

# National Oilwell Varco

## Q3'14 Quarterly Results

October 30, 2014



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# Industry challenges create opportunities for NOV

Four trends reshaping the energy landscape present a positive growth outlook for us with their demand for innovation, quality, and efficiency:



REPLACEMENT  
OF AGING RIG  
FLEET



BUILDOUT OF  
ULTRA-DEEPWATER RIG FLEET



BUILDOUT OF INFRASTRUCTURE  
TO SUPPORT DEEPWATER FIELD  
DEVELOPMENT



GROWTH AND PROLIFERATION OF  
UNCONVENTIONAL  
TECHNOLOGIES



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# Evolving to serve our customers, on whose success ours rests

Earlier this year, we reorganized on common customer sets and strategies, improving our execution against the changes in the energy landscape:

	RIG SYSTEMS	RIG AFTERMARKET	WELLBORE TECHNOLOGIES	COMPLETION AND PRODUCTION SOLUTIONS
	MAKING AND SUPPORTING THE WORLD'S MOST ADVANCED DRILLING SOLUTIONS		DRIVING NEW LEVELS OF DRILLING EFFICIENCY AND PRODUCTIVITY	INTEGRATING SOLUTIONS FOR INCREASED PRODUCTIVITY
CUSTOMER	Drilling contractors Shipyards	Drilling contractors	Operators Drilling contractors Service companies Rental companies	Operators Service companies
DESCRIPTION	Provides capital equipment to drill oil and gas wells: <ul style="list-style-type: none"> <li>- Land rigs</li> <li>- Offshore drilling equipment packages</li> <li>- Discrete rig components</li> </ul>	Supports the growing installed base of Rig Systems equipment: <ul style="list-style-type: none"> <li>- Spare parts</li> <li>- Services</li> <li>- Repair</li> <li>- Training</li> </ul>	Provides critical products and services that improve drilling performance: <ul style="list-style-type: none"> <li>- Solids control and waste management equipment</li> <li>- Drilling fluids</li> <li>- Drill pipe</li> <li>- Tubular inspection and coating</li> <li>- Downhole tools, motors, and drill bits</li> <li>- Drilling optimization and instrumentation technologies</li> </ul>	Provides equipment to complete and produce oil and gas wells: <ul style="list-style-type: none"> <li>- Pressure pumping equipment</li> <li>- Wireline and coiled tubing equipment</li> <li>- Composite piping</li> <li>- FPSO turret-mooring systems</li> <li>- Subsea flexible pipe</li> <li>- Process and flow technologies</li> </ul>



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# Q3'14 Financial Highlights

- Strong operating results
  - Net income of **\$699M**
  - Double-digit earnings growth (**+15% sequentially**)
- New records on solid revenue gains from continuing operations
  - Operating profit: **17.7%**
  - EBITDA: **21.6%**
  - Operating (non-GAAP) EPS: **\$1.76**
- Authorization to repurchase **\$3B** in stock
  - New method of returning cash to shareholders
- Cautious on oil price impact on business
  - Strength of **\$16.43** combined backlog
  - Rig Systems **\$14.34** & C&PS **\$2.09**
  - Strong balance sheet



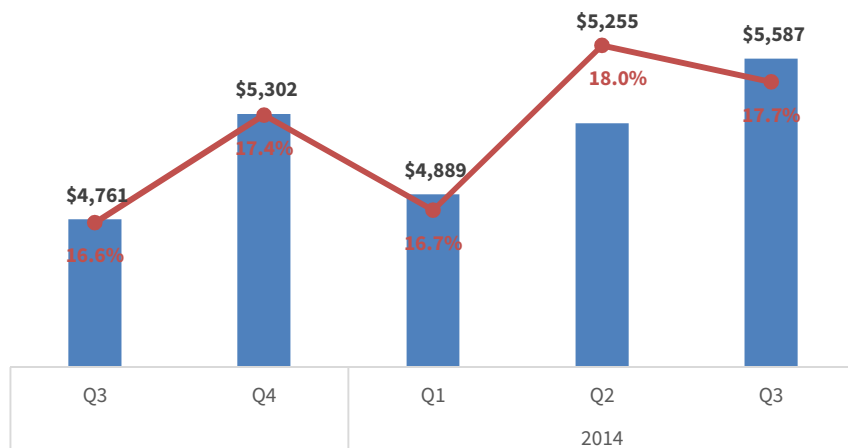
Earnings growth calculated on Adjusted EPS

