

National Oilwell Varco, Inc.

Analyst Day 2014

The Value of Leadership: Financial Summary

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While still in school, Jeremy worked every summer for NOV sweeping floors, pressure-washing equipment and painting mud pump liners. He became a full-time employee immediately after graduating from Rice University in 1997, and has worked both domestically and abroad serving in a number of administrative, sales and operational roles across NOV businesses. Jeremy previously served as President of Downhole Tools and later became President of the Downhole and Pumping Solutions Group within NOV.

Before I start, you've heard a lot and you're going to hear it even more in my presentation. We think we do a pretty good job as a company of identifying trends in the marketplace, putting together a strategy where we can recognize opportunities and allocating capital in a systematic way to build leadership positions so we benefit from that over time. We do that really well. We execute the business really well. Preparing for this has been unbelievably uncomfortable for us. We execute well, but we don't pat ourselves on the back very well. We don't market ourselves all that well all the time. So I just want take a moment to thank all the employees within NOV who helped with this process because it has been a massive undertaking. I hope it will be of value to you.

It's been of value to us. Internally it's been painful, and these guys are all nodding their heads as I'm saying this. I just want to thank all the folks in the room that helped all the folks who are participating via webcast. It's been a lengthy process, but it's been a good process. A lot of good hard work's been put into it, and we want thank everybody that's helped with that. Last night, I went to bed pretty early, woke up at 2 o'clock in the morning because my house alarm was going off, the burglar alarm, so jumped out of bed scouring the house. My eight-year old daughter's going crazy, and my two boys are sleeping right through it. Needless to say, I couldn't go back to sleep so I read some of the notes that were published last night and thank you for all those who published nice things.

I remember one in particular, and I'll give James a little bit of credit because he used a sports reference, and I like sports references, but he made a comment that Day 2 would be filled with the segment Presidents talking about their business and that Jeremy Thigpen would be "batting cleanup." Kind of liked the sports reference, but I'm not sure that batting cleanup is the appropriate reference. I actually feel more like I'm the closer of the baseball team. These guys have already won the game. They got the lead, they've done great job, a fantastic job to all of you and now it's my job just to come in and not blow the save. You're supposed to save the best for last-- that's what they say. I just don't know how I can top what's been done so far.

I mean I think about some of these presentations, and I think of Kirk's, a floating playground for NOV equipment, how cool is that. When you described the hydraulic fracturing equipment, and you're pumping abrasives at really high pressures through steel-- I love that business model. Yes, please give me more. You talk about Mike Matta, and he's talking about his Wellbore Technology segment. I don't know if everybody got this, but we have technology in almost every wellbore in the world. That's pretty powerful whether it's our drill pipe where we've got the market leading position, or even if they don't have our drill pipe, I bet you that drill pipe had been inspected and coded by Tuboscope, and we touch a lot of drill pipe, downhole motors as market leaders.

You get down to bits, every major manufacturer of drill bits in the industry utilizes our technology. We touch every wellbore, it's unbelievable, it's really exciting. Then you start thinking about automation, the only company in the world that has all the technology in-house today to automate a drilling process. That's pretty powerful. What do you say about Joe and rig. Holy cow, what a juggernaut! Like those installed base slides, aftermarket trajectory. He's already leading in all the technology for our rig equipment, now he's taking it a step further. We're going to have a land rig of the future, the offshore rig, the floater of the future. It's pretty exciting stuff, so I'm just going to try not to blow the save. So you've seen this slide, Clay started with it. You saw again with Tom, and you heard it over and over again in the commentary from each of the segment Presidents.



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I'm not going to belabor the point. The one thing I would like to point out, that I don't think we stressed, the top 3 are all ways to establish competitive advantage. We're doing all three at once. We're offering the best technology, we are market leaders in every technology we provide. We're first movers into new markets where our customers need us. Because of our size and our scale, we have a cost structure that is competitive with and better than most so we can do all this simultaneously. You talk about the moat of competitive advantage, it's strong. It leads to more orders, more orders lead to bigger install base across everything that we do. Bigger install base leads to a lot of tender loving care for the life of those assets. It's a great model.

