

National Oilwell Varco, Inc.

Third Quarter 2017 Earnings Conference Call Remarks

LOREN SINGLETARY

Vice President, Investor and Industry Relations

Welcome everyone to National Oilwell Varco's third quarter 2017 earnings conference call. With me today are Clay Williams, our Chairman, President, and CEO, and Jose Bayardo, our Senior Vice President and CFO.

Before we begin, I would like to remind you that some of today's comments are forward-looking statements, within the meaning of the federal securities laws. They involve risks and uncertainty, and actual results may differ materially. No one should assume these forward-looking statements remain valid later in the quarter, or later in the year. For a more detailed discussion of the major risk factors affecting our business, please refer to our latest Forms 10-K and 10-Q filed with the Securities and Exchange Commission.

Our comments also include non-GAAP measures. Reconciliations to the nearest corresponding GAAP measures are in our earnings release available on our website.

On a US GAAP basis, in the third quarter of 2017, NOV reported revenues of \$1.84B and a net loss of \$26MM or (\$0.07) per share. Our use of the term EBITDA throughout this morning's call corresponds with the term "Adjusted EBITDA" as defined in our earnings release.

Later in the call, we will host a question and answer session. Please limit yourself to one question and one follow-up to permit more participation. Now, let me turn the call over to Clay.

CLAY WILLIAMS

Chairman, President, and Chief Executive Officer

Thank you, Loren. In the third quarter of 2017, NOV generated \$1.84B in revenue, an increase of 4% sequentially and 11% year-over-year. Adjusted EBITDA of \$167MM improved \$25MM sequentially, representing 33% operating leverage, and Adjusted EBITDA improved \$99MM year-over-year, representing 52% operating leverage from the prior year.

This was our fifth quarter in a row of rising EBITDA. Improving market conditions in North America and the Middle East since last year, together with the cost reductions we've executed, have driven our profitability improvements. However, the industry hit yet another headwind this summer, as oil prices began to decline in April and remained persistently weak in the third quarter. As a result, since peaking at 958 rigs in late July, the US rig count began a shallow decline to 913, which is where we were in the US back in May of this year. Rig reactivations have slowed and many of our drilling contractor customers are, once again, curtailing spending with our Rig group.



NOV overcame this by putting up strong top-line growth in Wellbore Technologies, which rose 13% sequentially, owing to solid demand for downhole drilling technologies globally. Completion & Production Solutions also posted strong growth, up 5% sequentially, led by demand across North America and the Middle East for frac stimulation equipment, completion tools, and fiberglass pipe. These two segments led NOV higher overall, up \$76MM in revenue, and resulted in our land mix increasing once again to 65% of consolidated sales in the third quarter.

Oil prices have moved back up above \$50 lately, which is timely as our customers are launching their budgeting processes for 2018. Nevertheless, the recovery narrative right now seems tepid and visibility into 2018 is limited. Customers seem to be waiting for sustained oil price improvement before ramping up land spending or pulling the trigger on long-awaited offshore FIDs.

In the meantime, we continue to see pockets of demand emerging, with three years of underinvestment and cannibalization and, lately, rising scarcity fueling demand in certain areas like frac equipment. Other pockets of demand arise from technologies changing the landscape and providing opportunity. Think closed loop drilling, downhole tools, and completion tools. Strategically, NOV continues to pivot into these areas with smart organic investments and rifle-shot M&A. Capital deployment at NOV is guided by our conviction that unconventional shale technologies are the most important development in energy in a generation; that gun-barrel-straight boreholes, geo-steered to the sweet spots within formations, with low tortuosity, are materially more valuable to E&P companies than lesser quality attempts; and that NOV can bring proprietary tools to oilfield service companies to deliver these wellbores.

We believe that composite technologies will defeat corrosion in the oilfield, the most expensive production problem that many of you probably never think about. We believe that big data and predictive analytics will drive efficiency; and that, as the largest OEM of drilling equipment, NOV is uniquely positioned to bring automation and big data solutions to the oilfield. We believe that as production shifts to unconventional basins the industry will need more fluids processing technologies that NOV is well-positioned to deliver. And we believe the industry will adopt a more efficient industrial model to construct the floating production facilities needed to develop the planet's immense deepwater resources.