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# Q3'14 Financial Highlights

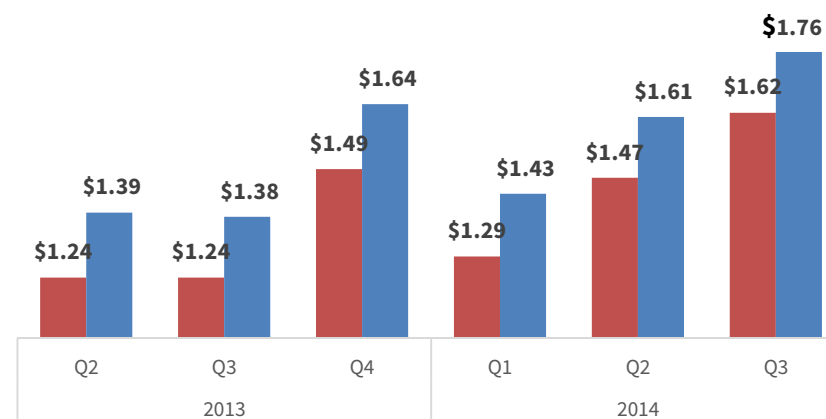
- Revenue of \$5.6B, up 6% q/q (+17% y/y)
- Operating profit of 17.7%, down 30bps q/q (+110bps y/y)
- EBITDA of 21.6%, up 6% q/q (+100bps y/y)

NOV Revenue and Operating Profit



## NOV Earnings per Share

Adjusted EPS v. Operating (non-GAAP) EPS



- Diluted EPS (continuing operations) of \$1.62, up 10%q/q
- Operating (non-GAAP) EPS of \$1.76, up 9% q/q (+28% y/y)



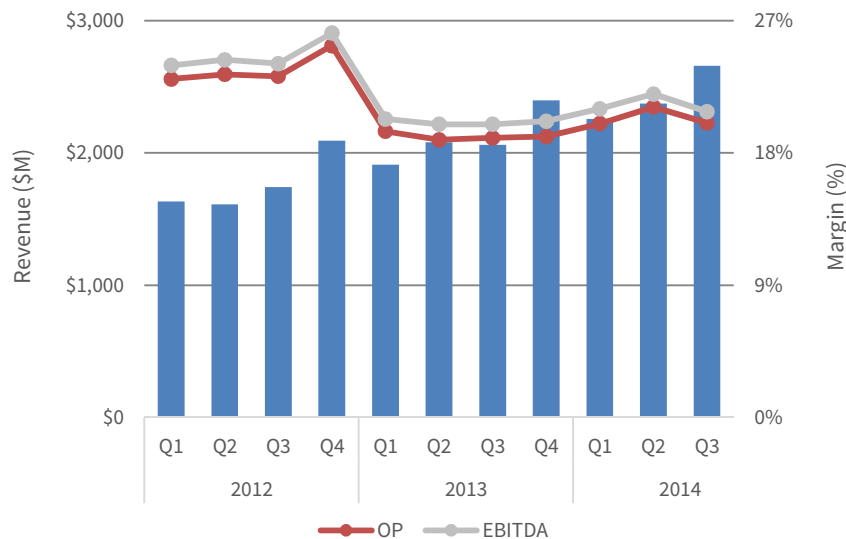
OP and EBITDA excludes non-recurring items  
 GAAP EPS includes \$0.02 for income from discontinued operations, (\$0.05) for non-recurring items, and (\$0.14) for amortization of purchased intangible assets  
 Adjusted EPS – see appendix for reconciliation  
 Operating EPS – see appendix for reconciliation

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# Q3'14 Rig Systems Performance

