items disclosed in the press release, and we will do this every quarter, illustrate what we are achieving routinely in technological breakthroughs. Successes cover different product lines ranging this quarter from TRS to formation evaluation.

They also illustrate closeness with clients; client intimacy joined with specific technological applications to specific client productivity and field development objectives is what we want to be known for.

Beyond technology, operations will focus on two objectives: state-of-the-art operational efficiencies and achieving industry leading quality execution. We aim to keep the lowest fixed cost structure feasible, regardless of activity increases. We also want to be the industry's lowest NPT, nonproductive time, on all products and services delivery in any and all of our locations. We want to be the most reliable. Operation objectives can be summed up with two words, efficiency and quality.

In 2014, adjusting for divestments Weatherford had about $14 billion in revenues and $3 billion in EBITDA. This year, 2016, we'll have less than $6 billion in revenues and less than $0.5 billion in EBITDA.

We lost about $4 billion in activity and $4 billion in pricing, almost the same size loss. We took out 43%, almost 44% of our payroll worldwide, substantially curtailed layers of management, upgraded in-depth operating management and restructured our supply chains and shut down many inefficient facilities worldwide.

To the best of our knowledge this resulted in cuts of about $4.5 billion in variable costs and about $1 billion in fixed costs that we can identify.

With activity we will have fast rising EBITDA. We used to have $3 billion of EBITDA and with our structural fixed cost revolution, we arguably could be about $4 billion or $1 billion a quarter.

Lastly, the capital intensity of our core business -- core businesses, plural, is much lower than it was historically while we have the entire infrastructure built up. This Company will turn and grow on far less capital.

The cuts in fixed costs are permanent and sustainable even after a more than doubling of activity, and we have ample capacity. Our supply chain and over 1,000 strong location infrastructure can accommodate 3 times the present activity level. Our bedrock of technology runs deep and broad within our core and with applications we haven't put on the market yet.

We have vastly improved our operating bench and leadership. Our NPT and safety statistics earn us acknowledgments and distinctions throughout the world; while our HR hiring, training and talent development is at par with our industry's best and orders of magnitude better than it was. Lastly, we have a legal and a financial bench which is second to none in this industry.

The accomplishments delineated above have not had the time to demonstrate a change in operating economics and financial results. We understand this; we also believe they will now and in 2017.

We are entering the recovery phase for our industry. We believe with honesty and confidence Weatherford is a different Company, a much improved Company. As the recovery unfolds Weatherford will provide and must provide financial performance to evidence this transformation.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). James West, Evercore.

James West - *Evercore ISI - Analyst*

So a couple questions, one of the North Sea. You sound much more optimistic than I would say your peers around the North Sea. Is that a factor of contract wins? And maybe this actually this question goes to MENA as well. Have you been picking up market share in both those regions giving you a better perspective or a better growth trajectory than your peers?

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

We have. We picked up market share in the North Sea; we have picked up market share also in MENA is obvious. We haven't really picked up market share, we are regaining market share that we had lost some years ago. Market share in the North Sea is on and around managed pressure drilling, [sub] drilling services also and is balanced between the UK and Norway. Norway we never had a large presence, it is now becoming a bit resizable. MENA I think I gave enough geographic backdrop. I can give you more detail (multiple speakers).

James West - *Evercore ISI - Analyst*

Okay, okay, fair enough. Is managed pressure drilling picking up more in the North Sea than it has historically? Is that -- I mean I know you are the dominant player there, is that the right read?

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

As point of fact, no, because the entire offshore sector is so depressed and durably so. Actually managed pressure drilling is picking up market share in general in some of the line applications. But it just so happens in North Sea we had some clients that invested in MPD and it is happening now. So therefore the prognosis is better for us in the North Sea.

But in general SSA and all the offshore markets being the way they are, MPD being a natural application for all deepwater and certainly all offshore markets -- more so and before so land, that has been deferred. It is just gains in North Sea and offshore on land elsewhere.

James West - *Evercore ISI - Analyst*

Okay.

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

May I also add -- this is Krishna, James. On land particularly in the Middle East for all gas drilling applications, in several countries MPD is now becoming more --.