We continue to execute our business plan around these perspectives, while reducing costs and monitoring fundamentals that are slowly but steadily improving—US crude inventories have declined 23 of the past 29 weeks, pointing to steadily tightening supply. NOV's optionality into a more vigorous recovery continues to be enhanced by our actions through the downturn.

As I've done on past calls I'd like to take a few minutes to tell you about one of the compelling businesses that reside within NOV's portfolio. NOV Tuboscope is the world's largest provider of tubular inspection and internal tubular coating services, comprising one quarter of Wellbore Technologies segment revenues.

The oil business uses a lot of pipe. A lot of pipe. For example, in 2017 the industry will consume about 14MM tons or about 1.3B feet of Oil Country Tubular Goods, or "OCTG" pipe— casing, tubing, and drill pipe. The oil and gas industry will drill and case and complete an estimated 650MM feet of borehole globally in 2017. On average the industry consumes about two feet of OCTG pipe for every foot of borehole it drills. As I said, that's a lot of pipe—in fact, enough to completely encircle the globe nine times.

This makes the oil and gas industry an enormous consumer of steel. There are literally hundreds of steel mills around the world that manufacture OCTG pipe of all sizes, weights and grades, to meet the demands of an industry with a voracious appetite. The industry's productivity gains in drilling are well documented: each rig is drilling more wellbores each year, and each wellbore contains longer and longer laterals. All these gains are conspiring to drive ever-higher consumption of OCTG pipe for each operating rig.

Consequently, steel mills that manufacture OCTG pipe have been adding capacity, mostly in North America, to meet this ravenous incremental demand. Pipe mills generally prefer long runs of the same pipe size, since larger runs allow them to spread their high setup costs across more pipe. They frequently sell raw pipe or "greentubes" to pipe processors, which



quench and temper them to adjust the metallurgy to desired strength and hardness. The pipe is then sold to distributors, who perform the important economic task of breaking the large heats down into smaller quantities to better fit the needs of their E&P customers. OCTG distributors are mostly private businesses that take speculative positions in various size, weights and grades of pipe where they foresee the highest future demand. Some larger E&P customers perform their own buying functions, but even these will supplement their pipe needs with occasional distributor purchases. So, the first point I'd like to make about the OCTG world is that it is usually characterized by lots of transfers of ownership, joints of pipe flow from mills to processors to distributors to oil companies. I would add that there exists a robust market for used pipe as well, distributors that purchase used pipe from one oil company to sell to another.

The second point I'd like to make is that pipe defects are not uncommon. The manufacturing process can result in cracks, voids, inclusions and mill scale. Pipe can be damaged in handling and accidentally be deformed to be oval. Used pipe may suffer from corrosion and pitting. All of these can affect the pressure rating and future performance of the pipe.

The third point I'd like to make is that pipe failure in the oilfield is a serious matter. It's always expensive and frequently dangerous. Fishing jobs are costly, and if unsuccessful, the operator may lose the well completely.

Around 80 years ago, NOV's Tuboscope business recognized the need to bring better quality assurance to the oilfield pipe world, adapting military technology used to inspect cannon barrels. Today we use sophisticated physics, including magnetic flux leakage, eddy current, and ultrasonic technology, to provide critical quality assurance for oil country tubulars. And every time a new joint of pipe is born, or processed, or sold to a distributor, or sold to an oil company, or pulled out of an existing well and re-run or resold, there is an opportunity for Tuboscope to inspect the pipe to assure its new owner that it is fit-for-purpose. And with enough joints to go around the world nine times in 2017, that is a terrific business. It is essentially a tolling business, wherein NOV Tuboscope is the Good Housekeeping Seal of Approval for pipe transactions.

