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NOV - Q4 2013 National Oilwell Varco Earnings Conference Call

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OVERVIEW:

NOV reported 2013 revenues of $22.8b and earnings of $2.33b or $5.44 per share. 4Q13 revenues were $6.2b and earnings were $658m or $1.53 per fully diluted share.

CORPORATE PARTICIPANTS

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Clay Williams *National Oilwell Varco Inc - President & COO*

Jeremy Thigpen *National Oilwell Varco Inc - SVP & CFO*

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PRESENTATION

Operator

Welcome to the fourth-quarter and full-year 2013 earnings conference call. My name is Shannon, and I will be operator for today's call.

(Operator Instructions)

Please note that this conference is being recorded.

I will now turn the call over to Mr. Loren Singletary, Vice President of Investor and Industry Relations. Mr. Singletary, you may begin.

Loren Singletary - *National Oilwell Varco Inc - VP of Investor & Industry Relations*

Thank you, Shannon. Welcome, everyone, to the National Oilwell Varco fourth-quarter and full-year 2013 earnings conference call. With me today is Pete Miller, Chairman and CEO of National Oilwell Varco; Clay Williams, President and Chief Operating Officer; and Jeremy Thigpen, Senior Vice President and Chief Financial Officer.

Before we begin this discussion of National Oilwell Varco financial results for its fourth quarter and fiscal year ended December 31, 2 013, please note that some of the statements we make during this call may contain forecasts, projections, and estimates, including but not limited to comments about our outlook for the Company's business. These are forward-looking statements within the meaning of the federal securities laws, based on limited information as of today, which is subject to change. They are subject to risk and uncertainties and actual results may differ materially.

No one should assume that these forward-looking statements remain valid later in the quarter or later in the year. I refer you to the latest Forms 10-K and 10-Q National Oilwell Varco has on file with the Securities and Exchange Commission for a more detailed discussion of the major risk factors affecting our business. Further information regarding these, as well as supplemental, financial, and operating information, may be found within our press release on our website at www.nov.com, or in our filings with the SEC.

Later on this call we will answer your questions, which we ask you to limit to two in order to permit more participation.

Now, let me turn the call over to Pete.

Pete Miller - *National Oilwell Varco Inc - Chairman & CEO*

Thank you, Loren. Good morning, everyone.

Earlier today National Oilwell National Oilwell Varco announced fourth-quarter 2013 earnings of $658 million or $1.53 per share on revenues of $6.2 billion, and full-year earnings of $2.33 billion or $5.44 per share on revenues of $22.8 billion. Factoring in pre-tax transaction costs in pre-tax gains, the quarterly results were $670 million or $1.56 per share, and for the full year it was $2.36 billion or $5.52 per share. Clay and Jeremy will expand on these results later in the call.

Additionally, we announced new capital equipment orders of $3.61 billion to raise our backlog to a record level of $16.24 billion. Our book-to-bill ratio for the quarter was over 1.4 to 1. This backlog is continuing proof of the industry-wide demand for the great products and services we provide.

I would like to thank all of our employees around the world for the continued professionalism and dedication to provide our customers with the best equipment and support in the industry.

I will now turn the call over to Clay to provide for some more color on our quarter and year.

Clay Williams - *National Oilwell Varco Inc - President & COO*

Thank you, Pete.

National Oilwell Varco posted $5.52 per fully diluted share, excluding extraordinary gains and transaction related charges in 2013. Earnings declined 7% from 2012 on the same pro forma basis, as did operating margins. At 7% lower North American rig counts, rising competition and high customer inventories in drill pipe, downhole tools, and other consumables we manufacture, were not fully offset by strengthening international markets.

Additionally, high volumes of equipment destined for the offshore, moving through our plans at higher marginal costs, new rig floor layouts, which negated learning curve effects from past years, and straining supply chain, together with low demand for pressure pumping equipment, took a toll on Rig Technology margins for the year. Rig Technology margins bottomed in the second quarter and began to move up slightly for the second half of the year.

Despite these challenges, National Oilwell Varco accomplished a great deal in 2013. All three segments posted record revenues for the year. NOV posted a record level of cash flow from operations of $3.4 billion, buoyed by strong improvements in working capital efficiency. We made good progress divesting certain real estate and non-core assets acquired with our Ameron and Robbins & Myers acquisitions to free up additional cash. In fact, late in the fourth quarter we executed an agreement to divest an industrial aggregates business to a strategic buyer, which will yield another roughly $100 million.

Our strong outlook for cash flow prompted NOV to double its dividend last May and we expect another significant increase again in 2014. We have steadily increased our allocation of the capital we generate back to our shareholders, while still successfully executing our strategic plans. We expect this trend to continue through the coming year.

Operationally, our Rig Technology segment won a record $13.1 billion in orders for capital equipment, half again higher than the revenue we shipped out last year, lifting our backlog to a record $16.2 billion. We made great progress expanding our capacity and numerous drilling rig product categories in the face of unprecedented demand this year. We also achieved better payment and pricing terms on 2013 projects, contributing to better working capital performance.

Our FPSO businesses posted over $1 billion in new orders this year, again a new record. We saw margins for our FPSO businesses increase 760 basis points year on year, as volumes and better pricing began to get traction. We expect to do well in 2014 given our recent capacity expansion in Brazil and backlog growth in this area.

We completed the integration of key businesses acquired over the past several quarters - Robbins & Myers, Fiberspar, Wilson, CE Franklin, NKT Flexibles - into our existing infrastructure. While some of these strategic moves were executed shortly before market conditions in North America began to slide, all cemented National Oilwell Varco's market leadership, and importantly leadership economics for NOV for the long term, in products such as composite tubulars, progressing cavity pumps, downhole drilling motors, sucker rod services, flow iron and chokes.

We believe leadership economics provide real competitive advantage and higher margins in oilfield services owing the scale efficiencies, purchasing power, installed base, reputation effect, and lower risk to buyers. Further, we tend to invest aggressively in technology leadership, which we view as an obligation of market leaders, to further enhance our competitive advantage. NOV was built on systematic application of these principles of competitive advantage in the oilfield. We continue to deploy resources to enhance positioning of our businesses.

