# National Oilwell Varco, Inc.
# Third Quarter 2015 Earnings
# Conference Call Remarks

**LOREN SINGLETARY**
**Vice President, Investor and Industry Relations**

Welcome, everyone, to the National Oilwell Varco Third Quarter 2015 Earnings Conference Call. With me today is Clay Williams, President, CEO and Chairman of National Oilwell Varco, and Jose Bayardo, Senior Vice President and CFO.

Before we begin this discussion of National Oilwell Varco's financial results for its third quarter ended September 30, 2015, please note that some of the statements we make during this call may contain forecasts, projections and estimates, including but not limited to comments about our outlook for the Company's business. These are forward looking statements within the meaning of the federal securities laws, based on limited information as of today, which is subject to change. They are subject to risks and uncertainties, and actual results may differ materially. No one should assume that these forward-looking statements remain valid later in the quarter or later in the year. I refer you to the latest Forms 10-K and 10-Q National Oilwell Varco has on file with the Securities and Exchange Commission for a more detailed discussion of the major risk factors affecting our business. Further information regarding these as well as supplemental financial and operating information may be found within our press release, on our website at www.nov.com or in our filings with the SEC.

Later on this call, we will answer your questions, which we ask you to limit to two, in order to permit more participation. Now, let me turn the call over to Clay.

**CLAY WILLIAMS**
**President, CEO and Chairman of the Board**

Thank you, Loren. National Oilwell Varco continued to face a very challenging market during the third quarter. The company reported GAAP earnings of $0.41 per fully diluted share, including restructuring, asset impairments, facility closure costs and other items of $112MM pre-tax or $0.20 per share after tax. Excluding these, earnings were $0.61 per fully diluted share, down 21% from the second quarter of 2015 and down 62% from the third quarter of 2014, excluding restructuring and other items from all periods.

Third quarter 2015 revenues were $3.3B, down 15% from the second quarter of 2015. Operating profit for the quarter was $346MM or 10.5% of sales, and EBITDA was $511MM or 15.5% of sales, excluding restructuring and other items from both. Decremental operating leverage was 18% from the second quarter to the third, as cost reductions across the organization helped minimize the margin impact from lower sequential volumes.

A second major decline in oil prices from the high $50 range back into the low-to-mid $40 range since June has increased financial stress and led to a second round of rig activity reductions, sending the US rig count down by almost 60% since mid-2014 peaks. We expect to see further activity reductions and pricing pressures continuing into the fourth quarter. Visibility is limited, but we believe most producers will further reduce their 2016 capex plans, after cutting spending significantly in 2015. The industry has not seen two years of declining capex since the 1980's, signaling the severity of the downturn we find ourselves in.

We believe many if not most NAM producers and OPEC countries are producing existing fields close to maximum levels, trying to offset lower revenues due to the oil price declines with higher volumes, while sharply reducing drilling activity. OPEC, Non-OPEC international and NAM production are all up YOY. This is not sustainable. Production will begin to decline naturally, as it has begun in the US, and therein lie the seeds for a recovery. However, with swollen inventories, moderating demand growth with economic weakness in Asia and elsewhere around the globe, and an uncertain trajectory for incremental oil exports from Iran, we don't expect a recovery anytime soon. Nevertheless it will come, and our plan is to manage what we can- namely, costs- through the downturn, while continuing to position and strengthen our franchises for the inevitable upturn.

We expect to accomplish this through a combination of organic investment in new technologies and capabilities, as well as extraordinary acquisition opportunities that we expect to emerge. Through the first part of this downturn we deployed $3B of capital into our share repurchase program, retiring one out of eight shares over the past year, while maintaining capital flexibility through our $4.5B revolving credit facility. As the downturn has lengthened, we believe values of potential target companies will become more and more compelling. Thus far it has been challenging to bring the bid and the ask on potential acquisitions into alignment. But we remain patient and disciplined in these discussions. As we move into 2016 we believe sellers are likely to reduce their expectations and better capital returns on M&A will follow. Consequently our capital deployment strategy is shifting from share buybacks to an external focus on potential acquisitions. This is a sound capital deployment strategy that we will continue to execute in a disciplined way.