A single joint of OCTG pipe may be inspected several times throughout its life. We provide this critical service in the steel mills, in the pipe processor's operations, in the pipe yards of our oil company and distributor customers, on the rigs that run the pipe and pull the pipe, and in our own network of pipe inspection yards. Our network of pipe yards is, we believe, the largest in the world. NOV operates 75 pipe yards which offer pipe storage as a service, which cover 2½ square miles, over 1,600 acres. Let me say that again: we operate 75 yards totaling more than 1,600 acres, and today we're in possession of 88MM feet of OCTG pipe—over 2½MM joints, or 3½ weeks of global forward supply.

I mentioned earlier that pipe can be damaged in transport. It's heavy and expensive to load on a truck and move. That means that the possession of OCTG pipe within our yards is effectively a competitive advantage, because additional services can be performed on the pipe by NOV without having to ship it by truck, reducing risk and cost. Consequently, we've steadily expanded our services beyond warehousing and inventory tracking to include services like thread repair, bucking on couplings, application of external coatings, straightening, belling for our proprietary Zap-Lok™ flowline installation method, installation of fiberglass TK™ liners, and installation of our Thru-Kote™ sleeves, to combat corrosion, just to name a few. We also hardband drill pipe, repair tool joints, and install RFID chips to provide full lifecycle management- our TraclD™ system captures complete drill pipe history, including ownership, usage, and service.

One particular pipe service has grown through the past several decades to become a tremendous NOV franchise. Years ago, NOV Tuboscope pioneered a proprietary method of applying thermoset plastic coatings to the inner surface of OCTG, something we do at 15 facilities globally, to combat corrosion and to improve the hydraulic performance of pipe. One major oil company reported it achieved 25% higher flowrates from its Gulf of Mexico wells by running internally coated tubulars. I would add that the cost of failure of internal coatings is high. Thousands of feet of peeling thermoset plastics can easily clog up a well and necessitate an expensive workover. As the oldest and largest applicator of internal OCTG coatings, NOV Tuboscope, again, is the most trusted name in this business.

There are very few joints of pipe in the oilfield that NOV's Tuboscope unit does not touch at some point, and as drilling efficiencies continue to rise the amount of pipe consumed by each drilling rig also rises every year; in fact, it's up about



50% over the past five years. This 80-year-old business unit, which derives 84% of its revenue from land markets, provides yet another example of how Wellbore Technologies benefits from footage drilled much more than rig count.

Turning to NOV's Completion & Production Solutions Segment, we are benefitting from rising demand for frac stimulation equipment in North America and the Middle East, as completion intensity in unconventional reservoirs has continued to rise. NOV's Intervention & Stimulation Equipment business unit has witnessed rising demand for the capital equipment, consumables, and aftermarket service and repair that it provides to oilfield pressure pumpers, coiled tubing operators, and wireline operators. It is the largest business unit within Completion & Production Solutions, accounting for about 30% of the segment's revenue.

Completion intensity of unconventional wells continues to move up and to the right. Laterals are getting longer, stage counts are increasing, pressures and proppant loadings per stage continue to rise, and completions now represent 65% or more of average North American well costs. The pressure pumpers who execute these frac jobs, our customers, are putting more abrasives and more horsepower into the ground than ever before, and executing more stages per day, which makes this endeavor highly capital-intensive and highly consumptive of frac iron. More stages require more coiled tubing equipment to mill out plugs used to separate the stages. And, more stages require more wireline equipment to deploy plugs and perforating guns downhole.

NOV is a leading provider of all of the equipment used to execute these completions, particularly the higher value-added technologies and complex process equipment, like hydration units, chemical additive systems, blenders and control systems. We provide data van control centers equipped with industry-leading software systems that coordinate operating results and reduce maintenance, enabling operators to control high-pressure, high-volume pumping of abrasive proppants downhole through 24 frac units simultaneously from a single control panel. Complex, demanding operations like this require high-reliability, which is why we developed bonded Blue Thunder™ valves for frac units that last 50% longer than competitor products in the most demanding frac jobs. Our new stainless-steel Patriot™ fluid ends triple the life of conventional fluid ends, with design improvements that make them easier to service.