Scale economies are enabling us to spinoff our distribution business. Our acquisitions of Wilson Supply and CE Franklin, together with NOV's distribution services business, has created an upstream distribution services business of unequal capability, which will become an independent standalone company next quarter. We are very excited about the prospects of distribution now. We believe that it will unlock additional value for shareholders while creating exciting new opportunities for our employees.

In short, though challenging, 2013 was also a very productive year for our organization, and we accomplished much to position NOV for future growth in competitive advantage. Principally in the four key areas I discussed last quarter: one, deepwater drilling rigs; two, floating production technologies; three, jackup rig fleet retooling; and four, shale technology expansion. Which leads me to our outlook for 2014.

First, deepwater drilling rigs. Following 26 floater drilling equipment package wins by NOV in 2013, much has been written lately about falling demand in 2014. We certainly concur that fewer EMP tenders for deepwater drilling rigs lately, in the face of 39 uncontracted floaters to come to market in the next few years, should point to a more restrained outlook for new build deepwater drill rig demand in 2014. The only problem is, we just don't see it yet.

Those who know most about the market continue to place orders. Demand actually looks to be holding up well, so far. We expect Rig Technology book-to-bill to land close to 1, or maybe even exceed 1, for the first quarter. We are off to good start in 2014.

Lately, demand for rigs appears to be shifting towards less traditional entrepreneurs and less traditional shipyards. Nevertheless, some large well-capitalized drilling contractors are continuing to look at placing more floater orders. It may be that they continue to find the low all-in cost of these high-quality drilling assets, aggressive shipyard terms, availability of financing, and drilling contractor organizations already geared to finance, build, staff and execute these projects, simply too compelling to pass up.

It may be that they see two-thirds of a planet, which can only be explored with floating rigs, driving a much bigger fleet in the future. It may be that they see development drilling demand rising around the globe given the 200 plus new deepwater discoveries made that are in need of development drilling. I don't know. I'm just happy to take orders.

In this space, we are very glad that over the last two years we deployed significant capital into our capacity to build 2 million pound plus top drives and drilling riser, deepwater BOP stacks, and other critical components to outfit these floaters. For instance, our record level of subsea BOPs made in 2013 will be eclipsed in 2014 and probably again in 2015, given our record backlog and expanded capacity in this arena.

We continue to invest capital in new game changing subsea BOP technology, which we expect to test this year, along with the 20,000 psi rig design and other innovations we continue to evolve in the deepwater drilling world. Growth initiative number two, our floating production systems, which produce subsea developments, where we saw great progress in 2013 and we expect more in 2014.

In short, we believe we are offering a differentiated value proposition to an industry segment, FPSO construction, that frequently sees cost overruns of 1/3 and tends to deliver vessels a year or more late. A 30% cost overrun on a $1 billion project is serious money. A 14-month delay in the first production on a multi-billion dollar MPV project is serious money.

As the number of deepwater rigs rise, more discoveries are made, oil companies seek to actually produce these fields and generate cash flow from them, and where floating production vessel projects are launched, the inherent inefficiency in the system will be compounded. The status quo has not worked very well in our view. We think we have a better way. We are very excited about pioneering a new model based upon a packaged offering. We hope to land our first package contract in this arena in late 2014.

Our acquisitions of NKT Flexibles, APL turret mooring systems, Itasco, Techdrill, Petrex, Forth Valley, Ameron and other investments have uniquely positioned NOV as a major supplier of key components in the deepwater floating production projects. We believe NOV's successful execution of a similar game plan for offshore drilling rig construction, our manufacturing and project management expertise, coupled with shipyard relationships, supply-chain management, M&A and integration skills, leave NOV uniquely well positioned to pursue better ideas in this space.

Critics, notably engineering firms who sell engineering by the hour, argue that different fuel conditions necessitate highly-customized designs that require lots of, well, engineering hours. Production vessels must be precisely optimized to the expected flow characteristics of the field. That is great, except that nobody knows exactly what that will look like.

Oil companies move forward on development with one maybe two well control points, and at best limited flow test. Initial flow characteristics, water cut, gas-oil ratios, et cetera, always change over time. Oil companies always get smarter about a field as time and drilling in production progresses. Optimizing around a point solution, an early glimpse of what production might look like, is false precision in our view.

We think we have a better way: targeting more robust designs, more modularity, more configurable systems, which can be constructed repeatedly and at lower risk. Fewer suppliers with each supplying more kit limits cross-company equipment interfaces and permits better management of interface consistency between products, reducing risk and complexity. Oil companies, FPSO operators, and shipyards would all benefit. That's our vision.

The third growth area, jackup fleet rejuvenation, is underway in earnest and helped contribute to our strong level of orders in 2013. We won a record 66 drilling equipment packages for new jackups in 2013. Like the deepwater space, we may see a pause in 2014, but in the short run, customer interest remains high. Our application of capital into this overlaps to some degree with what we do for our deepwater customers, bigger, beefier top drives, better control systems, et cetera.

It also includes investment in cranes and jacking systems in places like Nantes, France, where we are doubling our productive capacity within our BLM unit. At the risk of boring you once again with jackup fleet demographics, I will again report that the jackup fleet remains old and rusty. 45% of the fleet is more than 30 years old. Steel vessels, which sit in salt saltwater every day of their lives do not live forever.

Finally, the growth opportunity, which spans nearly every other area of NOV, centers on unconventional shale technologies. As we discussed last quarter, shale development is transformative and touches almost every thing we do, at least onshore. It starts with new land rigs, which utilize AC power, electronic controls, robotic pipe handling, quick move attributes, and now walking or skidding capabilities. North American drilling contractors get this and are investing in earnest to upgrade land fleets to this standard. International drilling contractors will certainly follow.