NOV closed four small acquisitions during the third quarter. The strategic goal of these and other transactions will continue to focus on cultivating market leadership in selected subsectors within oilfield services and manufacturing. As we have said many times before, market leadership yields competitive advantage- economies of scale, purchasing leverage, the ability to leverage R&D and introduce new products through a larger revenue base, the more rapid accumulation of experience within a subsector, our global aftermarket support network, etc. Our market positions make us a trusted, efficient, low-risk supplier to our customers. These are the types of opportunities we look for, and the businesses we have built employing this strategy are leaders in their respective fields. In short NOV represents a portfolio of market leaders, with the deepest experience and most expertise.

Within these businesses we have assembled discrete packages of equipment and services to drive higher efficiency, in ways that our customers really want and in ways that really improve their business. This means we take a view on where the logical boundaries of these packaged offerings should lie. Our acquisitions are of enterprises where NOV can be a better owner: to accelerate growth, drive efficiency, and fully unlock their potential to create value for our customers and our shareholders.

This view on product groupings or package boundaries rest on questions like "what products have complex, technical interfaces that are difficult for our customers to manage, interfaces where a single vendor can and should undertake the interface management challenge?" "What proprietary technology can we build a logical package of products around?" "What trends do we see amongst customers, as they all seek to reduce costs and risk around their operations?" The development of our corporate strategies within our business units guides both our M&A strategy, as well as our R&D strategy. Both work in concert.

In the near term we continue to focus on managing costs to the marketplace, and our shallow decremental margins speak to the great job NOV's business unit managers have done in that effort. SG&A is down 34% YOY and down 15% sequentially. Rig Systems posted decremental leverage of 28% on a 23% sequential sales decline. Rig Aftermarket held EBIT flat despite an unexpectedly high 13% revenue decline. Wellbore Technologies held decrementals to 21% despite a 13% sequential sales decline, and Completion & Production Solutions held decrementals to 24% in the face of an 9% sales decline. I am extraordinarily grateful to these business leaders who are skillfully reducing our capacity, managing costs, and leading our core team through this challenging time. They are providing their teams the vision of better days ahead, to make sure our folks see the prosperity that will follow for NOV. That's critical in a downturn. We are fundamentally a service business, even in our manufacturing units, and ensuring our workforce continues with our long tradition of taking care of our customers, and not getting distracted during stormy weather, is critical. I want all of our employees to know that I am very proud of all you are doing.

Difficult market conditions will persist for the foreseeable future. We supply a highly capital intensive industry and have benefitted from a decade-plus period of retooling with improved levels of technology and automation, but the industrial transformation is far from over- our view is that we are currently in a cyclical pause. Recent oversupply of oil, exacerbated by weak economic demand growth, has demonstrated the power of newer, more capable rigs and completion equipment and techniques. During such a cyclical pause our biggest competitor becomes the overhang of products and consumables and equipment that our customers cannibalize extremely effectively in their Darwinian quest to preserve cash. The idled rigs and pressure pumping fleets and wireline units and myriad of other items we sell are being systematically stripped of spares and components to keep the much smaller fleet of units that remain under contract working.

This remains a highly capital equipment consumptive industry. The life expectancy of mechanical equipment is tied to the footage it drills or the volume of proppant it pumps. The ability of the industry to increase borehole created per year, or stages fracked per year, means that the physical consumption of the mechanical equipment per year has also risen sharply, probably linearly. NOV will be called upon again to resume recapitalizing the critical fleets of equipment required to supply a growing population with rising energy needs, once we pass through this cyclical downturn. And, as I said, we will emerge better and stronger.

Our Completion & Production Solutions Segment held operating margins of nearly 8% despite an 9% sequential sales decline. The Segment benefitted from strong performance from our floating production unit and our flexible subsea pipe unit in the quarter. We also posted good orders in the quarter, helped by a large deepwater flexible pipe order arising from our proprietary heated pipe solution. This resulted in an ending backlog level of $1.2B.