Here's a picture of the model. I got to be honest, the first time I saw it, I did not react well. Lydia, I'm very sorry; it works, I get it. It is a very simple diagram showing what we do. I mean rig is the poster child for this, market leaders in top drive, market leaders in BOP stack, market leaders in mud pumps and drawworks. You got all those little dots there to the left, market leadership. You start to bring those together in a system, now you got some really powerful even more of a competitive advantage. You start to expand that global support to our customers with additional manufacturing capacity, additional service, aftermarket. By the end of it, you transform the industry, you've got something that nobody else can duplicate. It's unbelievably exciting.

You talk about NOV Wellbore Technologies. We're not all the way to the right, but we're getting there. You talk about Kirk's business on the completion side. We're getting pretty far over there to the right. Now it's just about continuing to expand our global footprint to make sure we're ready for shale development in Argentina and in Russia and in China and in Saudi and in Australia, but we're getting pretty far over there to the right. And then you think about the floating production and production in general. We're probably over on the left starting to work our way to the middle. There are lots of opportunities for continued growth in that space. So the diagram works, Lydia you were right, David, very nice. Thank you. It's a great way to describe our business, and it really does describe our model very well. You know what, the model has worked.

You look historically in here, we've been using the time frame from 2006 to 2013. Again, we chose 2006 because it was the first full year following the very transformative merger between National and Varco. If you look at that, 3 times the revenue growth per year, 3.5 times net income growth per year, 10 times cash flow from operations per year; it is pretty salty. If you look at it compared to others, it's still pretty salty. What you see on the top is NOV's performance compounded annual growth rate on revenue and our operating income from 2006 to 2013 compared to our oilfield service peers. 18% compounding annual growth revenue and operating income, which is pretty nice. You look down below that and I included this for reference, not for fun.

I've been in this job for two years and I've had several people in this group say to me, "I look at NOV and I don't really see an oilfield service company. I see more of a large industrial manufacturer, but I've never seen a large industrial manufacturer with that market penetration and that margin profile." I just wanted to put the comparison up here. Here's our performance over that same time period on the same metrics versus some really large industrial manufacturers. The model works and it's proven in the financials. We didn't just build this business for growth. We talk about sustainable competitive advantage. If you're thinking about the word "sustainable," you got to recognize that we are in a highly cyclical industry. You need to make sure that you're building the business to weather those storms and to continue to flourish even in a downturn.

What you see here in blue in the background is rig count and the green bars are net income. Anybody in the room remember the credit crisis vaguely? Maybe? So oil prices dropped 75%, rig count falls 44%. It impacted us, of course. Rig count fell 44% but because of the strength of our backlog, you look at our net income, it only dropped 23% by comparison. If you really dig into the numbers, and I didn't do it here for you, because I didn't want you to think I was playing some shale game, changing up my metrics. EBITDA over that time period for us only dropped 10%. It was pretty strong. You look at our peer group from the previous slide, they fell 50% on average. Here's what's so great about that.

If you think back to 2009, I was running a portion of our PS&S segment at the time. Activity drops like that, that hurts my business. We're a day-to-day transactional business. Rigs need to be turning to the right. I'd go from all my facilities running full out, three shifts, outsourcing two, what in the heck just happened. Luckily, in our Rig Systems business back then, we had \$11 billion backlog. Just like Joe has now over in three shifts, we're outsourcing way too much.

