NOV Inc.
Second Quarter 2024 Earnings
Conference Call Remarks

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Director, Investor Relations

Welcome everyone to NOV's second quarter 2024 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 U.S. GAAP basis for the second quarter of 2024, NOV reported revenues of $2.22 billion and a net income of $226 million or $0.57 per fully diluted 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, Amie.

NOV's second quarter revenues of $2.2 billion increased 6% compared to the second quarter of 2023, as year-over-year double-digit growth in international markets and 6% growth in the offshore easily

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overcame a modest 1% decline in North American sales. The Company posted fully-diluted GAAP earnings for the second quarter of $0.57 per share, up $0.18 year-over-year, helped by gains from our divestiture of our pole products business during the quarter.

Second quarter EBITDA improved 15% year-over-year to $281 million. Strong sequential EBITDA leverage of 66% was driven by the impact of cost reductions undertaken over the past several months, along with the pull-forward of some work and very good execution. Consolidated EBITDA margin of 12.7% improved sequentially and year-over-year, due to the cost reductions and rising margins in NOV's revenue out of backlog, which accounted for about 25% of our revenue mix during the second quarter.

Exploration in new offshore basins; greenfield and brownfield offshore development (for both oil and gas); and international development of unconventional resources, are emerging as the primary growth drivers for NOV, as the strength and duration of this cycle remains on display. Stable oil prices and a strong long-term outlook for natural gas and LNG demand are supporting E&P investments in these areas. In fact, industry forecasts are calling for several additional Final Investment Decisions, or FID's, for big offshore projects following the significant ramp of the past three years, which are expected to drive sharply higher demand for offshore production assets like FPSO's. National oil companies (NOC's) have been clear about their higher spending plans to achieve ambitious goals to boost production.

These trends have important implications for NOV's business. For international land developments, E&P operators need better drilling, stimulation and production equipment and technologies, like those developed and honed in North America's unconventional shale laboratory through the past two decades. (As a reminder, the U.S. Shale Revolution began with a retooling of its drilling rig fleet to AC power and high-spec capabilities early in the century — that was step one — followed by the build out of substantially more and more-efficient hydraulic fracturing equipment — two things that never happened across the Middle East, Asia Pacific or Latin America.) New international wells also need

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miles of corrosion-resistant flowline, plus chokes, valves, processing equipment and the like. NOV is a leading global provider of all of these.

Offshore E&P operators need drilling rigs to be reactivated after long periods of inactivity, which accelerates the corrosion caused by salt air, and these also need to be retrofitted with drillpipe, bits and drilling tools. Our organization supports the majority of the global offshore drilling rig fleet as the leading drilling equipment OEM. Drilling rig reactivation activity has been strong over the past few quarters as we've worked to put assets back to work.

Offshore operators also need platforms and FPSO's and subsea flowlines and production kit ranging from flexible and composite piping systems to gas treatment, pumps, valves and chokes. Again, NOV is a leading global provider of these, and we are now also seeing rising demand for production technologies we provide, which drove the strong level of orders this quarter. NOV's opportunity per FPSO production vessel ranges from $100 million in benign waters, up to $700 million in harsh environments.

Book-to-bill was nearly 180% in the second quarter. Driven by strong demand for flexible pipe for deepwater FPSO developments, bookings were also helped by demand for well intervention equipment for both offshore and international markets, and a large order for wind towers that Jose will speak to later.

Onshore tendering and drilling activity continues to be strong in the Middle East and is rising in Latin America and Asia as NOC's pursue aspirational production targets, particularly around gas, and employ unconventional production technology, many for the first time.

Most of these customers understand that the economics of unconventional technology work best with modern, AC-powered rigs supported by advanced control systems, with downhole bits and friction reduction tools that enable longer laterals and higher production per well, and with safe and efficient pressure pumping spreads and coiled tubing units that de-risk completions. They understand the fluid handling and corrosion challenges of high flowback rates of fluids carrying heavy abrasive loads

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through their processing plants. They understand that NOV can help them navigate these challenges with our unconventional production technology that enables profitable development of their resources. NOV is well positioned to capitalize on the building offshore and international momentum.