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

Increasingly so.

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

Increasingly so, becoming more compulsory almost as a requirement. So we are seeing some rapid growth on land there.

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

And the driver is cost, safety -- and I will stop there. And cost has actually had a lot to do with fluids more than anything else as opposed to the speed of drilling and then safety is obvious. So it is becoming -- given time it is becoming the norm for any kind of drilling that is due to high pressure so gas being the classic example.

James West - *Evercore ISI - Analyst*

Okay. And if I could pivot real quick to North America and the artificial lift business. So clearly a destocking has gone on with your customer base here. Are there -- and that will reverse itself as NAM picks up. Are there any new technologies you have introduced as well that may enhance your position in lift?

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

We are introducing new technology, but for now I would rather not talk about it too much. Give us a few quarters so we can have trials and things along those lines and we will see -- and it is not only for NAM, it is also internationally. There are some trials going on also in Middle East.

I think for now it should suffice that the non-ESP forms of lift, which there are four, are reciprocating, progressing, hydraulic and gas, but the first three in particular have had -- their biggest competitor in 2015 and 2016 actually has been destocking as opposed to one another.

Now in ESPs it has been far less the case, which makes it in a down market a much better product line simply because those wells don't go down, they are not deferred in terms of maintenance. And so the cycle of replacement remains quite healthy. Whereas the others, depending on how low the business gets, will get cycles of deferral and we had extensive ones.

And on top of all our clients pressure cash flow had been using their inventories of all manners of reciprocating and progressive cavity pump lift products which has made life far more difficult for lift than it normally is in a down market. Now the flip is that there is an inventory turn of course which is coming, yes, in addition to an increase in activity.

James West - *Evercore ISI - Analyst*

Got it. Okay thanks, gentlemen.

Operator

David Anderson, Barclays.

David Anderson - *Barclays Capital - Analyst*

Hey, Bernard, can you just help me understand some of the moving parts in North America and what drove the sequential growth this quarter? I am just kind of curious how much of a headwind was tubing running service in the Gulf this quarter. And maybe just tell us kind of what parts of onshore has outperformed. Was it rentals, was it -- you talked about lift of course -- pressure pumping? Maybe I am missing something here.

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

No, no, it is very simple actually. Most of the non-pressure pumping product lines started moving in volume towards the end of the quarter. The volume increase in simple terms in NAM was -- in Q3 was for us unusually high for pressure pumping versus anything else. And so that sums up the quarter when you look at it. This is Q3, right.

Now if you looked at September you saw movements in all of the other categories of [process] service lines which gives us the visibility into Q4. If you look at July and August, I would have to say to be simplistic that it is correct, it was predominately pressure pumping, which is unusual because that is not where we -- that is not the core of our core.

And in pressure pumping I am afraid that at least our experience with the pricing level we have, we have absorption benefits, true, and that is a good thing, but it is still very limited at the end of the day versus the other product and service lines, they are high incrementals.

Put another way, we started the quarter between 3 and 4 -- our spreads utilized, we ended the quarter close to 6 in pressure pumping, therein lies the increase that took place. And again in September you had all -- the full range of the other products and service lines beginning their move and much stronger into October.

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

And just to complete the thing on the Gulf of Mexico -- clearly there was an activity reduction in the Gulf of Mexico which did affect our offshore product lines. So the bottom line is that the land pick-up was extremely good to offset the offshore reduction.

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

That is also true.

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

And North America I mean shows a mix really, our results really show the mix there.

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

But at this point, David, I think our Gulf of Mexico mix for the US alone, because Canada obviously is a non-issue, must be less than 10%. That gives you so. But I think the reduction in the Gulf was happening already in Q2 and more in Q3, so [it affects liner hangers, invitation, TRS,] all of that. That is absolutely correct also. But still the [lion's] segment was still lopsided with pressure pumping much more so than it will be in the future, it is just the way it happened.

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

Right.

David Anderson - *Barclays Capital - Analyst*

So you just said that -- you called pressure pumping kind of not the core of your core. And that is one of the things I'm wondering about. About a month ago you sounded like you were potentially thinking about exiting the pressure pumping business. This quarter you are talking about adding some or pressure pumping.