We expect orders to decline in Q4 as the market faces an overhang of fracture stimulation equipment across NAM, and as operators seem in no hurry to sanction many deepwater developments at the moment. Nevertheless we are engaged in several FEED studies around the globe and meeting with a lot of operator interest in standardized, more industrially efficient solutions to improve deepwater development economics. We are encouraged by a handful of public statements from major oil companies on meaningful, double digit cost reductions on deepwater projects, driven by the combination of design simplification, supplier participation in design, and supply chain deflation. "Fit-for-purpose" solutions, rather than "perfect" solutions.

We continue to develop new products within the Segment in areas like composite, spoolable piping systems for corrosive produced fluids. In fact, we shipped our first string of spoolable composite pipe into Saudi Arabia this quarter. And we expect to install our first string of our proprietary Smartpipe for shallow well dewatering in Australia in the fourth quarter. Nevertheless, the 30%+ decline in prices for steel pipe have made steel pipe more competitive for our composite pipe unit; however, as fields mature and water cuts rise, we expect our customers to gravitate to our corrosion-proof solutions. We were also pleased to see higher sales of coiled tubing in the quarter on gains with key accounts, and our new service center in the Northeast pulling sales through.

Our Wellbore TechnologiesSegment is driven by rig activity, and we are now facing a second, rising wave of price pressure across all our products and services as rig activity declines. The Segment saw demand for almost all its products and services decline except for our IntelliServ wired drillpipe technology, which is seeing growing interest from operators in conjunction with our automated drilling solutions. This technology enables micro-second data from downhole sensors to control rig machinery much more effectively than human drillers, which increases rates of penetration significantly. We have several programs scheduled to spud with this later this year and into 2016, and are excited about the transformative capabilities of high-speed data from the bottom of the well.

New bit technologies we've introduced are helping drive market share gains, and we are pressing forward with new products in managed pressure drilling and wide-catch fishing tool technologies. The operation of our test rig is helping accelerate time to market for many new products and new condition-monitoring technologies.

We've seen our customers aggressively reposition and utilize their own fleets of equipment wherever possible, to preserve cash, and our mix for drilling tools shift from sales to rentals, as a result. Demand for drillpipe has been very weak, as drillers cannibalize strings from idled rigs to support working rigs, but we have reduced capacity to match the current market. Our Tuboscope unit has held up reasonably well, as its work has shifted from drillpipe to linepipe and tubing.

The Rig Aftermarket Segment declined 13% sequentially as more and more rigs went idle, and became fresh sources of spare parts for their owners, driving sales of spare parts and manifolds lower. Nevertheless, the Segment held EBIT flat, and operating margins increased 350 bps.

We saw our count of SPS projects on offshore rigs flatten this quarter after increases through the first half, as many planned-for reactivation/recertification programs are being shelved by drillers due to growing concerns about the near-term outlook for offshore rig demand. Nevertheless, SPS activity is up YOY, and we are also seeing rising inquiries around maintenance services we can provide on stacked rigs.

Rig Systems demand remains weak overall, and we are downsizing to address this reality. We still see certain markets moving into the 21st century to employ proven technologies- Argentina, the CIS, the Middle East- and we are aggressively pursuing these opportunities. We also know many NAM drillers plan to continue to high-grade their fleets to AC Tier 1 capabilities once prosperity returns. Orders in Rig Systems included land rigs for international markets and two jackup packages, and were up modestly from the second quarter, resulting in an ending backlog of $8.0B for the Segment. We expect orders to remain low through 2016, when scheduled outflows from backlog will be in the $2.4B range. In certain instances we continue to work with customers to systematically delay deliveries of rigs, which is improving our project margins as we are able to reduce overtime and source components more efficiently.