That gets up to yesterday about our AIM system where we can monitor all of our machines. We know who manufactured the machine. We know when we bought it. We know what characteristics it has, what kind of capability it has. In 2009, our rig business insourced over a million machine hours to our PS&S manufacturing facilities. Why is that important? Two reasons. One, we kept our core business running. All of our factories and our key machinist is our first, you know they are the first running machine all stayed busy. That's important because when the market rebounded, we were ready to roll. There are a lot other companies out there that had to go and rehire and retrain to keep up with this new demand. We were ready, because of that stability. The other reason is it's a little bit softer, but you guys all saw Lydia



yesterday get up and talk about people, global family. That wasn't scripted. You heard all these guys talk about people. Because of the stability we have, we are a very attractive company to be with. We attract employees because they know we're stable.

The good news is we're even stronger today. You look at our combined backlog as of the end of Q3, 2014 of \$16.4 billion. That's compared to about \$11 billion at the end of 2008. We're a lot bigger and more balanced as well.

Revenue grew over 60% over that time period. Interestingly, although Rig Systems obviously grew, Rig Systems became a smaller piece of our business, because of the investments we made in Rig Aftermarket, Wellbore Technologies, and Completion & Production. At the end of Q3, Rig Systems was only 41% of our revenue. Don't mean only Joe, don't feel like I'm dismissing that. We've been very intentional about really expanding our portfolio and becoming a little bit more balanced.

It's worked in the past. This is a great time for us to evolve with the market continuing to play in for the future, continuing to prepare. That's really what the last couple of days have been about. As we do that, we had an unbelievably busy year culminating in this event. We've been streamlining our business and our story. We spun off our distribution business in the middle of the year, creating more than \$3 billion of value for our shareholders. I think it was a great deal for everybody involved. We've also taken a really good hard look at some of the other businesses that we've inherited through previous acquisitions that maybe don't quite fit the NOV way and what we're trying to accomplish. We announced in the third quarter that we closed on the sale of our aggregates business in Hawaii, and we have various other businesses that are under review.

Following the DNOW spin, we really took a look at our organizational structure. You got a lot more visibility into that today, but it all started from the customer. Yet, we got some great businesses here. Is there a way to better align these businesses such that we're targeting these specific customers for each of our segments? Can we better align some of these complementary products and technologies to offering different or better solutions to our customers? On the back end, are there some operational efficiencies that we might be able to recognize? We are in the early days of that process, but we're already seeing some tremendous opportunities from the sale side and on the back side.

In addition to streamlining our story, we're providing transparency, which is what today is all about. We've provided the 8-K in June, providing the re-segmentation information with five years of history. We didn't have to provide five years, but we did, because we want you to just see how each of these segments reacts at different points in the cycle. We wanted to go back to 2009, so you can see a trough. We're providing more detail in our conference calls, more disclosure. We're doing all this because we are really proud of this business and really excited about our future. We just want to give you a glimpse of it and hope that you can share some of this enthusiasm with us.

We've been evolving too in the way we allocate capital. If you think back to late 2009, we initiated the dividend, but really, here recently, we started taking a good hard look at our business, and I'll go back to Q1 of last year and Q2 of last year. Our first priority was always going to be to try to allocate capital to establish competitive advantage, to expand our competitive advantage, to grow our business and generate good returns. That's going to be number one for us. We have got to the point where, because our model has been so successful, we're generating a lot of cash, and you noticed. We can do all of the above.

During the second quarter of last year, we doubled our dividend. We looked at it again second quarter of this year, Said, "You know what, we can increase it again." 77% sounds like an odd percentage. Some people have commented on it. Basically, we were looking at US cash flows and what would we feel comfortable paying out as a dividend. We increased it 77% in the second quarter, looked at it again in the third quarter after we went through this 10-year planning process and asked our segment Presidents, "What do you need in terms of capital?" We asked for what you need in terms of CapEx, what you think you need in terms of acquisitions, and there was still more left over, and that's when we announced the \$3 billion buyback authorization.

We're evolving as the market evolves and as this business evolves. As part of that evolution, we're thinking about what the future holds for us. I'm not going to belabor the point here. You've seen this slide three, four times in the last two days. I believe Clay and David talked about it. Tom talked about again and when he talked about it, we identify trends, and then we systematically allocate capital. You heard how each of the segments is participating in each of these four trends. These trends are real for us. We're investing into them. I can't wait for the future on that and all leads to some pretty big numbers. We flashed these numbers up yesterday, we know they are going to be wrong, right? Who knows what's going to happen 25 years from now, but we know directionally, they are right.