Help us understand what your thinking is regarding pressure pumping. Where does it fit over the next couple of years? What do you want to do with this business really ultimately?

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

First of all what we have and we want to make it better in terms of the quality of the equipment, between the maintenance, number one, which we have done. Number two, how well we run it. And also the combination and in terms of applications and completion and wireline. Wireline being -- completion wireline being obviously the plug and perforate.

Now what will we do with it? We certainly are not interested in selling it today, it is the wrong time to sell anything today -- our view. So that is not in the picture. What we do later, I don't think we will put any capital in it, why? Because it has got low barriers to entry and frankly through cycles low returns.

We have also learned that we need to focus all our time and attention on the service and product lines that have the highest returns through cycles, we are very clear on this. So we are not going to put any capital of any significance in that business, but we'll protect it, we will enhancement it and we may or may not divest of it, but not today and not anytime soon, wrong time.

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

And you know we use it also as a vehicle to bundle some of our (multiple speakers).

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

Yes, Wireline completion.

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

More higher return businesses around pressure pumping. So it does serve as a vehicle. As long as pressure pumping can return its cost with a positive contribution to margins that is what we are focused on.

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

And just for added color on the whole thing, our entire fleet, the one that we have kept, which is 1 million horsepower, is all organic, it was never acquired, which makes it by industry standards relatively young. It is all the same OEM, which makes it also from a maintenance standpoint very coherent and easier to manage.

And as I mentioned in my comments, I meant what I said, we have cold stack maintained that equipment, maybe too well because it was an expenditure, went through our P&L, not our CapEx. But it is in good shape and we are not going to rush to put it on the market, we'll just do it gradually when we get decent incrementals.

The [product line] has been protected and also has been I think enhanced, best we can, with the notion to make it more valuable either to sell one day or just to run it and have proper return, but not to grow it, that is our mentality. And Krishna is absolutely right, we added bundled sales of wireline and completion give you an idea it was very, very low initially.

In Q3 it was about 50% of our fleet on the market had our wireline and completion. We think this moved to 75% to 80% in Q4, etc. That is actually interesting, although that is reflected in the completion of wireline -- our marketing and contribution, not pressure pumping, but it is facilitated by it. That is another consideration.

David Anderson - *Barclays Capital - Analyst*

Okay, thank you.

Operator

Bill Herbert, Simmons.

Bill Herbert - *Simmons & Company - Analyst*

I was wondering if you could elaborate on Eastern Hemisphere and MENA. And if I heard you correctly, markedly improved in the fourth quarter both top line and margins. I am curious with regard to that statement on top line -- you highlighted the impressive wireline contract win.

But I am just curious as to whether, one, that starts in the fourth quarter; and two, there are other contract wins that you did not highlight in the fourth quarter that provide you with the visibility and confidence for the significant top-line and margin improvement in Q4.

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

Well, the one that was put in the -- I think in a press release is simply because it happens to be a large number. I'm not quick to put all the contracts in a press release because that's probably not terribly helpful.

The other -- but it is not all clear, $1.5 billion that we have right now today and that is a number that will move up over a period of time in next quarters is not all wireline, obviously not. DS, drilling services, is the second largest component. DS is in Kuwait again, it is in Abu Dhabi again and it is also in Saudi Arabia.

And then you have your completion, completion is not as big of a dollar number as a wireline, but it is very high margin. And again that one would be in the markets I just mentioned. And then you have managed pressure drilling on land, which is something that we are trying to manage the growth as carefully as we can from a quality or execution standpoint so we are not going to go very fast on that. And it is progressing, Saudi Arabia being the leader on it.

And of course you have a series of liner hangers, cementation, TRS on land, applications also in terms of separate contracts to be added to it. Lift not really except -- so a few trials of technology but not really lift. That will be the only one that will be missing and out of these incremental contracts in MENA.

We have the equipment for that contract; I will just make a general statement. We have the equipment, the equipment is in region or is coming in region from other regions. So the capital requirement is very, very low in terms of fixed assets. We do have equipment, we have equipment well-maintained, identified and everything else.