Brazilian rigs total $3.0B in our September 30 backlog and accounted for only $53M in revenues during the third quarter. As we reported previously we have suspended or delayed work on certain of these 22 rigs. Our shipyard customers are continuing to work with their customer, Sete, to address overdue funding needs and future funding to move the projects forward. In the meantime we are reducing costs in-country.

Within Rig Systems third quarter revenues associated with new offshore rigs, both floaters and jackups, totaled $860M or 26% of consolidated revenues during the third quarter. While we expect some new specialized offshore rigs to be built by the industry over the next couple of years, and we are developing new designs and capabilities around these, we do not expect the level of building that we have seen over the past decade to resume for quite a while. Like many we are awaiting an increase in scrapping of older units across the fleet, which seems inevitable at this point.

Finally, I am delighted to welcome our new Chief Financial Officer, Jose Bayardo, to our team. Many of you know Jose from his time at Complete Production Services, and more recently at Continental Resources. Let me turn it over to Jose to discuss our third quarter performance and outlook in more detail.

**JOSE BAYARDO**
**Senior Vice President and Chief Financial Officer**

Our Rig Systems Segment generated revenue of $1.5B, down 23% from the $1.9B earned last quarter and down 44% from the $2.7B all-time high revenue generated in the third quarter of 2014. Revenue out of backlog was $1.3B, down 24% sequentially, in-line with total revenue for the Segment. Revenues declined as we continued to adjust our project schedules and manage output to navigate effectively through fewer orders, a lower backlog, and customer-requested delivery delays on certain projects. For Q3, the split between Offshore and Land related revenue was 78% and 22%, respectively.

Operating profit, as adjusted per the reconciliations in our earnings release, for the Rig Systems Segment was $275MM, yielding operating margins of 18.4%, down 210 basis points from Q2. Decremental operating profit margins were 27.6% sequentially and 22.2% YOY. Low decremental margins demonstrate the effectiveness of our efforts to improve process efficiencies and resize the business to anticipated production levels.

EBITDA was $300MM or 20.1% of sales, and EBITDA margins decreased 160 basis points compared to the second quarter of 2015.

During the third quarter, we received $367MM in new orders resulting in a book-to-bill of 28%. Orders for the quarter were fairly evenly weighted across offshore and land and included two high-spec jackup drilling equipment packages and two 3000HP land rigs for the Middle East. FX adjustments of $77MM resulted in quarter-ending backlog of $8.0B, down 11% sequentially, of which approximately 90% is offshore and 93% is destined for international markets.

We expect orders to remain subdued as activity continues to decline on land and offshore and uncertainty regarding the timing of a recovery persists. We are seeing some demand for a few jack ups from NOCs, and while opportunities for floaters are generally scarce, meaningful conversations on 20kpsi floaters, and other application specific rigs continue.
As we move into the fourth quarter of 2015, we expect total Rig Systems revenue to decline approximately 10%, into the $1.3B range, and revenue out of backlog to decrease to about $1.1B as we see reductions in new order activity, work through existing projects, and work with customers to accommodate certain requests to extend delivery dates.

Resizing the business to reflect market activity remains critical to margin preservation, and we will continue to focus on cost reduction opportunities, including process efficiencies, vendor pricing, and facility consolidations to better align our resources with anticipated production levels. That said, cost control alone will not be enough to fully offset the impact of lower volumes, and we anticipate Segment margins will decline into the mid-teens during the fourth quarter.

Despite the current challenges and customer capital constraints, longer-term fundamentals remain solid for our Rig Systems Segment. Land rig customers, continue to show a strong preference for rigs which utilize the latest technologies to most efficiently and precisely drill longer-lateral wells from multi-well pads; and Offshore exploration and production companies are committed to utilizing new rigs and equipment that enhance their ability to more safely and economically access hydrocarbons in increasingly challenging environments.

NOV will continue to make long-term investments in the development of the best technological solutions that provide industry leading quality and reliability to most effectively address the needs of our customers.