Next, we outfit the rig with premium drill pipe and downhole drilling motors used to turn fixed-cutter bits to efficiently drill long laterals in horizontal wells. NOV provides these, along with fluids, generator sets, drill cuttings and water-management services. We sell critical components into hydraulic fracture stimulation operations, coiled tubing and units, flow iron, pumps, mixing and blending equipment, also required to produce economic results on these projects.

The extraordinary production growth in the United States over the past three years is exhibit A of how remarkable the shale technology is. There is no doubt that it will migrate to other regions. This takes time and NOV equipment to make happen. NOV remains uniquely well positioned for this opportunity, which is still in the very early innings but moving forward steadily.

Specifically, in Latin America and the Middle East, we are seeing a gradual increase in demand for new tier 1 rigs, a shift to premium drill pipe, rising demand for drilling motors and even pressure pumping equipment. In North America, we expect oilfield service companies to begin to deplete some other stocks of inventory, and a few early green shoots may portend improving business a little later in the year. Higher gas prices would certainly help.

Logic dictates that demand will rebound as consumables are consumed by pad drilling juggernaut, furiously pursuing footage and efficiency 24 hours a day, 7 days a week, 365 days a year. As we've said many times, drilling consumes rigs and equipment. NOV's business model is a shale acreage plus NOV technology rigs, equipment, pipe, and pits go in one end of the machine, oil and wealth flow out the other.

In short, we expect four major trends in energy -- deepwater rig fleet build out, deepwater floating production and subsea development, jackup rig replacement and retooling, and growth and diffusion of shale technologies, to shape our fortunes and provide interesting and profitable reinvestment opportunities. Our success in these areas has provided NOV with exceptional cash flow, which is more likely to exceed our opportunity set more years than not going forward. Therefore, we expect to fund these opportunities while continuing to increase our dividend, probably substantially later this spring.

Our strong performance would not be possible without the hard work and dedication of our more than 60,000 employees. Many thanks to all of you for taking such great care of our customers in 2013 and for making NOV such a special team.

Jeremy?

Jeremy Thigpen - *National Oilwell Varco Inc - SVP & CFO*

Thanks, Clay.

Since Clay already summarize the 2013 highlights, I will try to focus the majority of my commentary around our fourth-quarter performance and our expectations for 2014.

As Pete and Clay previously mentioned, it was another record-breaking quarter and year for National Oilwell V arco. For the fourth-quarter 2013, the Company posted net income of $658 million, or $1.53 per fully-diluted share. Excluding $16 million in pre-tax transaction charges, fourth-quarter 2013 earnings were a record of $1.56 per fully-diluted share, up $0.22 per share or 16% from the third quarter of 2013, and up $0.07 per share or 5% from the fourth-quarter 2012.

Quarterly revenue of $6.2 billion, which was also a record, improved 8.5% sequentially and 8.6% year over year, despite a challenging rig-count environment, which was relatively flat sequentially and down 3% from the fourth quarter of 2012.

Excluding transaction charges from all periods and the gains resulting from the outstanding legal claim in the third quarter of 2013, operating profit for the quarter was $973 million, up 14% sequentially and up 2% from the fourth quarter of last year. Operating margins on this basis were 15.8% for the fourth quarter of 2013, compared to 15% for the third quarter of 2013 and 16.8% for the fourth quarter of last year. Sequentially, operating profit flow through our leverage on the 8.5% growth was a solid 25%.

Now, let's turn to our segment operating results. The Rig Technology segment generated record revenues of $3.3 billion in the fourth quarter, up 16% sequentially and up 14%, compared to the fourth-quarter 2012. Operating profit for this segment was $697 million and operating margins were 21.1%, essentially flat with the prior quarter.

On the Q3 conference call, we expected Rig Tech revenues to increase in the mid single-digit percentage range, as continued declines in the sale of intervention and stimulation equipment would be more than offset by an increase in land related revenue associated with our third-quarter bookings, plus higher offshore project revenues as we redoubled our efforts with the shipyards to bring some projects back on schedule, and continued growth in our aftermarket business.

Well, to our very pleasant surprise, revenues for intervention and stimulation equipment actually improved sequentially, as we were able to opportunistically utilize existing inventory to fill unexpected demand that surfaced in the quarter.

Additionally, revenue out of backlog increased more than expected, up 20% sequentially to $2.5 billion, primarily driven by a number of completed contracts, which included four drillships, nine jackups, and nine land rigs in the quarter. Also, we were encouraged to see strong sequential growth from our APL and NKT offering of products. Finally, our aftermarket business grew 9% sequentially to a new quarterly record of $682 million. For the full year, Rig Tech generated $11.6 billion in revenues, which surpassed the segment's 2012 record by 15%.

Turning to Rig Tech margins, given the incremental costs required to support record levels of installation and commissioning activity in the quarter, and the continuing expense associated with numerous strategic-growth initiatives and capacity expansions, we were pleased that margins remained relatively flat with Q3. Still, we remain as committed as ever to improving our already industry-leading margins by one, continuing to push pricing when and where possible; and two, optimizing our supply chain through the expansion of our capacity and the streamlining of our processes.

Now, let's transition to the Q4 capital equipment orders and our resulting backlog. As evidenced by the $3.6 billion in new orders, industry demand for our equipment remains very strong, and our customers continue to recognize National Oilwell Varco for our industry-leading technology, our proven track record of delivering projects on time, and our unmatched ability to support our equipment globally.

For the quarter we booked 4 drillships and 25 jackups, bringing our total for the year to 26 floaters and 66 jackups. Of the four floaters that we booked in Q4, we secured the subsea BOP stacks on three of the vessels, two of which purchased dual stacks. We also secured two spare stacks in the quarter, giving us a quarterly total of seven subsea stacks. And of the 25 total jackups that we booked in Q4, we secured 23 of the stacks, proving that the investments to capacity and technology that Clay previously referenced are indeed paying off. In addition to the strong orders for offshore drilling equipment, we also secured a number of orders of our APL loading systems and our NKT flexible flowline and riser technology, which enabled us to exceed our 2013 bookings' target of $1 billion.

