



Moody's Upgrades National Oilwell Varco's Rating to Baa1 From Baa2

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New York, November 20, 2006 -- Moody's Investors Service today upgraded National Oilwell Varco, Inc.'s (NOV) sr. unsecured ratings to Baa1 from Baa2. The upgrade takes into account the steady improvement in NOV's business in recent years, reflecting both cyclical and structural industry changes as well as solid execution on the part of NOV's managers, particularly with regard to NOV's acquisition of Varco International, Inc. (Varco) early last year. The Baa1 rating also reflects NOV's broad product line diversification and substantial size and scale, both of which improved as a result of the Varco acquisition, and its conservative financial policies. The rating outlook is stable.

In recent years, NOV has benefited from the upturn in E&P capital spending which has driven the need to add new drilling rigs. Even aside from favorable near-term market conditions, the need to add new drilling rigs reflects the fact that the world's rig fleet is old and needs to be replaced or updated with newer equipment. NOV is the prime beneficiary of this trend. The average jack-up rig is 24 years old and the average semisubmersible rig is about 22 years old. Similarly, the average land rig is old, as many of them were built in the late 1970's and early 1980's. Moreover, many of the industry's older rigs are not well equipped to handle today's drilling needs, particularly the demands of drilling unconventional plays. As a result of these growing needs, orders for new rig equipment of all types have grown significantly.

During the third quarter of 2006, NOV received a record \$1.8 billion in new orders for its Rig Technology (capital equipment) segment, and on a year-to-date basis, has received \$4.6 billion in new orders, compared to \$2.9 billion during the first nine months of 2005. As of September 30, 2006, NOV announced a capital backlog of \$5.4 billion, up from \$4.1 billion as of June 30, 2006 and \$2.3 billion as of the end of last year. This large backlog provides a high degree of visibility for NOV's Rig Technology segment for the next 12-18 months. Operating margins for NOV's Rig Technology segment also have improved steadily, increasing from 10%-12% in the 2004-2005 timeframe to over 16% on a year-to-date basis in 2006. These increases are the result of economies of scale, improved efficiency, and improved pricing. Increased output requiring only minimal new capital expenditures (no additional roof line) provides evidence of the improved efficiency resulting from NOV's manufacturing techniques. Operating margins for the Rig Technology segment are expected to improve even further as NOV works through its backlog due to improved pricing on recently signed orders. Another sign of the strength of new orders is that NOV has been able to secure large down payments, which has boosted cash flow by helping to offset cyclical growth in receivables and inventories.

Aside from its Rig Technology segment, NOV's Petroleum Services & Supplies and Distribution Services segments also have benefited from the continuing industry upturn. The financial performance of these segments is more closely tied to drilling activity than NOV's Rig Technology segment, which is tied to the capital equipment cycle. As a result, these segments provide diversification and a measure of stability to NOV's business model. The Petroleum Services & Supplies segment, which has higher operating margins than the Rig Technology segment, makes up about one-half of NOV's operating income. Operating margins have improved for this segment reflecting not only growth and improved pricing due to the upturn but also significant and greater-than-expected synergies resulting from the acquisition of Varco. The Distribution Services segment historically has lower margins, but these have steadily improved over the last couple of years, reflecting renewed focus and improved efficiency.

NOV's credit metrics are strong and support the rationale for a Baa1 rating. As of September 30, 2006, NOV's total debt was approximately \$836 million and its debt/book capitalization was about 15%. Debt/EBITDA is less than 1x and EBIT/Interest is nearly 20x on an LTM basis. Using five-year averages, which we believe provide a better indication of longer-term performance, NOV's Debt/EBITDA and EBIT/Interest are still robust, reflecting NOV's historically conservative financial policies. Moreover, these conservative financial policies indicate that a strong liquidity and cash flow position is not likely to result in share repurchases or large acquisitions that would significantly affect its credit quality at the higher Baa1 rating level.

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