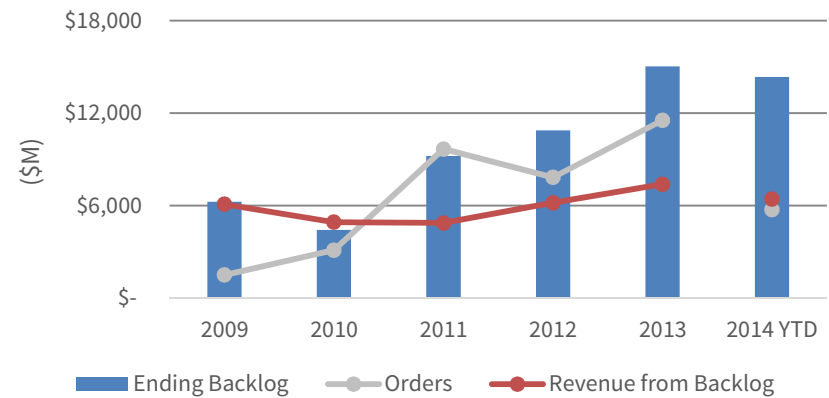
- Revenue of \$2.7B, up 12% q/q (+29% y/y)
  - Continued increase in land sales (+ 9% q/q)
  - Greater progress on offshore projects (+13% q/q)
  - Capacity additions allow for greater backlog conversion
- Operating profit of 20%, down 110bps q/q (+100bps y/y)
  - Higher costs of I&C and one-off land rigs, higher Brazil revenue
- EBITDA of 20.8%, down 120bps q/q

Rig Systems Revenue and Margin



EBITDA excludes non-recurring items  
Backlog captures capital equipment sales to third-parties only

Rig Systems Capital Equipment Backlog



- \$1.3B orders
  - 74% land and non-newbuild offshore, 26% offshore new builds
  - Nine jackup drilling equipment packages booked
- \$2.4B revenue from backlog (.6x book-to-bill)
- \$14.3B ending backlog, up 41% since YE'12
  - 90% offshore, 90% international

**Q3'14 guidance:**

**Revenue:** flat to slightly up | **OP:** 20-21%

**Order outlook:** Book-to-bill below 1:1. Limited floaters, declining jackups and strong hi-spec land rig

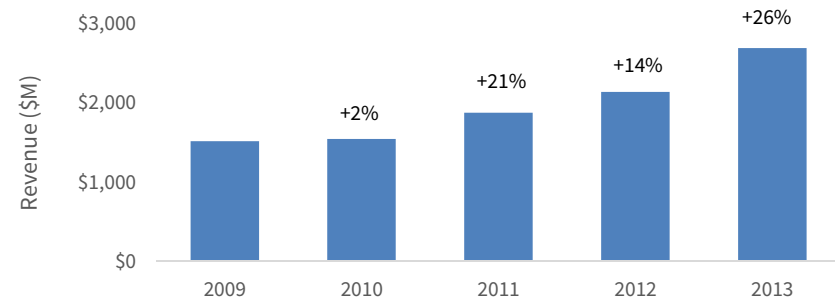


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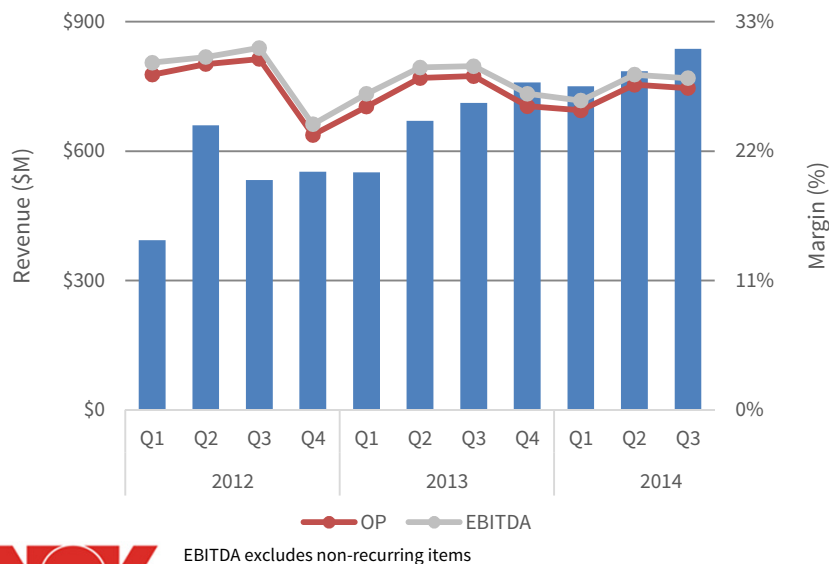
# Q3'14 Rig Aftermarket Performance

- Revenue of \$837M, up 7% q/q (+18% y/y)
  - Growing installed base and investments in personnel training and infrastructure
- Operating profit of 27.4%, down 20bps q/q (-100bps y/y)
  - Slightly unfavorable mix
- 28.2% EBITDA

Rig Aftermarket Yearly Revenue Growth



Rig Aftermarket Revenue and Margin



- Mid-single digit % growth outlook annually
  - Growing installed base
  - New rigs require more aftermarket support
  - Special periodic surveys