And equipment is already being deployed. In the case of wireline, in the case of DS, in the case -- well, completion is a products business. The equipment is being deployed. Managed pressure drilling is being deployed -- actually is being already executed on.

So this is not a situation where you are going to have these sort of lumpy contracts and all of a sudden we choke on the volume and so forth and so on, not at all. We've learned our lessons, there being equipment that has been identified, being deployed, people have been trained already, it is going to be gradual. It is not all going to be in Q4, of course not. It is going to be throughout 2017 there will be further growth.

Be mindful of the fact that I think we have been disappointing and disappointed in MENA for two years now, a bit longer actually, and it has been a considerable amount of work, considerable amount of work regaining a presence in that market which going back many years was our most profitable region on all measures and highest return region on all measures.

We lost it and why we lost it is probably not something we should discuss on this call. Many of you know why. But recovering it has been a very high priority; we have finally made some progress. If we execute well, it is all about NPT, our technology performs, again it is all about NPT, then I think this will be a repeat performance for future volume gains on a broad -- on the broad set of products and service lines. I really believe this.

Bill Herbert - *Simmons & Company - Analyst*

Yes. So in order to specifically frame the question so we are better positioned here going in this quarter in terms of expectations, I am just curious as to whether we could just kind of, if you feel comfortable doing so, specify -- because the adjectives were markedly --.

You sort of seemed to indicate a relatively rigorous rate of sequential improvement. And I am just trying to calibrate that with regard to the magnitude of sequential revenue improvement as well as margin improvement in MENA for Q4. What are -- is sort of a realistic set of expectations on those fronts?

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

Oh, first I will let Krishna answer that. One lesson we have also learned, many lessons, is that we have I think -- we're trying our best and everything else. I think you will agree with me that guidance has not been our forte when we quantify things. And that will be a charitable comment.

We are well aware of it. So we are being more -- well, directionally we see things as they are. We are being far more careful on how we express numbers and so forth and so on because we dread the notion of being wrong. With that being said, I will ask Krishna to get his feet wet and say something before I say something.

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

So, Bill, first of all, if you look at the last quarter's press release you will find some -- one or two mentions of very large contract wins in the Middle East as well. Now those contracts are also being mobilized. All the equipment, people, training everything has been mobilized across Q3, but you will start seeing the revenue kicking in in Q4. So it is not just the wireline contract we refer to in this press release, it is also earlier contract wins and you can verify that.

So really there is quite a robust underpinning of our expectation of revenue growth in the Middle East. I mean, as Bernard said, do we want to put a number to it? It's definitely going to be in the high-single-digits, that is our expectation (multiple speakers) sequentially.

And obviously it will come with margin growth as we recover our fixed cost in a much more effective manner. Remember much of the equipment is already -- most of the equipment is already on our books depreciating, so there is no additional CapEx or depreciation cost associated with earning this revenue. So it is going to be accretive to our margins.

Bill Herbert - *Simmons & Company - Analyst*

That is helpful. And then last one for me is that on the North American -- I certainly agree with the line of sight with regard to the sequential improvement in a top line. You had pretty vigorous improvement in the third quarter and yet the incrementals were subdued.

We probably have a decent amount of reactivation expense and R&M expense associated with those frac leads. I am just curious as to what drives the above average incrementals in the fourth quarter when we saw pretty vigorous top-line growth in Q3 but subdued incrementals?

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

Actually much of the revenue growth in Q4 will come from all the other products and service lines. This is what we saw in September, this is what we are seeing in October. Now pressure pumping will continue to rise, but I think we won't get I don't think any further more rich incremental contribution from them, but they will be diluted in terms of effect on margin by the incrementals of the other project service lines, it will be more robust in Q4 for us than they were in Q3.

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

It is activity mix, I mean the growth (multiple speakers).

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

Mix, the mix will be (multiple speakers).

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

The growth in Q3 in North America dominated by pressure pumping, but the other product lines did contribute. But the returns -- the incrementals on pressure pumping are obviously lower. In Q4 that reverses.

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

Reverses.

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

So the other product lines increase more, that is our expectation, and they will bring more margin. So --.

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

The long description of various product lines was trying to cover the fact that they were moving, and they just didn't move as much in July and August.