Our Rig Aftermarket Segment generated revenues of $570MM during the third quarter of 2015, down 13% sequentially and down 32% year-over-year driven by lower spare part sales as drilling contractors continue to focus on reducing their expenditures amid activity declines. The reduction in spare part sales was partially offset by a slight increase in service related work.

Despite the low-teens revenue decline, the Segment maintained flat operating profit at $146MM, resulting in operating margins of 25.6%, a 350 basis point improvement sequentially, due to effective cost controls and inventory charges incurred in the second quarter which did not repeat.

EBITDA was $154MM, or 27% of sales. Consistent with Q2, Land related sales were approximately 22% of total Segment revenues.

Near-term, we expect the Segment will continue to ebb and flow as our customers try to identify the bottom of this current cycle. As we move into the fourth quarter, we believe the pick-up in service and repair revenue we have seen the last quarter of prior years will be much more modest this year as uncertainty leads to more cautionary spending by our customers; however, we do anticipate Rig Aftermarket revenues will be up slightly in comparison to Q3. Operating margins are expected to be similar to Q3 as increases resulting from the incremental revenues will be offset by product mix.

In our Rig businesses, we distinguish ourselves through service after the sale. We are committed to the success of our customers and driven by a sense of urgency in maintaining and supporting our equipment and technology in the field. The capabilities of our global service network are unrivaled.

The mid to long-term outlook for the Rig Aftermarket Segment remains bright and we anticipate sales will begin to improve as soon as customers work through their limited existing inventories of spare parts. We also anticipate the improvement will accelerate once overall industry activity levels begin to increase causing a rush to return sub-optimally maintained, stacked and partially cannibalized rigs to proper operating condition.

For the third quarter of 2015, the Wellbore Technologies Segment generated revenues of $834MM, down 13% sequentially and down 43% compared to the third quarter of 2014. Almost all business units within the Segment were impacted by the overall decrease in drilling activity levels, with production oriented businesses realizing slightly better performance.

As Clay described, customer interest continues to grow in our technologically advanced products and services which reduce drill times and lower operator costs such as our Tectonic Drill Bits, ConneXion Drilling Performance Software and our SoftSpeed stick-slip prevention services. One of our Tectonic bits was recently paired with our HellCat Motor and Agitator drill system to drill a two-and-a-half mile long lateral in the Bakken in what we and our customer believe to be a record time of 4.5 days.

Operating profit was $22MM or 2.6% of sales, down 230 basis points from last quarter. Sequential decrementals were limited to 20.5% as we continue to focus on expense reduction and process efficiencies to develop a leaner cost structure for the business.

Q3 EBITDA was $119M, or 14.3% of revenue.

Looking into the fourth quarter of 2015, many of our North American customers are bracing for a further fall-off in activity during what they anticipate will be a prolonged year-end holiday slow-down. Fewer rigs running will result in weaker demand for Wellbore Technologies products and services and we are seeing a new wave of pricing pressure which may offset our cost reduction efforts. As such, we believe revenues in our Wellbore Technologies Segment will decline in the mid-to-high single digit percentage range with decremental margins in the mid 20's.

Longer-term, we anticipate continued market share gains from our advanced products and services designed to enable the drilling of more complex, productive, and safer wells at a faster rate thereby enhancing the economics. We believe our strategy to help our customers achieve their objectives is succeeding and we will continue to invest in solutions our customers value today and which will further enhance our position for the eventual recovery.

Our Completion & Production Solutions Segment generated revenues of $798MM for the third quarter of 2015, down 9% sequentially and 33% compared to the third quarter of 2014. Revenues declined across most businesses on lower backlogs and customers delaying pickup of finished work, with some offset coming from higher sales of floating production related equipment and flexible pipe. As Clay described, we also saw increased coiled tubing sales as our investments in placing tubing centers closer to our customers' operations enable us to provide better service.

Operating profit for the Segment was $63MM, resulting in operating margins of 7.9%, down 140 basis points sequentially and 750 basis points year-over-year. Sequential decrementals were 24%, and third quarter EBITDA for the Segment was $117MM, or 14.7% of sales.