**Q3'14 guidance:**

**Revenue:** up mid-single-digit % | **OP:** slight decline due to mix

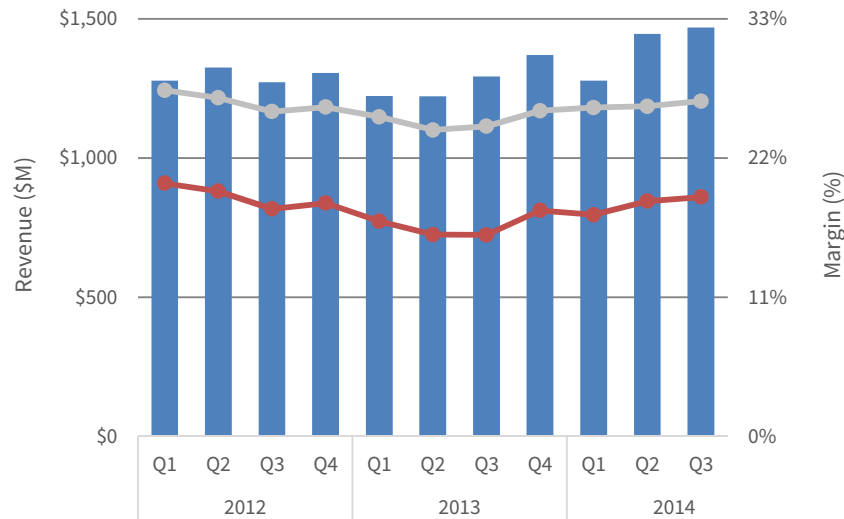


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# Q3'14 Wellbore Technologies Performance

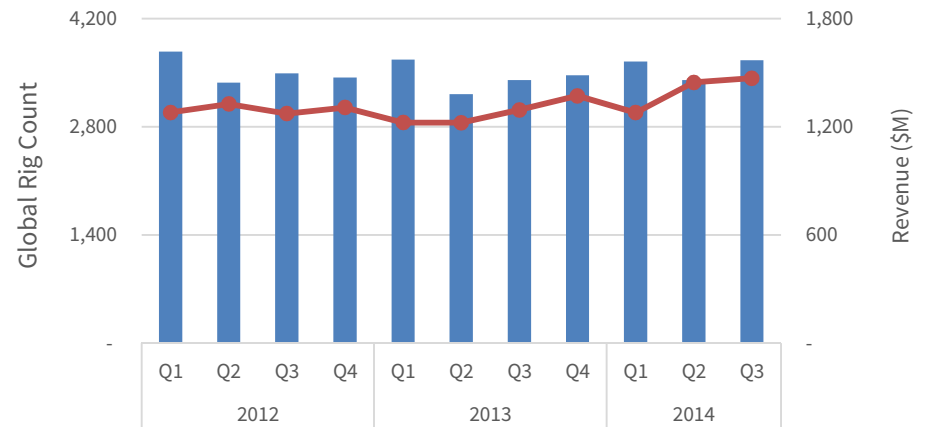
- \$1.5B revenue, up 2% q/q (+14% y/y)
  - Strong US market, seasonal rebound in Canada
- Operating profit of 18.9%, up 30bps q/q (+300bps y/y)
  - 39% flow-through
- 26.5% EBITDA

Wellbore Technologies Revenue and Margin



— OP — EBITDA  
EBITDA excludes non-recurring items

Wellbore Technologies Revenue and Rig Count



- Revenues levered to global drilling activity
  - 56% North America, 44% international

**Q3'14 guidance:**

**Revenue:** flat to slightly up | **OP:** decline slightly due to seasonal underabsorption

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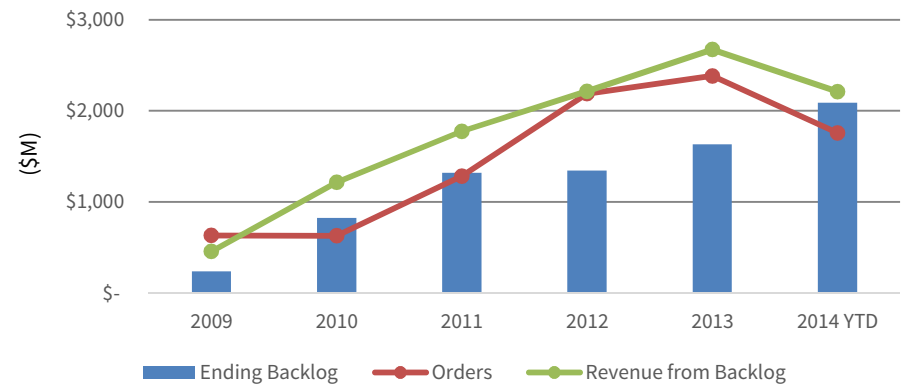
# Q3'14 Completion and Production Solutions Performance