Finally, we secured a number of drilling equipment packages destined for both the US and international land markets, as well as a number of complete workover rigs destined for Russia. All of these new orders were partly offset by revenues out of backlog of more than $2.5 billion resulting in a book-to-bill ratio of 1.4 times.

For the year, orders totaled $13.1 billion, which eclipsed the 2011 record by 21% and resulted in a record year-ending backlog of $16.2 billion, up 7% from Q3 and up 37% year over year. Of the total backlog, approximately 93% is offshore and 94% is destined for international markets. Based on what we had in backlog as of December 31, 2013, we expect approximately $8.5 billion to flow out as revenue throughout the year with just over $2 billion of that total flowing in the first quarter. Please note that this estimate does not include any capital equipment that we might book and turn during the year.

Looking into the first quarter of 2014, we expect orders for new offshore drilling equipment packages and floating production equipment to be remain strong. We expect to see continued demand for new land drilling rigs in Latin America, the Middle East, and Russia, as well as some new land rigs and equipment packages for North America.

While we do not expect a fifth consecutive quarter of bookings in excess of $3 billion, and we're not currently anticipating that we will duplicate the record booking activity of 2013, we have enjoyed a very strong start to the year. We're in the middle of some very encouraging and constructive discussions that could soon materialize into new orders. Time will tell, but we think that it could be another good year for orders.

For Q1, we expect Rig Tech revenues to decline sequentially as the large year-end shipments for both land rigs and stimulation equipment, which boosted our fourth-quarter results, will not repeat. We expect for margins to continue to be challenged to expand above the 21%, due to the sequential decline in land rigs and simulation equipment, the continued high levels of inflation and commissioning activity, and a slight delay in the startup of our flexibles plant in Brazil, which has now slipped firmly into the second quarter.

For the full-year 2014, we expect for Rig Tech revenues to grow in the high single-digit percentage range as we execute against our record backlog and continue to benefit from our ever-expanding aftermarket business. We also expect for margins to expand as we move through out the year, but at a slow and steady pace.

The Petroleum Services & Supplies segment posted revenues of $1.9 billion, up 6% sequentially and up 9% from the previous year. Operating profit improved 13% sequentially to $366 million, and operating margins were 19%, up 110 basis points from the third-quarter 2013. On the third-quarter call we suggested that revenues in the segment could improve in a low to mid single-digit percentage range, as a strengthening Canadian market and some large end-of-year project shipments into international markets would be partially offset by US market that typically slows during the holiday season. We also forecasted for margins to move modestly higher on the incremental volume. Well, as expected, our US revenue declined slightly, our Canadian revenue improve slightly, and our international business improved almost 18% sequentially.

While on the subject of international growth, since 2010, the average international rig count has increased 202 rigs or 18.5%. Over that same time period, our PS&S segment international revenues have grown 62% and represented 49.5% of the segment's total revenue in the fourth quarter. Needless to say, we are pleased that our investments are paying off. We look forward to continued growth in key international markets.

From a margin perspective, the quarter played out a little better than expected as well, with 36% leverage or flow-through on the 6% sequential increase in revenue. For the full-year 2013, PS&S segment revenues of $7.2 billion surpassed the 2012 record by 3%, despite a 3% decline in the worldwide rig count over that time.

As we enter the first quarter of 2014, we believe that the Petroleum Services & Supplies segment should receive some benefit from heightened activity in Canada; however, this increase will be more than offset by the loss of the large year-end international project that benefited us in the fourth quarter of 2013. As such, we are forecasting revenues to decline in the mid single-digit percentage range sequentially, and for margins to contract with the volume.

But, for the full-year 2014, we are planning for revenues to improve the mid single-digit percentage range, as we benefit from the fact that most of our US land customers have worked through their inventories for most products, with the exception of drillpipe, and we continue to build upon the success that we've experienced in international markets. Naturally, we expect margins to improve with the incremental volume; however, with the potential for additional pricing pressures in North America land, we are concerned that our historical 30% flow-through target may be overly ambitious for this year.

The Distribution & Transmission segment posted revenues of $1.25 billion, down almost 7% sequentially, and down 1% compared to the fourth quarter of last year. On a lower volumes, operating profit dollars declined 23% sequentially to $60 million, and operating margins dropped 100 basis points from Q3 to 4.8%. On the third-quarter earnings, call we expected revenues within the D&T segment to decline in the low single-digit percentage range, as increasing activity in Canada would be more than offset by reductions in the US, where the holiday season would result in fewer billing days.

Unfortunately, we did not fully appreciate the impact that a mid-week Christmas holiday would have on operations. We did not factor in the potential loss of billing days due to severe weather. In total, we estimate that the combination of holidays and weather disruptions resulted in six fewer billing days in the quarter, which more than explains the 7% sequential decline in revenue. And, because of the rather steep and unexpected decline in revenues, in addition to some incremental costs associated with our ERP implementation, our decremental flow-through of 20% was somewhat worse than we would typically expect, but understandable. For the full-year 2013, the Distribution & Transmission segment posted revenues of $5.1 billion, which was a new record and exceeded our full-year 2012 results by over 30%.

Looking into the first quarter of 2014, we expect the Distribution & Transmission segment to benefit from increasing Canadian activity and hopefully a few more billing days in the US. We are forecasting revenues to improve modestly sequentially.

However, we expect margins to be challenged to expand as we begin the rollout of our ERP platform to the legacy Wilson and CE Franklin organizations. For the full-year 2013, much like our PS&S segment, we are planning for revenues to improve in the mid single-digit percentage range, as we one, benefit from the fact that most of our US land customers have worked through their inventories. And, two, we continue to grow our international business, which, like PS&S, has significantly out paced the growth in the international rig count.

For our Distribution & Transmission segment, international revenues have improved 194% from 2010. Unfortunately, because of the heavy lifting that we're doing this year, which includes the ERP rollout, continued facility consolidations, and preparations for the spin off, we're only forecasting slight year-over-year margin expansion.

In summary, 2013 was certainly a challenging but a record-breaking year. As we move into the first-quarter 2014, for the total Company, we are forecasting a mid single-digit percentage sequential decline in revenue with fairly high decremental margins. But, for the year, we are forecasting mid single-digit percentage growth over 2013 with strong year-over-year flow through.