One of the things that's been really interesting about this process is that during the middle of last year, a lot of you in the room asked me while we were generating record orders for jackups and record orders for floaters, "Can you continue at this pace?" The answer was no. We don't think this is sustainable. If you remember our comments back, we said we think if there was a normalized path of orders, which there never are, it always peaks and troughs, but if orders were normalized, we think the industry could probably support 15 to 20 floaters



a year, and 20 to 30 jackups per year. If you do the math, I think this comes to about 19 floaters a year and 24 jackups. It fit with what our salespeople and our diagnostics people within our Rig Solutions business were telling us. It all just feels right. Again, these won't be the actual numbers, but directionally it's going in the right direction. We need to make sure that we're preparing for that future. There's a lot of work ahead for us.

In our Rig Systems business, Joe talked about pushing technology to the next level. We're already market leaders in everything that we do in this space. Now he is talking about taking it up a notch and really focusing on the implementation of robotics and automation to drive rig efficiency and safety, reduce the flat spots, reduce the non-productive time. So really strong investments in technology to continue to stay multiple steps ahead of our competition. Also he talked about investments in manufacturing. You guys saw some of the animations in our Orange facility where we manufacture top drives. We are a manufacturer at the end of the day. We are looking at how we can streamline our manufacturing operations, incorporate new machinery, really looking at our processes, installation and commissioning. He showed you the 45 day savings on Phase I, another 45 day on Phase II, always looking at ways to reduce our lead times and reduce our cost structure, such that we can continue to stay multiple steps ahead.

You look at Rig Aftermarket. He gave you a glimpse into the tsunami that is the special periodic survey ahead of us. We've invested in that on the front end of the trend. Again, we've got a dedicated team, they're out there, they're working with our customers. They're preparing our customers who don't even realize all the business that's coming. We've invested in that. We're investing in global expansion, 13 new facilities in the next two years to make sure that we're close to our customers because they depend on us every single day. They cannot afford to wait a week or two weeks to get equipment and service technicians out to the rig. It's too costly for them. Making sure that we have the service technicians, the spare parts, the service capabilities close to our customers as possible is of critical importance.

Joe talked about training the industry-- it's very important to us. We're going to continue to invest in that space. 450 new service techs every year go through this program. 6,000 customers have gone through this program. That's why we continue to do that. Our customers come along and they steal some of our folks, and that's okay. They're going to go on and they're going to be good National Oilwell Varco customers in the future, because they know our equipment and we treated them right.

We're also going to continue to invest in remote monitoring. We need to get to the point where, across our entire suite of equipment, we can identify and predict when equipment is going to go down before it goes down and make sure that we stop it.

NOV Wellbore Technologies-- Mike talked to you about the technology that he has in his portfolio of businesses. You know, we made shale drilling possible, right? You got to have fixed cutter drill bits. You've got to have downhole motors. You've got to have agitator tools. You've got to have premium drill pipe. That pipe needs to be inspected and coated. All these things come together to enable the drilling of these long laterals.

We've got the technology out there today. We made it possible before. We got to continue to up the game and make sure that we're developing the technology that meets the future demands of our customers. In Mike's business, especially, just like in Joe's, just like in Kirk's, we're a manufacturer. Continuing to invest in automation and robotics and our manufacturing facilities to make sure we're getting product out faster and cheaper, will help us differentiate. Better technology, you get it faster and at a lower cost.