Coiled tubing is a continuous length of steel tubing, typically around two inches in diameter, and up to 30,000 feet in length, which is wound on a reel as we manufacture it. It is used to perform arthroscopic surgery in the oilfield, with the capability to enter existing, even flowing wells, and traverse long laterals, to perform completion and well remediation operations, like setting plugs, perforating, pumping acid, or even pumping frac jobs. NOV is the leading provider of coiled tubing hardware and consumables, dating back to the 1970s. We provide coiled tubing units, control systems, pressure control devices, and the coiled tubing itself, which is a consumable that must be replaced regularly. We've delivered over 1,500 NOV HydraRig-manufactured units in service today, and many more injector heads as well. Coiled tubing is the only industrial application of steel that pushes steel past its plastic deformation limits while demanding it continue to hold pressure and weight. But there is a limit to the capabilities of steel. Every round trip downhole takes coiled tubing through six plastic deformation cycles. Operators must track the number of cycles each coiled tubing string has been subjected to so that it does not exceed its limits, and thus fail. NOV's Cerberus software system has been the industry standard in coiled tubing monitoring for this purpose for over 20 years.

These operating constraints dictate that coiled tubing strings be retired and replaced every two to three months, under normal pressure and utilization. As a leading provider of these coiled tubing strings, NOV recently introduced QT-1400, the highest strength coiled tubing in the world – with a threefold increase in overpull capability, lighter weight, and thinner wall – enabling people to reach farther in plug-and-perf and intervention operations. We are also the largest manufacturer of coiled tubing BOP stacks through our Texas Oil Tools name, offering our customers the capability to monitor, remotely and in real-time, the status of the coiled tubing blowout preventer rams. We provide real-time condition monitoring of coiled tubing operations designed to identify equipment failures before they occur, including pumps, filters, engines, hydraulic systems, lubrication systems and specific bearings within rotating machinery. The system's alarms can be configured with remote alerts sent via text message. Additionally, E&P operators and service company experts can monitor control panels remotely, to follow in real time the progress of high-risk jobs. One large



independent reports that they have avoided incidences of stuck pipe by utilizing this system, which they now use routinely.

In addition to frac spreads and coiled tubing units, the Intervention & Stimulation Equipment business unit is a leading provider of nitrogen equipment, with over 1,000 nitrogen units in the field. It is a leading provider of snubbing units, with over 150 snubbing units in the field. We are global leader in design and manufacture of wireline products for slickline and electric line applications, including critical pressure control equipment like wireline lubricators. In fact, our Elmar brand has delivered over 60,000 feet of lightweight wireline lubricator used to control pressure.

With our enormous installed base of operating equipment NOV is uniquely positioned to provide aftermarket service and repair as the OEM, and we have invested steadily in this opportunity. Everything we make in this area is experiencing high wear and tear. For instance, coiled tubing injector heads typically undergo a major overhaul at 10MM running feet. Five years ago, this would be two to three years of service; today our customers are hitting 10MM running feet in a year, tripling the frequency of coiled tubing unit overhauls. With trained technicians in more than 40 locations across 14 countries, we have what our customers need, when they need it, where they need it—precisely what our customers expect from NOV. Today, aftermarket services and spares account for over 40% of the Intervention & Stimulation Equipment business unit sales. Here, as in every other business unit in NOV, we deliver field-proven solutions that maximize efficiency, improve service value, and increase our customers' bottom line.

Tuboscope and Intervention and Stimulation Equipment are two more terrific businesses within the NOV portfolio that are global market leaders that the oilfield relies on. Both provide mission-critical equipment and services to our customers' global operations. Both benefit from sustainable competitive advantage, through scale and scope and technology and installed base.