Now, let's turn to National Oilwell Varco's consolidated fourth-quarter 2013 income statement. Gross margins improved 50 basis points sequentially to 24.3%. SG&A increased $25 million sequentially on the incremental volume. But, as a percentage of revenue, SG&A declined 30 basis point sequentially to 8.5%. Transaction costs, primarily related to the Robbins & Myers acquisition, totaled $16 million in the quarter. Interest expense increased $1 million sequentially to $27 million, but interest income improved $2 million to $4 million, as a result of higher cash balances and higher yields.

Equity income in our Voest-Alpine JV was $16 million, up $3 million sequentially as the plant resumed operation following its annually scheduled maintenance in the third quarter. We expect equity income for the JV to decline slightly in the first quarter of 2014, as demand for drill pipe and therefore green tube in the US will continue to be somewhat muted.

Other expense for the quarter was $17 million, which was $2 million higher than the third quarter but still fairly consistent with historical trends. The effective tax rate for fourth quarter was 29.2%, which was well below the third quarter rate of 30.8% as we benefited from some sizable US manufacturing credits, some R&D credits, and a higher percentage of international income. Going forward, we expect for the effective tax rate to remain in the range of 31%.

Unallocated expenses and eliminations on our supplemental segment schedule was $150 million in the fourth quarter, down $5 million sequentially. Depreciation and amortization was $200 million, up $9 million from the third quarter. And EBITDA, excluding transaction charges, was a quarterly record of $1.2 billion or 19.3% of sales. For the full-year 2013, the Company produced $4.3 billion in EBITDA.

Turning to the balance sheet, National Oilwell Varco's December 31, 2013 balance sheet employed working capital, excluding cash and debt, of $6.3 billion. That's down almost $900 million from the third quarter and down over $400 million from the same time in 2012. In the quarter, our accounts receivable balance only increased $96 million despite revenue growth of $485 million over that same time period. Our prepayments and milestone invoicing on current projects, once again, out paced costs incurred, resulting in a $319 million favorable delta. Even more importantly, in the quarter we drove down inventory by $475 million.

While it's taken some time to turn the ship, we are starting to realize the benefits of our heightened focus on commercial payment terms, on collections, and on inventory. As a direct result of our strong operating results and more efficient management of working capital, we generated a quarterly record of $1.5 billion in cash flow from operations, which marked a 50% improvement over the previous record of $1 billion, which we generated in the third quarter of 2013. We're clearly pleased with the performance over the second half of the year.

During the quarter, we spent $185 million in CapEx, bringing our 2013 total spend to $669 million. We also made dividend payments of $111 million, cash tax payments of $213 million, cash interest payments of $111 million, and we paid off the remaining balance of $600 million on our commercial paper program, which enabled us to finish the year with $3.1 billion in long-term debt, of which $3 billion was from the bond offering in November 2012.

Despite these fourth-quarter disbursements, we still managed to build our cash balance by nearly $700 million to $3.4 billion, leaving us with a net cash position of $286 million at December 31, 2013 versus a net debt position of $1 billion at September 30, 2013. Of the $3.4 billion in cash, only 10% of the balance was in the US at December 31.

As we move through 2014, we expect CapEx spending to decline from the $669 million that we spent in 2013; however, we still have some sizable projects underway in key markets. Therefore, we expect CapEx could still approach $600 million for the full year 2014.

Now, let me turn it back to Pete.

Pete Miller - *National Oilwell Varco Inc - Chairman & CEO*

Thanks, Jeremy.

I'm just going to have a couple of brief comments, because I think Clay and Jeremy have really hit all the big topics quite well. The one thing I would like to echo Clay on is really about technology. Technology marches on, and as technology improves, that changes rigs.

I think a good proxy for this, yesterday if any of you listened to the [Helmar Campaign] conference call, they announced nine new contracts for new build rigs. Well, why would that happen if in fact there are rigs still stacked out there that people could pick up? I'll tell you why that could happen. It's a proxy for what is going on around the industry.

The operators want the best rigs. They want the most highly-technical rigs. Where do you get those? You get those from NOV.

That is why I think that the rumor of the death of order of new rigs has been greatly exaggerated. I'm very confident that things are going to continue on in a very positive fashion. I also believe what you're probably going to see overseas is a quicker response to shales than a lot of people are projecting. I think the world needs natural gas. We are getting ready to fire up, hopefully within the next year or so, some LNG facilities here in the US. I think that all bodes well for what we are doing.

Finally, I would just like to offer one note. One of our long-term executives, Haynes Smith, is retiring today. Haynes has been with us for quite some time, has been the president of our Tuboscope, our Fiber Glass, and our brand operations. We all want to wish Haynes the best in the future.

At this point, Shannon, I'd like to open it up for any questions that people might have.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Jim Crandell, Cowen Securities LLC.

Jim Crandell - *Cowen Securities LLC - Analyst*

Pete, since the spinoff is March 31, I'm assuming this is your last time on the call as CEO. And I just want to congratulate you on a terrific 13-year plus run as CEO.

Pete Miller - *National Oilwell Varco Inc - Chairman & CEO*

Well, thank you, Jim.

Jim Crandell - *Cowen Securities LLC - Analyst*

First of all, Pete, could you talk a little bit to the nontraditional demand for floaters? I think we probably can get a good handle on what Seadrill, Noble, Ensco, et cetera, are doing, but probably less so on the nontraditional demand, which you had some positive things to say.

Can you talk to that point in a little bit more detail?

Pete Miller - *National Oilwell Varco Inc - Chairman & CEO*

Sure, and I think it is ironic, Jim, that when you talk about the traditional players, the one you brought up was Seadrill. Because I would tell you back in 2006 they were a business plan. They were one of the major nontraditional players, and look what they've built themselves into.

I think you're going to see the same thing continue on. There are a couple of things that happened here. The shipyards want to stay busy, and the shipyards are offering still very compelling economics for the build of these; and there are still other folks that want to get in this business.