On the other hand, in North America we see a different and more challenging picture through the second half of 2024. Onshore activity in the U.S. continues to slow due to E&P merger integrations and low natural gas prices, as the market awaits more LNG export-take-away capacity slated for 2025. Low natural gas prices and NGL prices, particularly in West Texas, reduce the realized wellhead revenues for operators and diminish their cashflows, their wellbore construction economics and their appetite to drill. Certain of our North American oilfield service customers are facing more price pressure as fleet utilizations fall, and most are increasingly cautious in their purchases, which led to an 8% decline in Energy Equipment revenues for the region year-over-year, and drove North American mix down to 25% of segment revenue in the second quarter of 2024. In Energy Products & Services, with 51% of its mix from North America, you'd expect an even bigger impact from this trend; however, with market share gains in NAM arising from new products and technologies, along with revenues from our first quarter acquisition of Extract, North America revenues for our Energy Products and Services segment were actually up 3% year-on-year.

So, to sum it up, we were very pleased with bookings during the quarter, and our 129% book-to-bill through the first half. While we are increasingly cautious about continued headwinds in North America, we think continued rising demand in the offshore and international space will yield a book-to-bill greater than one for the second half of 2024. As they typically are, though, orders will continue to be lumpy quarter-to-quarter, and we do not expect a repeat of Q2's barn-burner bookings again in Q3.

Turning to cost savings, to date we have substantially achieved the $75 million annualized cost-reduction initiatives we announced last year through our new segment structure, our workforce reductions, and our facilities closures. But we recognize that we are facing a more challenging market in North America, and to achieve acceptable returns on capital we can't stop here, so we are

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developing additional opportunities to further reduce costs and drive better efficiencies, focusing on what we can control.

As always that includes keeping an eye out for emerging technologies that we can bring to bear in our own operations as well as our customer's. Technologies like AI- artificial intelligence.

For the past few years, we've helped our customers optimize their drilling with AI through our Kaizen™ app, and we've used AI to help write code here for a number of new NOV software products. More recently we've begun to apply it to our own operations across more than 50 of our manufacturing facilities globally, using a proprietary AI platform we call Auredia that we've developed internally to optimize capacity, improve machine tool utilization, and drive better absorption and efficiency. The platform leverages NOV's proprietary Max™ edge devices to collect real-time data from sensors affixed to manufacturing machinery in our plants. The platform then feeds that data to AI prescriptive models that identify opportunity costs caused by throughput, quality, or reliability issues. These models remove the guesswork to allow our operations teams to quickly respond to issues and opportunities. The platform is highly scalable, and we plan to connect all our manufacturing machines worldwide, beyond the several hundred that are using it today, to help us improve utilization and results. NOV's ability to quickly scale our operations as cycles dictate is a competitive strength that this system will enhance.

We are also using AI to drive better forecasting. The supply chain drama arising from the COVID pandemic highlighted shortcomings in our lead time estimation and planning. In response, we are developing an AI solution to more accurately predict and manage vendor lead times to ensure we have inventory on-hand when and where we need it. This will further optimize working capital while maintaining high reliability and logistical efficiency.

We think steadily rising market demand in key offshore and international markets, dormant for a decade-plus, together with these technology-driven operating efficiency initiatives, new products and technologies we are bringing to the market, and further cost improvements are the prominent features

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that will guide NOV's journey to better margins and returns. Our Company is very well positioned to support and enhance our customers' operations — to drive better efficiency, to reduce emissions, to improve their safety — for the next several years.

Before I turn the call over to Jose, I want to take a moment to thank our employees who may be listening in this morning. As I just noted we have a big opportunity in front of us, as our offshore and international customers get back to work, and as our North American customers continue to look to us for solutions to improve their business. They're counting on us to deliver, and I appreciate your hard work and creativity to support them. Thank you for the great job that you do.

Jose?

JOSE BAYARDO

Senior Vice President and Chief Financial Officer

Thank you, Clay.

NOV's consolidated EBITDA improved 15 percent year-over-year to $281 million, with margins improving 100 basis points to 12.7 percent of sales, reaching the highest level since 2015 supported by our $75 million cost out program, which as Clay mentioned, was substantially completed during the second quarter.

Cash flow from operations was a healthy $432 million, due to improvements in working capital and profitability. Capex totaled $82 million, leading to free cash flow of $350 million, and we continue to expect that we will convert over 50% of EBITDA to free cash flow for the year. The much-improved cash flow realized in the second quarter reinforces our already strong confidence that NOV's capital-light business model will generate substantial amounts of free cash flow over the coming years.

Last quarter we unveiled our return of capital framework that is aligned with our long-standing capital allocation priorities. As a reminder, priority one is to defend the balance sheet. As expected, during the second quarter our net debt to EBITDA leverage ratio fell below one and our gross debt leverage

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ratio remained below two, meaning we now consider the balance sheet to be in optimal condition, which paves the way to return a large portion of our future cash generation to shareholders while maintaining adequate financial flexibility.