Before I turn it over to Jose I'd like to thank NOV's incredible employees. You may have noticed that we did not call out any impact from Hurricane Harvey in our third quarter results, despite being based in Houston with nearly one hundred facilities in the Gulf Coast area affected by this storm. Company facilities endured, for the most part, pretty minimal damage. Unfortunately, many of our employees were not so lucky. Fully 20% of our workforce live in the areas affected by the storm, and 600 NOV employees were displaced from their homes by floodwaters. Our thoughts and prayers remain with them and their families as they work to put their lives back together. I am particularly proud of the hundreds of fellow NOV employees who pitched in to help their coworkers, families, friends and neighbors, by rescuing those trapped by high water, by serving meals, by volunteering in shelters, and by pulling wet carpet and sheetrock out of nearly 140 employee homes. You worked very hard to take care of both our co-workers as well as our customers through this period. I have always said NOV is a special place and it has never been more apparent than it has been in recent weeks. You folks are awesome. All of you have my heartfelt gratitude.

Jose?

JOSE BAYARDO
Senior Vice President and Chief Financial Officer

Thanks, Clay.

To recap our third quarter results, NOV consolidated revenues increased by \$76MM from the second quarter of 2017 to \$1.84B. Strong demand for our technologies, products and services from our short-cycle land businesses in North America, along with growing demand in the Middle East, drove our topline growth, more than offsetting continued challenges in the offshore market and other international land markets that remain stagnant.

During the third quarter, land-related revenues were 65% of total company and North America supplied 43% of sales.

EBITDA improved \$25MM to \$167MM.



For the first time in two years we achieved at least breakeven operating profit for each of our reporting segments but reported a consolidated operating loss of \$7MM after accounting for corporate costs. We anticipate we will have positive operating income in the fourth quarter.

A few items worth noting related to the consolidated P&L:

- SG&A ticked down another \$1MM sequentially;
- Interest Income increased \$7MM due to an interest payment received from a favorable ruling related to a long-disputed tax assessment;
- Other expense increased \$4MM due to FX; and
- Our tax rate came in at 10% as expected.

Also of note, for the first time in quite a while, we reported no one-off "other items" as restructuring initiatives reached at least a temporary pause.

In the third quarter, cash flow from operations was \$232MM, and after deducting \$42MM in capital expenditures we netted \$190MM in free cash flow, giving us a free cash flow margin of 10.4%.

While we believe our free cash flow margin will remain in the top quartile for the OFS&E space, we know we can do better. We are refocusing our efforts and taking action to improve our management of working capital. We expect improvements in our cash conversion cycle, combined with our capital-light business model, will help ensure we remain at or near the top of the pack in free cash flow, and will ultimately help us improve our return on capital employed.

Our cash balance increased \$192MM to \$1.72B at September 30, 2017 and total debt remained at \$3.2B with nothing outstanding on our credit facility. As a result, our net debt decreased to \$1.49B.

During the fourth quarter, we plan to pay off a \$500MM Senior Note that will reach its maturity on December 1, 2017 using cash on hand.

Rig-related businesses

The overarching macro commentary for our Rig businesses is that the commodity price pullback that began late in the second quarter, which saw oil prices fall into the low-to-mid 40s, and ensuing activity declines caused our drilling contractor customers to retrench and stop spending on all but the most essential of items. The result for us was deferred deliveries and a sharper-than-anticipated fall-off in orders for new equipment, re-activation services, and spare parts.

Rig Systems

During the third quarter, our Rig Systems Segment generated \$330MM in revenue, down \$16MM, or 5%, sequentially. EBITDA increased by \$2MM to \$28MM.

As disclosed in our press release, we agreed with a customer to cancel two jackup drilling equipment package orders in exchange for firm commitments to continue forward with several other jackup packages the customer has under contract, retention of down payments, and other consideration. The agreement resulted in the deletion of approximately \$100MM from the segment's backlog and a small gain that, along with outstanding efforts by our team to continue removing costs and improve efficiencies, contributed to the segment's sequential EBITDA improvement.

Bookings were limited to \$84MM in the third quarter as customers deferred several anticipated orders, including a large subsea BOP stack, into the fourth quarter and beyond. Among the orders received were several rig upgrade packages, five top drives, several high-spec well service rigs, and pressure control equipment.