Operating margins were negatively impacted by volume, pricing pressure and product mix, but cost control initiatives helped to offset some of the margin decline, resulting in improved decrementals versus the prior quarter.

Turning to our capital equipment orders and resulting backlog for Completion & Production Solutions, the third quarter saw a much improved order intake of $467MM, up $212MM, or 83% sequentially, led by improved bookings for floating production related equipment and fiberglass pipe, as well as a large order for subsea flexible pipe.

We recognized $472MM of revenue out of backlog resulting in a book-to-bill of 99%.  Of the $1.2B backlog at quarter-end, approximately 76% is offshore and 86% is international.

As we move into the fourth quarter of 2015, we anticipate demand for new pumping and coiled tubing units, especially in NAM, will remain low; and, while customer interest remains elevated for NOV's more cost effective solutions in the FPSO space, near-term, we anticipate a general slowing in prospect development due to the current commodity price environment.

We believe revenues will decrease by a mid-single-digit percentage and expect revenue out of backlog to remain in the $450MM - $470MM range.  Margins should move down slightly on lower volumes.

Now, let's discuss some additional detail regarding our consolidated financial results.

Working down the Consolidated Statement of Income for the third quarter of 2015, gross margin declined 110 basis points to 21.2%.  SG&A decreased 15%, or $63MM sequentially, due to cost reductions and was 10.7% of revenue.  Other items of $112MM for the quarter resulted primarily from a $55MM pre-tax intangible asset impairment as well as $57MM in pre-tax charges associated with severance, facility closures and other costs.

Equity income fell to break-even as demand for OCTGs or Green Tube associated with our Voest-Alpine joint venture remains muted given the low demand for new drillpipe.

Other expense for the quarter decreased $10MM sequentially to $20MM due primarily to a reduction in foreign exchange related losses relative to the second quarter of 2015.

The effective tax rate for the third quarter was 18.8%, down from the 26.9% rate posted in the second quarter of 2015.  Excluding the impact of our $112MM in other items, the effective tax rate would have been approximately 24%, reflective of a continuing high mix of income from low-rate foreign jurisdictions.

EBITDA for the third quarter, excluding other items, was $511MM, or 15.5% of sales.

Turning to the balance sheet, working capital, excluding cash and debt, totaled $5.9B at September 30, 2015, down $206MM or 3% sequentially.

The decrease in working capital was primarily the result of: a $222MM reduction in inventory levels, $151MM reduction in accounts receivable, an $88MM increase in accrued taxes; and a $10 MM decrease in customer financing (which is the net of prepayments and billings in excess of costs against costs-in-excess-of billings).

The reductions in working capital were partially offset by decreases in accrued liabilities and accounts payable.

While we were pleased to see total working capital decrease and we anticipate the pace of cash flow generation from our working capital will increase, we continue to manage several items impacting our efforts to reduce the capital employed in our business including: insourcing of machining hours, which increases our inventory by bringing in raw materials which otherwise would be held by third-party vendors, customers looking to delay equipment deliveries and extend payment terms; and our Rig Systems backlog and its associated customer financings.

Regarding customer financings, as projects approach their completion, we anticipate the spread between prepayments and costs in excess of billings to narrow, further contributing to a future reduction in working capital.

For the quarter, the Company generated $410MM in cash flow from operations.  Offsetting this cash flow were: share repurchases of $444MM, dividend payments of $174MM, investments in our business of $124MM, and FX impact on our cash balances and other items totaling $44MM.

The net impact of our cash flow for the quarter was a $376MM increase in net debt; however, total debt decreased $322MM as we successfully repatriated $1.1 billion to the U.S.

We ended the quarter with a cash balance of $1.8B, $4B in debt and our net-debt-to-capitalization was 11.8%.

While we remain focused on managing costs and improving efficiencies, we believe the strength of our enterprise uniquely positions NOV to capitalize on compelling acquisitions opportunities that will emerge in this downturn and to continue investing in the development of technologies that will help our customers improve their economics.