If you can get in this business with a new rig fleet, à la Seadrill, à la Pacific Drilling, à la things that Ocean Rig's doing, I think there is still a lot of room for people to enter it because what you're going to do is you are going to marginalize the rigs that really don't have the technology and the rigs that are aged. We are seeing a lot of activity still in that arena. I will ask Clay to add a little bit of color to that.

Clay Williams - *National Oilwell Varco Inc - President & COO*

You bet. Specifically, we are seeing entrepreneurs out of Asia and Europe interested in building rigs and moving forward on those projects.

Many are talking to some of the shipyards in China and are impressed by those sorts of terms that those shipyards are offering. Pretty excited about that.

That is the group of shipyards that we do very well with because they recognize the value of a more complete NOV package to go into those rigs. I think they see the opportunity here.

I would stress, too, although a lot -- as we talk about our comments, a lot has been written about short-term demand in the deepwater and offshore arenas. If you're building a rig, that is a 2.5 to 3, 3.5-year project, so you are really sort of aiming for where the puck is going.

We look out 2015, 2016, 2017 and see all the acreage that been leased and needs to be explored. I think that is really the target that they are focused on. They don't appear to be too anxious about the near-term outlook for demand for rigs.

Jim Crandell - *Cowen Securities LLC - Analyst*

One other question about deepwater, guys. If I had to think about where I've been surprised the most on the upside in terms of NOV's performance, I mean there are a number of areas; but I'm just amazed at how well you are doing in subsea deepwater BOP stacks. Can you talk to little bit about some of the reasons for your dominant market share here in 2013 in that area?

Pete Miller - *National Oilwell Varco Inc - Chairman & CEO*

Jim, I think at the end of the day, we recognized early the importance of what was going to be for the subsea stacks. I think Macondo really kind of emphasized that.

We put some very significant investments into our West Little York facility here in Houston. We got in early.

Today, we can actually test, I believe, seven BOPs simultaneously, which is an industry leader. The fact of the matter is, I think people have come to us and said, hey, you saw it early. You guys have increased your capacity, and we want to buy from you.

Couple that with the fact that -- I talk it about all the time -- we are in 63 countries with 1,250 locations around the world. That is a competitive advantage that I don't care where you're going to move your rig. I don't care what you're going to do; we are going to support you.

We have a company in South Africa that actually can redo and work BOPs that are on the West Coast of Africa and the East Coast of Africa. We do things in the Middle East. We've got facilities in Aberdeen. We've got facilities in Singapore that really can take care of that.

I think a lot of that has been better technology, increased capacity and our ability to take care of our customers wherever they are in the world.

Jim Crandell - *Cowen Securities LLC - Analyst*

Okay. Pete, the last question I have, I think you commented that you expect you will win your first integrated, or you hope to win your first integrated FPSO package by the end of 2014.

Does it seem to you that this is going -- it certainly is going slowly. But is it a surprise to you that it is going slowly? How are your oil company customers responding to the idea of standardization and offering an integrated package for an FPSO?

Pete Miller - *National Oilwell Varco Inc - Chairman & CEO*

Jim, I will let Clay kind of expand on that.

Clay Williams - *National Oilwell Varco Inc - President & COO*

That's a great question, Jim. I would say they are very intrigued by the idea.

The oil companies, together with FPSO and our operators, have been a little frustrated with the economic results around building FPSO projects. As I mentioned my comments, they tend to be very highly-customized and focus on a particular field.

Changes are made along the way, which introduces inefficiencies in the manufacture or construction of those large vessels. I think we are talking to people who are beginning to see problems with the status quo.

The key thing for us is we are talking to everybody involved up and down the food chain, so everyone from oil companies to FPSO owner operators to engineering firms to shipyards are involved in the conversation. And I think all of us recognize that there ought to be a better way to pursue these.

We are in fairly advanced conversations on one particular project; that is the one that I'm referring to. We hope to get done this year.

In terms of the pace, these are large, multi-billion dollar investments by IOC's. Those of us who have spent time in this industry know that all those projects tend to move slowly and thoughtfully.

What is required before someone pulls the trigger on building an FPSO is sanctioning an entire field development. That is something that I think IOC's and NOCs tend to study quite closely.

We are not terribly surprised at the pace, and I would add we are very pleased to see progress in this arena. So very excited about what the future holds, here.

Operator

Jeff Tillery, Tudor, Pickering, Holt.

Jeff Tillery - *Tudor, Pickering, Holt & Co. Securities - Analyst*

Clay, you mentioned in discussion around the Rig Tech outlook, some green shoots here in North America.

Are you seeing anything on the intervention side, or is it mostly rigs? Just discuss how you see this year playing out in terms of the land piece of the business?

Clay Williams - *National Oilwell Varco Inc - President & COO*

Yes, specifically that was in intervention. In hydraulic fracture stimulation equipment, we had some -- I think Jeremy talked about this in his comments -- some opportunistic sales of frac fleet equipment that we were able to meet out of inventory, so pleased with that. Within PS&S, we manufacture hydraulic fracture unit frac fleet pumps.

We have four or five customers that we've gotten calls from here recently looking for replacement parts and new pumps. We are seeing, kind of here and there, indications that perhaps some folks are starting to work through their inventory of consumables.

We hear, back on the Rig Tech coiled tubing side, that units are -- there were idled units late last year and that operators are wearing out frac fleets and coiled tubing units and parking those and then picking up the idled units. So, there is this cycling going on of the fleet, which is to be expected given the high pace of utilization and how hard this equipment has worked.

That is really the engine that is going to drive future demand; and past cycles have taught us that you run this equipment really, really hard. Then, once utilization hits a certain level, then they've got to come back to us and to our competitors to restock those consumables and buy new units.

We are not seeing a clear -- I'm not here to tell you that 2014 is the year that we come back with a vengeance. But we are seeing a few anecdotal signs of encouragement out there across the North American market.