We are encouraged by the continuation of robust dialogue with our customers regarding rig upgrades to improve the positioning of their marketed fleets and heavy quoting activity; however, we expect conversion of quotes to P.O.s to remain very slow as tenders push to the right and as customers postpone decisions to upgrade until they have better visibility into contract opportunities that are slow to emerge in a near \$50 oil price environment.

Despite our low bookings in the third quarter, we remain steadfast in our belief that \$1B in annual revenue represents a draconian scenario floor for this business and that the current level of order intake is incapable of supporting the large installed base of NOV rig equipment actively deployed around the world.

We are optimistic that bookings will return to the \$100MM+ range in the fourth quarter. We also expect revenue out of backlog to pick-up \$40-50MM as items that pushed out in the third quarter will be shipped in Q4. Margins should decrease by approximately 150bps due to a lower-margin mix of backlog deliveries and the non-recurring nature of the benefit received from the contract terminations.

Rig Aftermarket

During the third quarter, our Rig Aftermarket Segment generated \$311 million in revenue, a decrease of \$30MM, or 9% from the second quarter of 2017. As I mentioned earlier, activity associated with rig reactivations and upgrades fell more sharply than we anticipated because of deteriorating macro conditions. The resulting decline in spare part sales and fall-off in our service related revenue drove 47% EBITDA decrements for a \$14MM decrease in EBITDA to \$69MM or 22.2% of sales.

Notwithstanding the overall sequential decline, demand for certain expendables for the US land market continued to grow throughout the quarter, particularly demand for our pump expendables which reached its highest level since 2014. Additionally, we did see a 40% increase in the number of special purpose surveys; however, customers continue to reduce the scope and resulting spend of most projects as they seek to limit spending only to what is absolutely necessary.

Recent improvements in spare part bookings give us some confidence that fourth quarter Rig Aftermarket results should be in-line with the third quarter, and we expect the segment will return to a slow, steady pace of improvement in 2018 as customer inventories of spare parts are depleted, opportunities to cannibalize parts diminish, and visibility into longer-term activity levels improves.

Wellbore Technologies

During the third quarter, our Wellbore Technologies Segment generated \$693MM in revenue, an increase of \$79MM or 13%. Adjusted EBITDA increased \$28MM to \$94MM, or 13.6% of sales.

North America and the Middle East led segment growth, and we also realized meaningful top-line improvements in every major region of the world outside of Asia.

We believe our growth in this segment continues to outpace global activity levels for three primary reasons:

- First, after nearly three years spent depleting equipment inventories purchased in a period of much higher activity levels, customers need to replenish their supply of the critical technologies NOV provides to help them drill farther and faster.
- Second, faster drill times result in much more aggressive consumption of the equipment we provide, and product demand increases with each additional foot drilled per day.
- Third, the rapid adoption of our latest drilling technologies is driving market share gains around the world.

We see compelling evidence in virtually all our business units within our Wellbore Technologies segment that supports our belief, and I want to give a few examples this morning.



In our Downhole Tools business unit, which designs, manufactures and sells downhole motors and other critical drilling tools, we experienced 24% sequential revenue growth in the US as there appears to be an insatiable demand for additional motors and tools as scarcity builds despite a plateauing rig count.

Also supporting our outsized growth in our Downhole business are new products and technologies that directly contribute to our customers' ability to increase their rate of penetration and lateral lengths. Tools like our new Agitator HE™, which provides greater friction reduction than our standard Agitator™ tool to help drill long laterals more easily, are driving significant improvements in drilling results for our customers. In West Texas, for example, a customer drilled their fastest and longest 8¾-inch section in Reagan County realizing rate of penetration improvements of 74% while sliding and 38% while rotating allowing them to drill at an average rate 79 ft/hr faster than a direct offset, which used a standard Agitator. In Colorado, the Agitator HE allowed another customer to drill with 22% less weight on bit, and an 18% decrease in pressure drop versus the standard Agitator significantly increasing rate of penetration, and reducing wear on the bottomhole assembly and other drilling equipment.