Second, we aim to properly maintain our asset base and invest in organic growth opportunities that drive superior risk-adjusted returns. During the second quarter the bulk of our $82 million in capital expenditures was invested in building out our ability to support more of our customers with our latest efficiency enhancing tools, technologies and services.

Next, we always want to remain opportunistic regarding acquisitions that can accelerate strategic growth initiatives at attractive returns. In the second quarter we completed our acquisition of Keystone Tower Systems, which I'll talk more about in a moment, and are continuing to evaluate rifle shot technology acquisitions that improve our strategic positioning.

Lastly, we remain committed to returning at least 50 percent of our excess free cash flow, defined as cash flow from operations less capital expenditures and other investments, to our shareholders on an annual basis. During the quarter we stepped up our return of capital by increasing our dividend 50 percent, which amounted to $30 million paid in the quarter. We also bought back 2 million shares at an average price of $18.50 per share, totaling an additional $37 million. In sum, we returned $67 million of capital to our shareholders during the second quarter.

As I just mentioned, during the quarter we completed the acquisition of the remaining minority interests in Keystone Tower Systems. With NOV's help, Keystone developed a proprietary spiral welding manufacturing technology that we think will be a game-changer in the wind industry due not only to its potential to reduce the cost and time to manufacture wind towers, but even more so due to its potential to enable the manufacturing of towers in the field. This avoids the logistical challenges that prevent land wind farms from using taller towers, which can access stronger, more steady winds and utilize larger turbines. Using taller towers can significantly improve the economics of wind power,

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and therefore expand the geographical areas where you can cost-effectively produce wind power outside of the wind belt and into regions with higher populations and energy demand.

We made our initial investment in Keystone during 2019 and increased our financial investment over time, becoming the majority shareholder in 2023. We also increased our investment with human capital over time by sharing our manufacturing expertise to help produce and sell Keystone's first commercial tower sections and position the operation to be able to win a contract for three hundred 98-meter-tall wind towers from a major wind turbine OEM. With this win, we elected to exercise an option to buy-out the remaining minority shareholders and we are now working to significantly expand Keystone's manufacturing capacity to begin making deliveries on this contract beginning mid-2025. This operation is really just getting started, but we are excited about the long-term potential of this business.

Moving on to our segment results.

Energy Products and Services

Our Energy Products and Services segment generated revenue of $1.050 billion in the second quarter, a two percent increase compared to the second quarter of 2023. EBITDA decreased $14 million to $184 million year-over-year, or 17.5 percent of sales, due to a less favorable sales mix and a more challenging North American market. Sequentially, the segment realized three percent growth with 30 percent EBITDA flow through.

As a reminder, our Energy Products and Services segment generates income from three revenue streams: services and rentals; consumable products; and sales of shorter-lived capital equipment. The segment's sales mix for the quarter was: 48% service and rentals, 20% product sales, and 32% capital equipment sales.

Revenue from service and rentals includes tubular coating and inspection services; solids control services; drilling data acquisition, analytics, and optimization services; and rentals of our downhole

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drilling tools, drill bits, and artificial lift equipment. During the second quarter, revenue from NOV's service and rental businesses increased in the low single digits year-over-year, with market share gains in the U.S., strong demand from international markets, and the contribution from our new artificial lift business more than offsetting the 12 percent decline in North America drilling activity. Excluding the contribution from our artificial lift business, revenues from service and rentals declined in the low single digits year-over-year.

Revenue from drill bit rentals in the U.S. held flat from the second quarter of 2023 despite the 17% decline in the US rig count. We realized strong growth in the Permian basin from the rapid adoption of our latest bit and cutter designs, which coincided with many operators reevaluating performance, bit designs, and vendors, as they optimize hole sizes across much of the basin. Growth in the Permian offset declines in other areas of the U.S. resulting from lower activity in gas basins and the cooling effect consolidation among oil and gas producers continues to have on activity. Internationally, bit rentals and borehole enlargement services improved slightly on increasing activity in the Middle East, more than offsetting lower activity in Latin America.

Revenue from downhole tool rentals improved three percent from the second quarter of 2023. We realized a low to mid-single digit decline in North America against a rig count that decreased 12 percent, a result of rapidly growing adoption of our latest drilling technologies that allow operators to more efficiently drill high pressure and long lateral wells. Demand for our tools is generally driven by footage drilled, but higher levels of drilling complexity require more of our technologies for efficient operations. For example, as customers push beyond 2-mile laterals, they are realizing the benefit of running multiple zero pressure drop agitators in their BHA; and for wells drilled with rotary steerable tools, our PosiTrack™ torsional vibration mitigation tool enables operators to maintain higher weight on bit, allowing them to drill further without damaging the BHA. While international revenue from downhole rentals was mostly flat year over year, we expect to realize strong growth over the mid- to long-term driven by increasing activity in the unconventional plays of the Middle East.