It is also true I would add that the types of clients that we're getting work from and inquiries from and so forth in NAM is a little bit different -- was a little bit different already in September, it is on October -- than it was in the earlier part of Q3. Bigger companies, I think ones that have more high engineering content, etc.

Bill Herbert - *Simmons & Company - Analyst*

Thank you.

Operator

Jim Wicklund, Credit Suisse.

Jim Wicklund - *Credit Suisse - Analyst*

Congratulations on the realization of the negatives of giving explicit guidance, thank you. Just perform, you will make us all happy. Bernard, did I hear you guys say that offshore is only about 10% of North American revenues?

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

Less than that, actually. If you include Canada it would be less than that, yes.

Jim Wicklund - *Credit Suisse - Analyst*

Okay, okay, I didn't want that to be my first question though, it is just a clarification. Bill was talking about the cost, you guys talked about the cost of reactivating -- starting to reactivate your 10 idled pressure pumping spreads. You noted that you kept them well maintained which should reduce the capital cost required. Can you give us an idea of how much -- is it $1 million, $2 million, $3 million to reactivate an idle spread today?

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

It is about $5 million to $7 million, in that range, per spread. But obviously we will spend that if the pricing justifies bringing those fleets back online. This is roughly what we expect. It depends on the particular spread we are talking about.

Jim Wicklund - *Credit Suisse - Analyst*

That is helpful. Let me ask you a question that is kind of I think on everybody's mind and that is the free cash flow issue. Is there any reason why Weatherford can't generate free cash flow? Is there something about artificial lift or well construction or completions or formation evaluation that would cause them not to be able to generate free cash flow?

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

Not at all. I mean free cash flow in Q2 and Q3 is a very simple story, Jim. Customers are not paying us on time and we are obviously incensed about it. Given the balance sheet and the financial stability of some of these very large customers, the way they are managing the cash flow is a little bit egregious to say the least.

When you think about their own cash flow and the uses they are making, they are favoring dividend payments and other things like that including some stock buybacks and disadvantaging the service industries that are vendors to them. Obviously this is not a permanent situation, with oil prices improving this will reverse itself. But it is a simple -- one simple situation that explains the free cash flow miss. It is not insidious or something different from that.

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

The other thing you can say is that our DSOs are off about 14 days from the beginning of the year, right, on receivables. Our DPOs have been actually -- this was up 14 days -- yes, I'm sorry, up 14 days.

Now DPOs on the payable side are actually down about 8 days. The point being that we are paying down, our payables are rather low, and there are reasons why we have done that because we are getting good terms from our suppliers for the future. But our clients are doing exactly the opposite and outside of contractual terms.

And now the other thing about Weatherford is of course for us, because we have leverage, we need EBITDA to create free cash flow or we have to harvest our balance sheet. Harvest our balance sheet, we need inventory which we get liquidation. We also need a receivables payables balance which is positive, it hasn't been positive in two quarters for the reason that Krishna explained. That is it, period.

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

I think I would like to expand, this is not just a free cash flow comment. We have seen many instances now of internationally particularly, basically international where we have one contract and signed contracts with a price list with customers. And these very well charged customers have come back after signing the price list in the midst of executing a multiyear contract and demanded pricing discounts.

This is what happens in a down cycle and we have given them pricing discounts, on top of that they have delayed payments to us. And not just us, this is -- the comments I am making are generic. Also these companies have gone through both pricing discounts and slow payment from these customers.

Now what happens and this was again based on experience -- many, many years of experience -- when oil prices do reverse we feel that we can certainly go back and this has happened in conversations with customers. We can certainly go back and request pricing increases.

And these customers will reward us for loyalty as they will reward the rest of the industry as well for being patient with them. And that is part of the mechanism of reversing the pricing internationally and reversing the payment terms as well.

This is the real world; it doesn't just depend on what you write on a piece of paper, it is the relationship that goes very, very deep and over many years. And both sides share the pain and when that turns everybody shares it again despite the rhetoric you will hear publicly.