Jeff Tillery - *Tudor, Pickering, Holt & Co. Securities - Analyst*

Okay. My second question is just around the offshore side of Rig Technologies. The qualitative feel -- seems like the comfort level for you guys around execution, whether that means commissioning or learning curve on some of the newer design rigs, is growing. Can you talk about some of the qualitative feel, as you been over that business eight or nine months now, compared now versus how you felt April or May last year?

Clay Williams - *National Oilwell Varco Inc - President & COO*

Well, we are working really, really hard. I appreciate how professional that team is over there and the great job that they do.

With respect to the offshore projects, and we've talked about this on past calls. First, we signed up, a couple of years ago began signing up for new rig floor layouts for new class requirements, ABS and DNV requirements, around rigs. We are building new versions of these drilling rigs. We lost some learning curve effects.

The second thing we did is we signed up to build these rigs very, very quickly. When you shave more than a year off of the construction schedule, what we have learned and our shipyard partners have learned and our suppliers have learned, is that that's a -- perhaps we went a bridge too far. A lot of these projects ran into delays and problems.

As we approach the end of them, the owners of these project look to our INC the efforts to catch up. Now, INC you generally plan on five to six months of installation and commissioning work at the tail end of a rig. And that is assuming you have electricity hooked up to the rig floor, you've got mechanical hook-ups done. We're relying on the shipyard partners to accomplish all that.

What we found with these projects is that they are running a little late, due to no fault of our own. But we are asked to commission these in three or four months, to work around the clock -- which we never did in a previous cycle -- to work 24-hour operations with only partially completed hook ups around the equipment. That is the specific margin headwind we've run into.

We are committed to our customers. We are committed to getting these rigs back on schedule. So, we are doing that; and we are incurring extra cost.

What we are finding as we work through this is that we are making good progress. I think there will be a learning curve effect out there in 2014.

As we clear through this work and we are going to get better at it, we are also training a lot of people. Pete, just a second ago, mentioned our investments in our BOP infrastructure. And a big part of that is investment in our teams.

We've opened our seventh NOV Technical College. We have 350 new service technicians being trained currently, moving through that system. We are expanding our workforce to be able to accommodate this record backlog and extraordinary requirements that are being required by the market that we serve.

Jeff Tillery - *Tudor, Pickering, Holt & Co. Securities - Analyst*

Okay, thank you very much.

Operator

James West, Barclays.

James West - *Barclays Capital - Analyst*

Pete, you had mentioned in your prepared remarks right at the end there that you thought that international shales were going to take off probably faster than what was anticipated or despite the market right now. We have heard a mixed bag from some of the diversified service companies around that, some fits and starts.

I wanted to dig into that comment a little further, and what are you seeing there that leads you to that conclusion?

Pete Miller - *National Oilwell Varco Inc - Chairman & CEO*

You bet, Jim. I think there's a couple of things, James.

As you take a look, for instance, right now Argentina is coming on very well for us. You've heard a lot of people talk about softness in Latin America; but quite frankly, Latin America is a real positive for place for us right now.

Argentina is one of them, and that is almost all shales. You can go back a year or two ago and in Russia, they were actually downplaying shales because they did not want people getting too excited about it because that was -- their main thing was shipping natural gas from Russia into Western Europe.

Today, even the Russians are saying, okay, we're going to start exploiting our shales pretty rapidly. We have been selling equipment into Russia pretty successfully. A lot of that equipment is going to be utilized to be able to take care of those shales.

We also have a manufacturing outfit over in Minsk Belarus that is doing very, very well when it comes to building equipment for the fracking that is necessary for the shales in Russia. I think that is another area that's very positive.

China is one. You've heard me say this before. China has some issues with pollution. They burn a lot of coal.

There is a quick and easy answer to that, and that is the utilization of natural gas. China needs natural gas. I think you will see them exploiting their shales more rapidly than people give them credit for.

I certainly understand the other opinion because there is a lot of infrastructure build up that has to occur for this to happen more rapidly. However, as you've heard me say before, we're in the business of infrastructure build up. We've actually sold equipment, coiled tubing equipment and the like, that we build in the US into China.

I think there is a lot of positive things as you look around the world at the opportunity on these shales. My belief is it is going to come to fruition sooner rather than later because the world needs it.

James West - *Barclays Capital - Analyst*

Okay.

Clay Williams - *National Oilwell Varco Inc - President & COO*

Jim, if I can add something to that, too, It's important to make a distinction between shales and shale technology because a lot of this demand that we see for hydraulic fracture stimulation or horizontal drilling for improved rig efficiency, we consider shale technology but they are being applied to the other reservoir rocks -- more conventional reservoir rocks, tight sands, that sort of thing.

What we are seeing are E&P companies applying these things or shale technologies to those, and so that is further growing the pie for what NOV sells.

James West - *Barclays Capital - Analyst*

Okay, fair enough. Then one other question from me, maybe a little bit of an unfair question, but I know you talked about book to bill being over 1 times in 1Q.

Do you think that is a reasonable expectation for the full year, because you have this nontraditional demand coming for offshore rigs and you have the FPSO orders potential coming? Or should we think about maybe it slides a little bit?

Pete Miller - *National Oilwell Varco Inc - Chairman & CEO*

James, last year at this time, I was asked that question. I said it will be over 1, and everybody went, oh yes, right. I was wrong it was 1.5.

We've got a little bit of visibility into the first quarter; and we feel very good, as Clay said in his remarks and Jeremy has said. It's real difficult for us to make a projection at this point in time that this is exactly what we are going to see.

That makes it difficult, but we feel very good about what we're seeing. We feel very good about who we're talking to.

I've also said this before. You aren't going to do an offshore rig without at least coming to NOV and getting a quotation from us, even if you want to use us as a stalking horse. So we've got a pretty good visibility into the things that are going on, and let's just say that we like where we are and we feel pretty good.

Clay Williams - *National Oilwell Varco Inc - President & COO*

We wouldn't rule out the possibility.

James West - *Barclays Capital - Analyst*

Okay, got you. Fair enough. Thanks, guys

Operator

Michael LaMotte, Guggenheim.