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Revenues from our solids control services realized a low single digit growth rate compared to the second quarter of 2023. In North America, rapid adoption of NOV's new Alpha shale shaker, which offers significantly higher cuttings handling capacities, greater safety and lower costs, mostly offset meaningfully lower drilling activity in North America. Revenues from the Eastern Hemisphere improved on higher activity levels and increasing adoption of new technologies including the Alpha™ shaker and our iNOVaTHERM™ waste treatment system, which efficiently treats oil-based drilling waste at the wellsite, allowing customers to eliminate costly transportation costs while meeting all environmental requirements for disposal.

Revenues from rentals of our drilling data acquisition systems improved year-over-year, with a low single digit decline in North America being more than offset by improved activity in the Eastern Hemisphere. Our Downhole Broadband Solutions (DBS) wired drill pipe services operation is gearing up for a big 2025. Sequential revenues were mostly flat, but profitability declined with the operation beginning to carry additional costs as it readies itself for significant growth. As noted in our significant achievements, we signed a framework agreement with a major Norwegian oil and gas producer associated with their intent to deploy our services across their rig fleet. We also recently had two additional significant customer wins with our DBS offering. After completing a drilling campaign months ahead of schedule, and with better well placement than the customer expected, leading to improved productivity, an operator extended its contracts with us for another two years. And, earlier this week, after realizing strong results from a trial with our DBS services, a major NOC in the Middle East awarded us contracts for one offshore and one land rig to begin operations at the end of the year.

Lastly, our Tuboscope operations experienced a low- to mid-single-digit decline in revenues on lower demand for inspections of oilfield tubulars and for drill pipe coating in the U.S.

Revenue from product sales, which include consumable products used in drilling and completion operations improved in the mid to low twenty percent range year-over-year and, excluding the acquisition of our artificial lift business, was up low single digits. This small year-over-year increase was primarily the result of higher product sales in the Eastern Hemisphere from our Tuboscope operations,

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including our pipe connection systems and sleeves, and bulk powder coating shipments, a low twenty percent increase in sales of completion tools with significant gains in the Middle East, North Sea and North America, and an increase of bulk drill bit sales into Africa and Asia. These increases were partially offset by lower sales of fishing tools and components for managed pressure drilling equipment.

Sales of capital equipment within the segment, including composite pipe and tanks, drill pipe, conductor pipe, shale shakers and managed pressure drilling equipment, fell in the low- to mid-single digits compared to the prior year due primarily to lower drill pipe sales, which declined in the low twenty percent range due to a sharp fall-off in demand from the U.S. land markets, partially offset by improving demand from international land markets.

The decline in our drill pipe business was more than offset by higher deliveries of MPD equipment and a modest improvement in sales of fiberglass equipment, where there is growing demand for composite pipe in the oil and gas fields of the Middle East, and for corrosion resistant composite tubulars and tanks for use in FPSOs. Bookings for our Fiberglass business increased 25 percent sequentially and included orders for 462km of Fiberspar™ spoolable pipe and 128km of Bondstrand™ pipe destined for the Middle East.

For the third quarter, we expect revenues for our Energy Products and Services segment to be flat to up in the low-single-digit percent range when compared to the third quarter of 2023, with EBITDA between $175 and 190 million.

Energy Equipment

Our Energy Equipment segment generated revenue of $1.204 billion in the second quarter of 2024, an $87 million, or eight percent increase year-over-year compared to the second quarter of 2023. EBITDA improved $43 million to $142 million, or 11.8% of sales, representing an incremental flowthrough of 49 percent. The outsized incremental margin was the result of cost savings, the improving quality of our backlog, and a more favorable sales mix. Double digit revenue growth from both international land

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and offshore markets more than offset a slight decline in sales into the North American land market year-over-year. Normalizing for the divestiture of the segment's Pole Products business, revenues increased roughly 10 percent year-over-year.

As a reminder, this segment is primarily a later cycle capital equipment business that has two revenue streams, equipment sales and aftermarket sales and services. During the second quarter, equipment sales accounted for approximately 54 percent of the segment's revenues. Aftermarket sales and service accounted for the remaining 46 percent. The segment's capital equipment sales increased in the mid-single digits percent range (or roughly 10 percent when normalized for the divestiture of our Pole Products business) and aftermarket revenue improved in the upper single digits relative to the second quarter of 2023.