Jim Wicklund - *Credit Suisse - Analyst*

And as investors we kind of lose track of the time frames that actual industries operate under, so I think that is part of it. My last question if I could, Bernard, you mentioned that sub-Saharan Africa and Asia PAC can't get any worse, those have been the two worst markets for everybody. But not being able to get any worse is positive. Does that mean your margins -- your income, operating income won't get any worse either?

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

I think actually from what we see it is getting a little bit better. I mean it is a negative, let's be very clear. But Q4 is -- from what we see is better than Q3 simply because of cost cuts that have continued. But don't look at it for the top line because we don't see anything there.

So the answer is we are on -- as cautious as we have become now, we are on safe ground, we believe, while we say that it won't get any worse in Asia-Pacific and SSA. The truth is with self-help as in cost cuts the losses will not be as great. And believe me they have been the worst performers in Eastern Hemisphere by far. Without that it would've been actually far better behaved.

Jim Wicklund - *Credit Suisse - Analyst*

Okay, gentlemen. Thank you very much.

Operator

Ole Slorer, Morgan Stanley.

Ole Slorer - *Morgan Stanley - Analyst*

Bernard, must be a bit good to get to this quarter in the revenue mirror.

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

Yes.

Ole Slorer - *Morgan Stanley - Analyst*

I must admit, I felt a little queasy coming in this morning. But thanks for a very clear conference call in terms of how you see the next quarter shaping up. I mean you do run a bunch of land rigs which give you also some kind of forward view on what is going on, maybe beyond that of other service companies. I wonder whether you can tell us what you see particularly in North Africa/Middle East from your window in through the land rigs.

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

I will let Krishna answer most of it. I will just say that in general the quantity of inquiries and also of bidding invitations has been substantially increased over the past 60 to 90 -- let's make it 90 days for future activity, particularly in MENA. Are you going to answer (multiple speakers)?

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

That is right. I mean we are seeing a record number of vendors coming in from the GCC countries in general, particularly two countries where we have -- three countries in fact, where we have a number of things rigs being tendered. And this was a leading indicator where we had a contract driller, one of our businesses is contracting.

So it is a leading indicator for increased land activity first in the form of rig tenders and then of course services will follow. So we are quite let's say enthusiastic about increased activity and then of course down the line with a better commodity price, increased pricing as well in the Middle East.

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

Remember that by and large we are -- although we have obviously played in offshore TRS, etc., we are historically predominantly a land player. And it is not true for the rigs, it is true for everything else. Therefore the early warning system that land rigs represent is very valuable to us for all the other products and service lines because this is where we play, that is our natural spot, land.

Ole Slorer - *Morgan Stanley - Analyst*

Just through the grapevine, it is not the same as if we are looking at maybe tenders for a total of maybe as many as 40 or 50 incremental land rigs across some of the key kind of Kuwait, Saudi, Abu Dhabi. Could you give us some (multiple speakers)?

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

Algeria also. It is really Algeria, Oman, Saudi Arabia, will be -- Kuwait, yes -- will be the primary (multiple speakers).

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

And your number is fairly accurate except that on top of the current tenders, which approximate the number the you said, there is another tender coming out of one of those countries for an additional 45 rigs.

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

Yes.

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

In the next --.

Ole Slorer - *Morgan Stanley - Analyst*

An additional 45 rigs?

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

Exactly. In the next six months we are working with a customer closely on this one. So there is going to be significant additional rigs in the next 12 months I would say in that region.

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

The interesting thing, and I don't want to get sidestepped here, is that this increase in rig activity is not expected to come with a material increase in oil producing capacity. Much of it is driven to gas.

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

That is right.

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

Interestingly enough.

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

And also to stay in place.

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

To stay in place, that is actually the separate comment which I won't get into, but that is an interesting side comment.

Ole Slorer - *Morgan Stanley - Analyst*

So this is what gives you practically all your confidence when you're talking about growth beyond the fourth quarter in the (multiple speakers)?

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

Yes, fourth quarter is just -- look, fourth-quarter is just the beginning. Frankly the third quarter should be in the fourth quarter. Or put another way, we have to start somewhere. And the fourth quarter is a beginning in our view. But it is not one quarter, it is just -- for that part of the world it should be a methodical, organized disciplined growth process not with some crazy start ups and things like that, not at all.