We've seen a lot of value in NOV Wellbore Technologies and I'll talk about it in a minute in NOV Completion & Production Solutions just by the realignment of these businesses. We all worked together before, there's no doubt; but once you put all these businesses together, you start to see some opportunities that you've never realized before. Getting the same people in the same room on a day-to-day basis and driving towards the same goal has helped us to identify some opportunities, both from a sales standpoint, but also from an operational standpoint. The Holy Grail for this business is automation. We got all the technologies in-house required to do it. We're at that point now where we're just to ruggedize it and make sure that it's dependable every time it goes out. That's going to be a huge opportunity for this business. We're going to continue to invest in that area.

With NOV Completion & Production Solutions, it's much the same. We develop the technology that's required for hydraulically fracturing a well. We've got the detachable turret and the flexible pipe that makes it possible for FPSOs to operate in harsh environments. It's important that we continue to push the envelope on that technology. We're going to continue to invest in technology. I know Hege is loving this, aren't you? Continue to invest in technology. Like NOV Wellbore Technologies, great opportunities from just the integration, the realignment of our businesses. We're going to continue to invest in global expansion as we see shale development expand globally. Finally, much like automation is the Holy Grail for NOV Wellbore Technologies, the idea of industrialization of the FPSO construction business is a huge opportunity. We think we can do it. We did it with drillships. We can do it again.



Here's what it all means. You've seen this slide before. One of the things I'd like to point out about this slide-- as you look at the key assumptions on the left there-- one, they're all realistic. They may not happen this way, but they're all realistic, I don't think anybody can look at them and say, "It's silly. It's not going to happen." They're also 100% out of our control. I feel really comfortable. You met these three guys, I've worked with them a long time. You know our DNA. We typically try to maybe under-promise and over-deliver. We're wired that way. If the market plays out this way, I have supreme confidence these guys will execute and deliver this. Market doesn't play out this way. We'll find a way. I feel really confident in our ability to execute. The only thing I can't control is oil prices. I can't control drilling activity. We're good at the things that we do. I feel like we've got good control over that. So I feel really confident in these numbers.

The next question is, alright, well hold on, I'm going to finish my model here. How much working capital is that going to require, what kind of CapEx are we talking about? Let me talk about those two things in the framework of our approach to capital deployment. Pretty simple, straightforward framework. You got cash coming in, let's focus on cash from operations. You've seen what's happened with net income, what's going to happen with working capital. I put a range in there. It's a big range 25% to 35%.

Here's what I'm going to tell you. Working capital, in our organization, really fluctuates depending on market activity, for one. In a downturn, we typically turn inventory into cash pretty well; and in a upturn, we want to make sure that we're ahead of the curve and we're building inventory to support our customers so we can capture market share. That's one piece of it. The biggest piece of it is customer financing. Our billings in excess of cost and our cost in excess of billings. When new orders slow for new offshore rigs, guess what, the down payments, the billings in excess of costs, slow. We still got costs running through the system for the projects that we're executing against. You can see a big flip in that. To put it in perspective, 2008, that single phenomenon actually was a cash generator to the tune of about \$1 billion. 2009, it flipped. It actually consumed about \$1.5 billion in cash. That's why we provide the range there.

Once you go through that math, and then you think, alright, we're going to continue. First priority is going to be to invest in future growth, so what do we think we need in terms of CapEx to support that growth we talked about. We went to these segment Presidents, and we said, "Listen, I know maybe historically it was a little tough getting CapEx. Put together these 10 year plans and ask for what you think you need to get it done and don't assume that we're going to reject it, really go and ask." \$4 billion over five years. We're going to do \$650 million to \$670 million in CapEx this year, so we're not talking about a huge incremental investment. The beauty of being in manufacturing is you invest in roofline, in machines--maintenance CapEx in this business is pretty de minimis. If you still have cash left over, which we will, what do you do with it? Well, you start with paying down debt, right? Let's put it to that, or do we need to conserve some cash for an expected downturn in the industry? Or maybe to be really opportunistic in the event that some acquisition targets surfaced in the not-too-distant future. We think about that. Then the rest, we look at how we distribute that to our shareholders, either through dividends or buybacks.