Most of our aftermarket revenue comes from our large installed base of drilling equipment and intervention and stimulation equipment. Our rig equipment business saw a high-teens percent increase in its aftermarket revenue year-over-year, led by higher spare part sales and the significant increase in projects to reactivate, recertify and upgrade offshore rigs. As offshore rigs have gone back to work, and idled rigs that could be cannibalized for parts have diminished, excess inventories of spare parts have been depleted by our customer and their fleets of active rigs are now providing steady demand for spare parts, recertifications and special purpose survey work, which are typically done once every five years. And, as the global fleet ages, recertifications are requiring more parts and services, leading to strong aftermarket demand for NOV as the leading OEM in the space. In addition to traditional aftermarket spares and service, we are building a steady stream of recurring revenues from subscription services that include: support from our 24/7 remote support center, which is currently monitoring 244 offshore rigs; regular updates and support for our NOVOS™ multi-machine control and process automation system, where we currently have 125 systems deployed, 26 being installed, and another 63 in our backlog; and support for our recently introduced robotics systems that has seen rapid adoption during the second quarter, including new orders for another 10 systems from eight different drilling contractors.

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Our Intervention and Stimulation Equipment unit's aftermarket revenues were down in the low teens year-over-year due to declines in North American activity. While we may not have quite reached the bottom in demand for aftermarket parts and services in the North American completions market, demand from international markets continues to improve and should begin to more than offset the sluggish demand in North America.

Moving to the capital equipment side of the business, as we mentioned in our last call, we had a significant order slip from Q1 into Q2, which contributed to a very strong level of orders and book to bill of 177 percent during the second quarter. Book to bill for the first half of 2024 was 129 percent. Orders for large pieces of capital equipment are inherently lumpy, so we don't get too excited about bookings in any individual quarter but instead focus on what our customers are telling us related to their upcoming needs, and what we are hearing from them suggests that we can expect bookings to remain solid in the second half of the year.

During the second quarter we posted a significant year-over-year improvement in sales of drilling equipment. Land deliveries increased on improved progress on Saudi newbuilds and a sizeable increase in top drive and iron roughneck deliveries. Offshore capital sales growth has been driven by pull through from rig reactivations and a general uptick in automation upgrades. Offshore activity remains strong, and we expect continued reactivations and recertifications from the aging fleet to drive upgrades that will require meaningful capital equipment orders.

Revenue for our marine construction business posted a slight decline compared to the second quarter of 2023 with higher revenues from cable lay vessels and electric cranes not quite offsetting lower revenues from Wind Turbine Installation Vessels (WTIVs). Orders were solid for our offshore wind and construction business, and we booked a repeat order for our NG-20000 WTIV design and jacking system for Europe's largest installation vessel owner in the offshore wind space. Despite delayed FIDs and the inflationary impact on developers' projects, the outlook for orders of WTIVs, cable lay vessels and heavy lift equipment for FPSOs and offshore construction vessels remains promising, with the possibility of one to two more vessels in the second half.

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Capital equipment sales by our Intervention and Stimulation Equipment business improved almost 10% compared to the second quarter of 2023. Solid execution from the business unit's growing backlog of wireline equipment and higher shipments of coiled tubing equipment more than offset only slightly lower shipments of pressure pumping equipment. Despite soft demand from North America, the business posted its fourth straight quarter with a book to bill better than one on continued strength in demand for wireline and coiled tubing equipment from international markets.

Our Process Systems operation achieved a low single digit revenue increase year-over-year resulting from strong execution on a large processing module for the North Sea. We expect a modest step down in revenues from this operation in the third quarter, but longer-term, the outlook for this operation is bright, and we are seeing growing demand for new monoethylene glycol (MEG) units, which are sizeable, higher margin, FPSO modules where our Process Systems team provides unmatched capabilities and experience.

Our Production and Midstream business saw a mid-teens percentage improvement in revenue compared to the second quarter of 2023 with a large increase in shipments of production chokes in the Middle East outweighing softer demand for chokes and pumps in North America.

Lastly, our Subsea flexible pipe business unit continued to capitalize on robust demand for subsea flexible pipe. The business has increased its backlog by more than 80 percent over the last year, achieving an all-time high and providing a clear path to significant top-line growth with much improved margins beginning in 2025. Awareness of limited remaining industry production capacity is driving operators to place orders further in advance creating a positive outlook for additional orders, some of which are now for deliveries stretching into 2027.

For the third quarter, we expect revenues for our Energy Equipment segment to be flat-to-up a couple percent compared to the third quarter of 2023, with EBITDA between $140 and 160 million.

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

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