- \$1.2B revenue, up 6% q/q (+9% y/y)
  - Strong deliveries in well intervention and stimulation equipment and record shipments of fiberglass pipe
- Operating profit of 15.4%, up 140bps q/q (-70bps y/y)
  - Favorable product mix
- 20.3% EBITDA

**Completion & Production Solutions Revenue and Margin**



**Completion & Production Solutions Capital Equipment Backlog**



- \$609M orders
  - Weighted towards onshore completion and production
- \$667M revenue from backlog (0.9x book-to-bill)
- \$2.1B backlog

**Q3'14 guidance:**

**Revenue:** up low-to-mid single-digit % | **OP:** down slightly  
**Order Outlook:** Book-to-bill approaching 1:1



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# Q3'14 Cash Flow

- Cash balance of \$4.1B, net cash position of \$1B (largely overseas)
- Quarterly free cash flow of \$351M

Apply capital to enhance competitive advantage and financial returns:

- Streamlined business with divestiture of aggregates and made three small acquisitions (\$79M total)
- \$168M on ongoing capital expansion projects (\$468M capex YTD)
  - Continued investments in rental fleets of Wellbore Technologies segment to support strong global demand
- 2% Yield
  - +\$0.46 per share
  - \$198M in dividend payments
- Announced \$3B share repurchase authorization



Free cash flow excludes contribution from discontinued operations  
Free Cash Flow = Operating Cash Flow less Capital Expenditures  
Quarterly dividend yield calculated on closing share price from 10/30/14

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## **Appendix:**

Pro Forma Selected Financial Data from Continuing Operations



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## Pro Forma Selected Financial Data from Continuing Operations: Revenue, Operating Income, Operating Margins, EBITDA

Proforma Selected Financial Data from Continuing Operations  
(\$ Millions)