Again the operating focus has been so intense at Weatherford it's just we'll take our time. Quality is an obsession. We could live with growth and quality, we could live with growth and margin, we could live with growth and predictability. We could live with growth and very good free cash flow.

I know these themes are sort of all -- it's hard for us to manage historically. But that is what we -- we think we are organized at doing today. And that is what we plan on doing Q4 and 2017 and beyond is we don't know. Beyond is beyond. But Q4 and 2017 directionally, more of the same.

Ole Slorer - *Morgan Stanley - Analyst*

Second question, a yes or no question, Krishna. Free cash flow in the fourth quarter, yes or no?

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

Yes, there will be free cash flow in the fourth -- positive free cash flow. Of course the extent of it will depend on customer collection -- the extent of customer collection. So wish us luck on that one and (multiple speakers).

Ole Slorer - *Morgan Stanley - Analyst*

At this point we will settle for free cash flow -- settle for free cash flow, don't promise too much.

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

That's right.

Ole Slorer - *Morgan Stanley - Analyst*

And finally (multiple speakers).

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

The other aspect, if I may, is that your EBITDAR is climbing.

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

That is right.

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

Because at the end of the day free cash flow comes from EBITDA -- at the end of the day. I mean that is where it should come from. But of course in a very depressed market it is hard, but that is where it should come from. And then it becomes a lot of free cash flow which seems to be an antithesis of Weatherford and just give us some time.

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

I would like to add also that, just from a strategic standpoint, there is no existential liquidity issue now for Weatherford. We have a first major maturity of debt only in 2019, sometime in 2019. So there is no like imminent threat or anything like that. So we will recover our liquidity position even stronger as we go through the next quarters.

Ole Slorer - *Morgan Stanley - Analyst*

No, I wasn't suggesting there was a liquidity situation, it is still nice to see free cash flow. Finally, $0.39 was a bit of a shocker, but it sounds like you suggest that $0.27 was sort of more the number that would be computed on a comparable way to the way first call is (multiple speakers).

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

Yes, the normalized is $0.27 had we just been able to do the normal tax benefit on the US losses. So the expectation was that we would continue to do that in the third quarter, as we have done for the last several quarters. Now we were not able to do it for accounting reasons because of the valuation allowance charge we had to take. And that reversed the tax benefit on the US. So this $0.39 comes like a sticker shock. But the real underlying is $0.27.

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

You might want to expand a little bit on how that works if the US becomes profitable.

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

Well, the US becomes profitable going forward then we will see profits in the US and no tax charge against it. So in fact the tax rate will be an artificially low tax rate (multiple speakers) --.

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

You get the opposite anomaly (multiple speakers). You have to be better than it really is.

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

Correct. Today, I mean this quarter and Q3 and Q4 for example we will be showing losses and a tax charge. And then in the future we will show potentially taxable profits but very low tax. No tax in the US, for example, and no cash taxes for years to come either in the United States.

So it is really the way the quirky accounting really works on this one more than anything else. So one should not get sidetracked by that.

Ole Slorer - *Morgan Stanley - Analyst*

Well, it would be nice to see a few quarters coming up that will look deceptively good on top of being good. We can handle that, Bernard. But thank you very much; I'll hand it back to you.

Operator

Mike Urban, Deutsche Bank.

Mike Urban - *Deutsche Bank - Analyst*

Sorry to harp on the Middle East, but it does seem to be a really critical driver here in the near-term. You talked about that $1.5 billion in contract wins as being net or incremental. You are going to do roughly $1.5 billion in that whole region, in the MENAP region this year. Is that suggesting that over the next few years that business can double, or are there offsets to that?

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

Well, let's sort of bracket this. $1.5 billion over three to four years, so take $1.5 billion, divide it by, I don't know, 3.5 and that will give you the annual increase. It is a net increase, that is absolutely correct. So let's call it $400 million a year in simplistic terms, but that is real.

So you can say that it would be -- if we are, we are. $1.5 billion, that is MENA and Asia Pacific together. You can add $400 million. Now the numbers will end up being different because you really get something in Q4 and it will move the way operations move, but that is a reasonable thing to say.