Michael LaMotte - *Guggenheim Securities - Analyst*

If I could follow up on the international tier one rigs question? The contractors, are you seeing more interest from indigenous or local contractors? Or are there global players looking to grow their international businesses?

Clay Williams - *National Oilwell Varco Inc - President & COO*

Really both, Michael.

In Argentina, we are dealing with indigenous contractors. The Argentine government has waived importation duties on rig equipment between now and, I think, July 1. We are seeing a big surge of demand for rigs for that particular market.

In the Middle East, more of the international players, along with some of the local Middle East participants. Really who we try to target are drilling contractors willing to bring that new technology, a differentiated offering, into their particular market.

Where we've had the best luck in the past are with more forward-thinking drilling contractors who see the benefit. They see the impact that this new rig technology has made here in North America, and they are really going in with a business plan trying to try to replicate that. Those are the folks that we tend to do the best with.

Michael LaMotte - *Guggenheim Securities - Analyst*

Thanks, Clay. In the Middle East, if I think about one of the advantages of North America AC electric rig, it's the speed in which it can break down and move location. That doesn't necessarily transfer to the desert.

What is the driver there for upgrades in desert class rigs?

Clay Williams - *National Oilwell Varco Inc - President & COO*

Really, more reliability and drilling efficiency focused. You're correct; sometimes -- it depends on the market within the Middle East. Sometimes, quick move is less important.

But I would say generally where we've done the best are the much larger rigs in the Middle East -- so 2,000, 3,000 horsepower land rigs. Moving does matter because efficiency of moves matters and the cost of moves matter, but highly-automated, reliable, big equipment is what were seeing demand for over there. That is our niche in the marketplace.

I would add to that AC power is currently getting good traction over there. The US market converted from DC electric to AC electric over the past decade or so, full stop. Middle East is lagging a little bit, but we are now seeing good demand for AC rigs in that marketplace.

Pete Miller - *National Oilwell Varco Inc - Chairman & CEO*

It also depends country to country, as Clay said, Michael. Places like Oman, the speed of movement is probably more critical than in a place like Saudi.

It is kind of dependent. The good thing is in our quiver of arrows, we've got products for all the needs over there.

Michael LaMotte - *Guggenheim Securities - Analyst*

Okay, great. If I could just come back to the Argentina comment, Clay, a little bit about lifting the import restrictions on rig equipment for the next six months. That is a pretty unusual move for the Argentine government. I imagine there is quite a scramble to jump through that window.

Can you talk about the magnitude in what you're seeing there? Also, does it extend to any frac equipment ;or is it just drilling packages?

Clay Williams - *National Oilwell Varco Inc - President & COO*

I'm not sure on the last question, frac equipment versus drilling packages. It is important to our land rig business. But in the context of a $3.3 billion segment last quarter, it's moving the needle but not -- that's a big ship to turn.

Glad to see it. Very, very pleased to be able to help that market upgrade its rig fleet. We are looking forward to executing on those projects, but it's part of a much bigger business.

Michael LaMotte - *Guggenheim Securities - Analyst*

Great. Okay, guys, thanks. I'll turn it back.

Operator

David Anderson, JPMorgan.

David Anderson - *JPMorgan - Analyst*

A question on the overall outlook on rig equipment on the new build floaters. Clearly, the market is very concerned that we are getting close to the end of the rig equipment cycle.

Can you talk about the technology aspect and how that plays out? Do you think you can get 20 floaters and 30 jack-ups, that kind of base-line number of just the upgrade in the high grading of the fleet? Is that unreasonable to expect?

Pete Miller - *National Oilwell Varco Inc - Chairman & CEO*

As you take a look at the jack-up numbers, the jack-up numbers continue to defy the common logic. I would say that there is nothing common about that logic.

The fact of the matter is that we, as Clay pointed out, 45% of the jack-ups are still over 30 years old. That is just the tough sell to people. Plus, they don't have flexibility to be able to drill.

You can take a super 116 C new build with 450 foot legs, and you can drill in 50 feet of water. You can't take a mat-supported slotted jack-up and go drill in 300 feet of water. So the flexibility is there.

You've got the same sort of thing with the big floaters. I think there is potential.

You've heard me say this before. If I give dates, I don't give numbers. If I give numbers, I don't want to give dates. So, I think there's a lot of good out there, but I'd be hesitant to zero in on absolute numbers at this point.

David Anderson - *JPMorgan - Analyst*

Okay. On your more traditional rig package, on the Rig Tech revenue flow-through. Rig Tech is getting a little bit complicated these days, a lot of moving parts.

Just in your traditional rig package business, Clay, you talked about the headwinds that you've been facing and that, obviously, installation commissioning,. But there are also some tailwinds coming up as you start seeing better pricing starting to flow through.

How do we think about that part of your business, of headwinds turning into tailwinds? Is this a second-quarter event, as you see it playing out? Or is there -- ?

Clay Williams - *National Oilwell Varco Inc - President & COO*

David, we see a gradual improvement in that business bolstered by two things.

One is, we can measure margin in our backlog, and we have seen that turn and start to move up. It is not a big move. A $16.2 billion backlog is a big animal to turn, but it's going the right direction last six months.

Then the second thing is, we know from experience, learning curve effects are real. As we start making second and third and fifth copies of these rig designs, as our supply chain evens out given the extraordinary level of work, we know that will have a positive impact on the P&L.

When we dial all that calculus in, I'd say over the next several quarters, we should continue to march up the back up in EBIT margin.

David Anderson - *JPMorgan - Analyst*

Thank you, Clay. Pete, best of luck in your venture there.

Pete Miller - *National Oilwell Varco Inc - Chairman & CEO*

Thank you. I appreciate it, David.

Operator

At this time I would like to turn the call back to Mr. Miller for closing remarks.

Pete Miller - *National Oilwell Varco Inc - Chairman & CEO*

We thank you all for calling in today. We look forward to talking to you at the end of the first quarter. Thanks very much.

Operator

Thank you, ladies and gentlemen. This concludes today's conference. Thank you for your participation. You may now disconnect.