	2012				2013				2014			Year To Date					
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	2009	2010	2011	2012	2013	2014
<b>Revenues</b>												9 months					
Rig Systems	\$ 1,633	\$ 1,611	\$ 1,741	\$ 2,092	\$ 1,911	\$ 2,081	\$ 2,061	\$ 2,397	\$ 2,256	\$ 2,372	\$ 2,659	\$ 6,712	\$ 5,570	\$ 5,686	\$ 7,077	\$ 8,450	\$ 7,287
Rig Aftermarket	393	660	533	552	551	670	712	759	750	785	837	1,518	1,546	1,876	2,138	2,692	2,372
Wellbore Technologies	1,279	1,326	1,273	1,306	1,223	1,222	1,293	1,371	1,278	1,446	1,469	3,081	3,389	4,455	5,184	5,109	4,193
Completion & Production Solutions	728	948	963	1,355	1,002	1,057	1,095	1,155	1,002	1,127	1,191	1,304	1,360	2,483	3,994	4,309	3,320
Eliminations	(65)	(339)	(203)	(592)	(311)	(350)	(400)	(380)	(397)	(475)	(569)	(820)	(764)	(1,025)	(1,199)	(1,441)	(1,441)
<b>Total</b>	<b>\$ 3,968</b>	<b>\$ 4,206</b>	<b>\$ 4,307</b>	<b>\$ 4,713</b>	<b>\$ 4,376</b>	<b>\$ 4,680</b>	<b>\$ 4,761</b>	<b>\$ 5,302</b>	<b>\$ 4,889</b>	<b>\$ 5,255</b>	<b>\$ 5,587</b>	<b>\$ 11,795</b>	<b>\$ 11,101</b>	<b>\$ 13,475</b>	<b>\$ 17,194</b>	<b>\$ 19,119</b>	<b>\$ 15,731</b>
<b>Operating Income</b>																	
Rig Systems	\$ 376	\$ 376	\$ 404	\$ 529	\$ 372	\$ 393	\$ 392	\$ 458	\$ 451	\$ 501	\$ 533	\$ 1,876	\$ 1,636	\$ 1,569	\$ 1,685	\$ 1,615	\$ 1,485
Rig Aftermarket	112	194	159	129	142	189	202	196	191	217	229	413	435	528	594	729	637
Wellbore Technologies	256	257	229	241	208	195	206	245	224	269	278	303	377	736	983	854	771
Completion & Production Solutions	141	176	162	295	172	163	176	184	143	158	184	218	262	480	774	695	485
Eliminations	(41)	(136)	(53)	(286)	(137)	(170)	(185)	(158)	(192)	(200)	(235)	(312)	(329)	(463)	(516)	(650)	(627)
<b>Total</b>	<b>\$ 844</b>	<b>\$ 867</b>	<b>\$ 901</b>	<b>\$ 908</b>	<b>\$ 757</b>	<b>\$ 770</b>	<b>\$ 791</b>	<b>\$ 925</b>	<b>\$ 817</b>	<b>\$ 945</b>	<b>\$ 989</b>	<b>\$ 2,498</b>	<b>\$ 2,381</b>	<b>\$ 2,850</b>	<b>\$ 3,520</b>	<b>\$ 3,243</b>	<b>\$ 2,751</b>
<b>Operating Margins</b>																	
Rig Systems	23.0%	23.3%	23.2%	25.3%	19.5%	18.9%	19.0%	19.1%	20.0%	21.1%	20.0%	27.9%	29.4%	27.6%	23.8%	19.1%	20.4%
Rig Aftermarket	28.5%	29.4%	29.8%	23.4%	25.8%	28.2%	28.4%	25.8%	25.5%	27.6%	27.4%	27.2%	28.1%	28.1%	27.8%	27.1%	26.9%
Wellbore Technologies	20.0%	19.4%	18.0%	18.5%	17.0%	16.0%	15.9%	17.9%	17.5%	18.6%	18.9%	9.8%	11.1%	16.5%	19.0%	16.7%	18.4%
Completion & Production Solutions	19.4%	18.6%	16.8%	21.8%	17.2%	15.4%	16.1%	15.9%	14.3%	14.0%	15.4%	16.7%	19.3%	19.3%	19.4%	16.1%	14.6%
Eliminations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total</b>	<b>21.3%</b>	<b>20.6%</b>	<b>20.9%</b>	<b>19.3%</b>	<b>17.3%</b>	<b>16.5%</b>	<b>16.6%</b>	<b>17.4%</b>	<b>16.7%</b>	<b>18.0%</b>	<b>17.7%</b>	<b>21.2%</b>	<b>21.4%</b>	<b>21.2%</b>	<b>20.5%</b>	<b>17.0%</b>	<b>17.5%</b>
<b>EBITDA</b>																	
Rig Systems	23.9%	24.3%	24.1%	26.1%	20.3%	19.9%	19.9%	20.2%	21.0%	22.0%	20.8%	28.7%	30.5%	28.7%	24.7%	20.1%	21.0%
Rig Aftermarket	29.5%	30.0%	30.8%	24.3%	26.9%	29.1%	29.2%	26.9%	26.3%	28.5%	28.2%	27.9%	28.8%	28.9%	28.6%	28.0%	26.3%
Wellbore Technologies	27.4%	26.8%	25.7%	26.0%	25.3%	24.2%	24.5%	25.7%	26.0%	26.1%	26.5%	21.9%	22.2%	25.1%	26.5%	24.9%	26.0%
Completion & Production Solutions	23.8%	22.5%	20.5%	24.8%	21.9%	20.8%	20.7%	20.6%	19.8%	18.7%	20.3%	20.8%	23.2%	23.1%	23.0%	21.0%	19.8%
Eliminations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total</b>	<b>24.9%</b>	<b>24.3%</b>	<b>24.5%</b>	<b>22.7%</b>	<b>21.2%</b>	<b>20.4%</b>	<b>20.5%</b>	<b>21.1%</b>	<b>20.6%</b>	<b>21.6%</b>	<b>21.6%</b>	<b>25.3%</b>	<b>26.0%</b>	<b>25.2%</b>	<b>24.1%</b>	<b>20.8%</b>	<b>20.6%</b>



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## Pro Forma Selected Financial Data from Continuing Operations: Equity Income, EBITDA, Operating non-GAAP EPS Reconciliation, Backlog, Transaction Costs