The $1.5 billion doesn't all happen in one year. It gets spread over three to four years. So that is the difference between what you said and the reality. However, I would also add that the $1.5 billion which is in hand -- has been in hand for a few weeks (inaudible) times. And since we already mobilized for some, actually for quite a bit and so forth, there will be other further net incremental contracts.

Clearly they are also assigning of -- they're signing contracts, win some, lose some. We purely focus on the net incremental otherwise it is meaningless. There will be further contractual gains that will happen in future quarters. They may not be as spectacular, I don't know, but they will be further.

Then we will add fuel to the growth fire there. But again, the key for us is to deploy the people, the equipment in a manner that is operationally very focused on quality, NPT, safety, because it is good marketing. It also generates better returns.

So the growth will be I think gradual, it will be disciplined growth. The kind of disciplined growth that you would want us to have. That we want to have also. That is the one that gives the highest return including free cash flow.

Mike Urban - *Deutsche Bank - Analyst*

Okay, got you. And then just more broadly, you have laid out a path to significant growth with the current base of capital, both infrastructure and equipment that you have. Good problem to have, but once you get to that level and things normalize, I am not sure what that even means anymore.

But once you get to some sort of normalized level of business and activity, what do you think your capital intensity is going forward? So in the past I mean --?

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

We actually know. We actually worked a lot on it, but that will take a while before we get there. For us it is around 5%, 6% -- something like that, [specifically] to revenues. But that is not today. That is when you get to that normalized level that, I agree with you, it is hard to know what normalized is, but I know what we think of normalized.

This is where we will end up, with a sort of a product service line mix that we have, remembering that we will maintain, protect and enhance pressure pumping, and we'll maintain, protect and enhance rigs. We are not likely to pour capital there. Because the highest return products and service lines are completion wire construction, lift, etc. Not that.

Mike Urban - *Deutsche Bank - Analyst*

And on a working capital basis, I mean that used to be $0.25 to $0.30 per dollar of revenue growth. What do you think that is just to kind of normalize?

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

(Multiple speakers).

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

No, I think $0.15 to $0.20 is much more reasonable as an assumption going forward, subject to the collection bumps that the whole industry is seeing now, right now. So I am talking about a normal situation which we expect to take place sometime in 2017 and then you are looking at $0.15 to $0.20.

Mike Urban - *Deutsche Bank - Analyst*

Okay.

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

In the near-term actually you may have the lower number, for 2017 for example, based on the fact our DPOs are so low and the DSOs are so high.

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

Yes --.

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

But that is the one time sort of adjustment.

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

Yes -- I think --.

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

To understand what I just said?

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

When we enter 2017 you are going to see also the initial spurt in revenue growth, particularly in the product cells product lines is going to denude inventory going forward. We are still long on inventories, it is not like we have exhausted all our long inventory from the past. So you are going to see a slow start in the buildup of working capital. And then it will gradually normalize at the levels I spoke about.

Mike Urban - *Deutsche Bank - Analyst*

Okay. That is all for me, thank you.

Operator

Waqar Syed, Goldman Sachs.

Waqar Syed - *Goldman Sachs - Analyst*

I understand your reluctance in giving concrete guidance, but any color that you can provide in how we should be thinking about incremental margins either on a regional basis, a companywide basis for fourth quarter and perhaps into 2017 as well?

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

Waqar, I think given that we have taken out a lot of our fixed cost base and our CapEx -- incremental CapEx requirements are quite modest and we grow into our top-line growth based on those two fronts, our incrementals will be quite strong -- I would say well in excess of 50%. I mean I don't like to say more than that at this point. But on a Company level I mean you are looking at that kind of incremental.

Waqar Syed - *Goldman Sachs - Analyst*

Okay. And on the EBIT side and on the EBITDA line side, would that be still within that range or would that be materially less than that?

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

No, EBITDA will be better than that.

Waqar Syed - *Goldman Sachs - Analyst*

Will be better than 50%, okay. Thank you very much.

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

And thank you, everyone, for joining us today. We have gone a little bit past the hour, so this concludes the call.

Operator

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