As a result of the rapid growth in demand for motors and drilling tools, we've added third shifts to many of our North American manufacturing and service facilities, and we are even starting to add a fourth shift in certain facilities until we are able to catch up with the recent up-tick in demand.

Within our ReedHycalog business, we're also realizing rapid market adoption from our recently introduced products and technologies.

Our recently-established directional drilling tools platform also realized outsized growth in Q3, as we secured multiple orders in key international markets for our Tolteq™ mud-pulse measurement-while-drilling tools (MWD) and our Vector™ series rotary steerable systems.

Our customized drill bits outfitted with industry-leading shaped cutter technology continue to set field records around the world, resulting in share gains in key markets. Our new Chainsaw bit design features 3D cutters on the bit's primary blades that pre-fracture the formation making it easier for the cylindrical cutters on the secondary blades to shear off the remaining rock, boosting the bit's rate of penetration. After successfully trialing the Chainsaw design in the US last quarter, we took the technology international, where we are already setting field records in the Middle East.

And, our eVolve™ drilling automation products and services are delivering significant improvements in drilling efficiencies and gaining more traction with customers around the world. We've helped customers realize drill time improvements of up to 50% and are delivering an unsurpassed level of insight into downhole conditions that lead to significant improvements in the predictability and consistency of drilling operations.

Lastly, within our drill pipe business we saw revenue grow 17% sequentially. Growth that is certainly driven by depleted inventories in our customers' possession after several years of underinvestment in this critical product, and growth that is compounded by significant increases in drilling intensity as drill strings require higher-torque connections when pushed harder around 90-degree bends and through ever increasing lateral wellbore lengths. Yet, our industry-leading technology has driven much of the recent growth we've seen in this business.

We designed our Delta™ premium drill-pipe connections to improve drilling times and reduce total cost of ownership. The thread design requires significantly fewer turns from stab to makeup than comparable connections and requires no stabbing guides, making it significantly easier to handle on a rig. The faster makeup of the connection is partially accomplished by deeper stabbing, meaning there are more threads engaged at the time two joints come together, which minimizes damage by more evenly distributing stresses on the connection.

After a few quarters of use in the fields of North America, the Middle East, and deepwater Gulf of Mexico, we are pleased to confirm our claims of lower cost of ownership as we've seen recut rates of less than 1% after our initial runs on this connection versus an average of rate of 10 to 20% for our prior generation, market-leading connections.



Even with the recent growth in our drill pipe business, we suspect there is pent-up demand in the system that continues to build with each passing day. In our Tuboscope pipe yards that Clay described earlier, we've seen customer-owned drill pipe inventory decrease by approximately 17% year to date supporting our view that existing inventories will eventually need to be replenished in a material way. Though we believe customers have mostly exhausted their 2017 budgets and expect lighter bookings and flat revenues through year-end, market dynamics appear to be setting the stage for an inflection in demand during 2018.

Across our Wellbore Technologies Segment, we expect to continue realizing growth that outpaces the broader market in the fourth quarter for the same three reasons I mentioned earlier: the depletion of NOV products and technologies in customer inventories, secular trends driving increased drilling intensity and accelerating adoption of our latest technologies. Specifically, we expect to realize 300 to 500 basis points of top-line growth with stronger incremental margins than we saw in the third quarter.

Completion and Production Solutions

Our Completion & Production Solutions Segment generated \$682MM in revenue during the third quarter, an increase of 5% or \$30MM sequentially. Robust completions activity in North America and the Middle East drove strong demand for our Intervention and Stimulation Equipment, Fiber Glass Systems, Completion Tools, and Process and Flow Technologies business units, partially offset by declines in our offshore-oriented operations.

In line with expectations, EBITDA margin decreased 80 bps to 14.2% due to less favorable mix and FX benefits realized in the second quarter, which as anticipated did not repeat. Specifically, our subsea flexible pipe, floating production and conductor pipe connection businesses posted lower margins sequentially in the face of continued offshore challenges.