	2012				2013				2014			Year To Date					
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	2009	2010	2011	2012	2013	2014
Equity Income in Unconsolidated Affiliates	\$ 17	\$ 19	\$ 7	\$ 15	\$ 19	\$ 15	\$ 13	\$ 16	\$ 10	\$ 23	\$ 9	\$ 47	\$ 36	\$ 46	\$ 58	\$ 63	\$ 42
EBITDA excluding nonrecurring items	\$ 1,000	\$ 1,042	\$ 1,055	\$ 1,059	\$ 936	\$ 985	\$ 982	\$ 1,122	\$ 1,022	\$ 1,141	\$ 1,207	\$ 2,924	\$ 2,920	\$ 3,433	\$ 4,156	\$ 4,025	\$ 3,370
Operating non-GAAP Diluted EPS Data:																	
Net income attributable to Company	\$ 1.42	\$ 1.42	\$ 1.43	\$ 1.56	\$ 1.17	\$ 1.24	\$ 1.49	\$ 1.53	\$ 1.37	\$ 1.44	\$ 1.62	\$ 3.98	\$ 3.98	\$ 4.70	\$ 5.83	\$ 5.44	\$ 4.43
Income from discontinued operations	(0.06)	(0.06)	(0.06)	(0.07)	(0.10)	(0.09)	(0.09)	(0.07)	(0.09)	(0.02)	-	(0.07)	(0.12)	(0.20)	(0.25)	(0.34)	(0.12)
Income from continuing operations	1.36	1.35	1.36	1.49	1.07	1.15	1.40	1.47	1.28	1.42	1.62	3.91	3.86	4.50	5.56	5.09	4.31
Nonrecurring items	0.01	0.04	0.05	(0.09)	0.12	0.09	(0.16)	0.02	0.01	0.05	-	0.09	0.11	0.07	0.01	0.07	0.07
Amortization of intangible assets	0.11	0.12	0.12	0.13	0.13	0.15	0.14	0.15	0.14	0.14	0.14	0.38	0.39	0.43	0.48	0.57	0.43
Operating (non-GAAP) diluted earnings	\$ 1.48	\$ 1.51	\$ 1.53	\$ 1.53	\$ 1.32	\$ 1.39	\$ 1.38	\$ 1.64	\$ 1.43	\$ 1.61	\$ 1.76	\$ 4.38	\$ 4.36	\$ 5.00	\$ 6.05	\$ 5.73	\$ 4.81
<b>Rig Systems:</b>																	
Ending Backlog					\$ 11,969	\$ 12,855	\$ 14,061	\$ 15,028	\$ 15,180	\$ 15,386	\$ 14,341	\$ 6,244	\$ 4,422	\$ 9,223	\$ 10,876	\$ 15,028	\$ 14,341
Revenue					\$ 1,666	\$ 1,819	\$ 1,772	\$ 2,128	\$ 1,964	\$ 2,075	\$ 2,381	\$ 6,089	\$ 4,928	\$ 4,869	\$ 6,176	\$ 7,385	\$ 6,420
Order Additions, net					\$ 2,759	\$ 2,705	\$ 2,978	\$ 3,095	\$ 2,116	\$ 2,281	\$ 1,336	\$ 1,499	\$ 3,106	\$ 9,670	\$ 7,829	\$ 11,537	\$ 5,733
<b>Completion &amp; Production Solutions:</b>																	
Ending Backlog					\$ 1,351	\$ 1,492	\$ 1,497	\$ 1,634	\$ 1,627	\$ 2,145	\$ 2,087	\$ 239	\$ 826	\$ 1,318	\$ 1,344	\$ 1,634	\$ 2,087
Revenue					\$ 593	\$ 597	\$ 552	\$ 641	\$ 492	\$ 599	\$ 667	\$ 632	\$ 629	\$ 1,283	\$ 2,188	\$ 2,383	\$ 1,758
Order Additions, net					\$ 600	\$ 738	\$ 557	\$ 778	\$ 485	\$ 1,117	\$ 609	\$ 456	\$ 1,216	\$ 1,775	\$ 2,214	\$ 2,673	\$ 2,211
<b>Transaction and restructuring costs</b>																	
Litigation Settlement	\$ 4	\$ 28	\$ 48	\$ 51	\$ 64	\$ 57	\$ 9	\$ 16	\$ 18	\$ 32	\$ 1	\$ 234	\$ 18	\$ 41	\$ 131	\$ 146	\$ 51
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