As we think about how we return capital to shareholders, we think it's important to think about the source of the capital, as well as the characteristics of that source. So here's how we think about it. US cash flow - - 'steady' is probably not the right word to use, but it's fairly consistent, predictable. We use our free cash flow from the US to pay down our dividends, to pay out our dividend. When we made the 77% increase in the second quarter, we're basically pushing the envelope. We're basically consuming all of our US free cash flow and paying that out to our shareholders via the dividend. So that really drives what's going on with our dividend.

What about repatriated cash? At the end of the third quarter, we had \$4.1 billion in cash, about 92% was overseas. We're able to bring that cash back. In fact, we're doing a pretty nice job right now. We won't go into the details, but we're able to bring back that cash in a fairly tax efficient manner. Over the course of the next couple of quarters, I think you'll all be pleased to see what we've been able to accomplish. It's a little bit volatile, and it's less predictable than the US. We think that cash is best suited for an opportunistic share repurchase program. You bring back cash, you take a look at your stock price, you buy back; it fits. Then, believe it or not, we actually considered the possibility of using our balance sheet capacity, maybe in the form of an extraordinary share repurchase. Nobody fell out of their chairs?

Here's how we think about that though. We think timing is everything, and so many companies get the timing wrong. So many companies get the timing wrong. For us, we take a really careful look at our share price. There is a really, really tight correlation with the price of oil and NOV shares. Wicklund's laughing. We're really, really closely tied to a commodity. We know that commodities test their floors from time to time, and if you look at the case of oil, it tested its floor in 1999, tested its floor in 2002, tested its floor in 2009. Typically, NOV shares trade in sympathy. If there is a time in the future, when oil prices again start to test their floor, and if NOV shares trade in sympathy, which is the diagram you see there, that would be a time when we would really take a hard look at a large extraordinary repurchase, okay? That's when we do it. I'll throw the following caveats on it, though. If oil price is dropping like that, activity is probably dropping. We would want to take a good hard look at how long do we think this is going to last. Is this a six-month event, a 12-month event, or is it a three-year event? Is something really changing the marketplace? Obviously, if we think it's a short cycle event, we would be more apt to do this. If we think it's going to be here for a while, not to have to do this.



Other things we want to think about. We recently as part of this reorganization and all the work that we've done here today, David Reid and his group went out to our customers and did a perception study. - The number one thing that our customers said drive their purchasing decisions around new offshore rigs? NOV's strength financially. If you think about it, they're talking about a \$700 million project, sometimes bigger, lasting three years. It's absolutely critical to them that any supplier they use can deliver what they say they're going to deliver over that three-year period. We'd use our balance sheet, we'd go out and lever up to buy back stock, but we'd want to make sure that we've kept our very strong investor grade rating So we got to think about that.

The final thing we need to think about is, sometimes in an environment like this, acquisitions become a little better priced. To the extent that we thought there were some acquisition opportunities out there that could be closed in this period, then we'd want to think about that. It's part of the conversation and just wanted to make sure that we touched on that.

In closing, since this is the last presentation of the event, the world is going to need more energy. Is it going to be exactly like ExxonMobil predicted? Probably not. It's going to need more energy. It's going to require more of our equipment, there's no doubt about it. We power the industry that powers the world. We're going to be here. We've got a true proven track record of performance. We're strong and balanced, and more resilient than ever. We'll continue to prepare and evolve for the future.

Statements made in the course of this presentation that state the company's or management's intentions, hopes, beliefs, expectations or predictions for the future are forward-looking statements. It is meant to note that the company's actual results could differ materially from those projected in such forward-looking statements. Additional information concerning factors that could cause actual results to differ materially from those in the forward-looking statements, including risk factors, is contained from time-to-time in the company's filings with the United States Securities and Exchange Commission. Any decision regarding the company or its securities should be made upon careful consideration of not only the information in these presentations, but also other available information, including information filed by the company with the SEC. Copies of these filings may be obtained by contacting the company or the SEC or through the NOV website.



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