The segment booked \$463MM in new orders during the third quarter for a 119% book-to-bill. Almost all business units achieved book-to-bills at or near 100% and we ended the quarter with a total backlog of \$974MM.

Favorable secular trends support increasing growth in our land-oriented businesses within the segment and, we expect, will continue to do so in the future. Rising well counts, longer laterals, growing number of frac stages, and enhanced completion technologies meaningfully increase service intensity and the strain placed on completion equipment.

The primary beneficiary of the secular trends in this segment is our Intervention and Stimulation Equipment Business Unit. The business unit achieved a book-to-bill of approximately 154%, which, as Clay mentioned, marks the fourth consecutive quarter where order intake exceeded 100% book-to-bill. Increasing service intensity combined with our customers' year-end rush to procure new pressure pumping equipment before Tier IV emissions standards come into effect more than offset cautiousness surrounding capital equipment commitments in a sub-\$50 oil price environment.

This quarter we booked two complete 50,000-HP frac spreads, plus an additional 37,500-HP of individual pump units, bringing our year-to-date total of pressure pumping equipment orders above 400,000 HP. We also booked two coiled tubing units and a number of discrete pieces of pressure pumping support equipment, including blenders, hydration units and liquid additive systems.

Additionally, we received customer commitments for extensive pressure pumping refurbishment programs, bringing our committed refurbishments to over 100 pumping units.

Our Fiber Glass Systems Business Unit continues to see considerable demand from Middle Eastern markets. We booked our largest order ever of Fiberspar™ spoolable composite pipe in the Middle East. Customers there increasingly seek corrosion-free, lightweight, easy to install products for gathering and injection infrastructure systems. We anticipate regional demand for composite solutions to continue, which is why we're building a fiberglass plant in Saudi Arabia where we expect to be up and running by mid-2018.



Our Completion Tools Business Unit also experienced significant wins in the Middle East during the third quarter. We successfully qualified and used our i-Frac CEM™ ball-drop-activated multistage frac sleeves and Burst Port System™ to help our customer successfully complete the toe section in a record-setting long-string completion. Our Completion Tools business unit also notched a few key wins in the Middle East for its recently introduced liner hanger systems.

The Middle East is also a strong source of growth for our Process and Flow Technologies business, specifically for production chokes, water management, separation, and early production equipment. In the US, the business unit also continues to see growing demand for production chokes and processing equipment, which includes water treatment systems. In the third quarter, we secured our largest value order ever for a saltwater disposal facility, and we sold two of our WaterWolf™ Dynamic Oil Recovery systems. Our WaterWolf system recovers oil and removes suspended solids from produced water in a single stage of treatment using hydro-cyclone technology that replaces using chemicals, filters or tanks. The system significantly improves oil recovery and reduces waste, improving economics for our customers – yet another example of how we help our customers lower their marginal cost per barrel.

Outside of bright spots in US and the Middle East, demand remains muted. Because of low commodity price, large capital equipment purchases have yet to manifest in most international markets and offshore.

For the fourth quarter, we expect bookings will taper off as most of our customers' 2017 budgets are exhausted, the opportunity to secure Tier II pressure pumping equipment has passed, and commodity price outlook remains uncertain.

After several quarters in a row of strong bookings, the segment is well positioned to realize mid-single digit percent revenue growth in the fourth quarter; however, we expect business mix shifts and lower margins from our offshore related businesses to push EBITDA margins down around 50 basis points.

We are incredibly proud of the organization's tenacity—having delivered five quarters in a row of improving results amidst challenging market conditions. While headwinds will persist in a \$50 world, we believe the eventual collision between shrinking global oil inventories, steadily improving demand, underinvestment by the industry, and favorable secular trends will drive step-change improvements in our businesses.

Until that happens, the talented and dedicated teams at NOV will remain laser-focused on making the most of each market opportunity, squeezing out every possible efficiency improvement, investing in compelling solutions for our customer, and enhancing the position of our operations in the markets that will matter most in the future.

With that, we'll open the call to questions.

