LOREN SINGLETARY  
Vice President, Investor and Industry Relations

Welcome everyone to National Oilwell Varco’s fourth quarter and full year 2018 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 fourth quarter of 2018, NOV reported revenues of $2.40 billion and a net income of $12 million or $0.03 per share. For the full year 2018, NOV reported revenues of $8.45 billion and a net loss of $31 million or $(0.08) per share.

Our use of the term EBITDA throughout this morning’s call corresponds with the term “Adjusted EBITDA” as defined in our earnings release.

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

CLAY WILLIAMS  
Chairman, President, and Chief Executive Officer

Thank you, Loren.

National Oilwell Varco delivered solid results for its fourth quarter of 2018, as revenue increased 11% sequentially and 22% year over year, and EBITDA increased to $279MM, or 11.6% of revenues. All three segments increased sales and EBITDA sequentially due to strong operational execution during the quarter.

Revenues for the full year 2018 were $8.45B, a 16% improvement from the prior year. Full year EBITDA of $910MM improved 49% YOY and represents 26% leverage over 2017. During 2018 NOV continued its pivot towards unconventional shale technologies while preserving and enhancing optionality in offshore and international markets. We continued to benefit from the cost reductions and efficiency improvements we’ve put in place over the past few years, and we remain vigilant with regards to continuing to manage costs closely.

Before diving deeper into our fourth quarter results, I want to tackle the question that is on everybody’s mind—the outlook for the coming year. In a few minutes Jose will step you through our detailed outlook by segment, but to state
the obvious here up-front—the outlook is significantly more opaque than it was just 90 days ago. Oil prices declined sharply through the fourth quarter before recovering modestly in recent weeks, aided by OPEC and Russia production curtailment announcements. In our view, stability at levels above $50/bbl for WTI can help maintain oilfield activity near current levels in North America, or at least help minimize activity declines, while also continuing to incentivize the recovery in international and offshore markets. We believe this provides a plausible backdrop for a scenario where prospects and activity can brighten for NOV throughout the year, particularly if oil prices demonstrate an upward bias from here.

However, we are managing to the reality that the lingering effects of WTI hitting a 17-month low in December will negatively impact our business, particularly in the first quarter. Specifically, we saw some of our customers accelerate shipments of equipment near year-end, which means we benefitted from revenues in the fourth quarter which would have otherwise been recognized in the first quarter of 2019, despite lower oil prices trending into the mid-$40 range during Q4. This contributed to our strong Q4 results but means that we will face lower sales in the first quarter, which will also be impacted by the slow-down in ordering we saw late in the year, as our customers watched oil prices melt down and grew much more cautious. We suspect some customers wanted to get equipment into their operations in advance of looming capex budget cuts for 2019, and want to report lower capex in 2019, which drove the acceleration.

And as we look forward into 2019, candidly, none of us know precisely yet the impact of the sharp oil price downturn. Having been through a few downturns, there is typically a three or four-month lag before the rig count demonstrates a meaningful response, but it inevitably moves directionally with oil prices. And as our oilfield service customers look to their E&P customer’s spending plans for clues as to what to invest in equipment sets, their mood is very cautious as well.

Whatever the future holds, I’m confident NOV will execute crisply, and our fourth quarter results provide the latest example. Wellbore Technologies grew 4% sequentially, with robust 54% incrementals. Within our Completion & Production Solutions segment, all but one of our business units posted sequential topline growth, and we posted a book-to-bill above one for the segment. Rig Technologies’ strong finish to the year came from improved progress on offshore projects, and the shipment of land rig packages for the U.S. and Argentina markets. Rig’s performance was also helped by higher aftermarket revenues, as our customer’s desire to use up budgeted CAPEX and OPEX at year-end led to more service calls to repair their equipment during the fourth quarter.

Let me now turn to a couple of key regions. Overall, 42% of NOV’s consolidated revenue during the fourth quarter came from North America, which grew 1% or $10MM sequentially.

Our drill bits continued to gain share in West Texas driven by superior performance, and drilling motors posted a 60% y/y sales increase in the U.S. due to technical improvements in reliability and performance, which have enhanced NOV’s reputation in this area, particularly among E&Ps. Motor performance has a lot to do with well success, as a premature motor failure can lead to a six-figure unplanned trip. Some downhole service providers, seeking to move old inventory and preserve cash, have been putting together motors and BHAs from old, disparate parts out of their bone yards. Not surprisingly, these cobbled-together motors tend fail more frequently, and in response, several E&Ps have begun directly sourcing drilling motors from manufacturers, a trend which has clearly benefitted NOV.

Our Q4 saw double-digit growth in drill pipe sales, as some customers pulled deliveries forward from the first quarter. North American customers are also noticing that our premium Delta™ drillpipe connection reduces their recut rate well below the industry average, reducing the cost of ownership for them. Delta drill pipe now represents 25% of our drillpipe revenue mix. In addition, we just introduced a new connection for workstrings that expands our reach into the adjacent market of workover operations.

While North American pressure pumping equipment demand has slowed considerably—no surprise given the sharp pricing erosion witnessed by our customers—thankfully, coiled tubing remains a different story. Our new high-capacity Genesis coiled tubing unit is seeing brisk demand, both domestically and overseas, due to its ability to access deeper wells and longer laterals. Additionally, demand for cementing equipment remains strong in North America, but wireline demand has leveled off through the first few weeks of 2019.
With respect to drilling equipment, we continue to witness steady demand for upgrade components including high-torque top drives, NOVOSTM control systems, and DC-to-AC land rig conversions, as drilling contractors are eager to expand their service offerings in the highly-utilized “super-spec” rig space, where dayrates are strongest. We’re approaching an installed base of 50 NOVOS rigs in North America, with contractors and oil companies alike clearly recognizing the increased safety and efficiency of implementing process automation.

Our completion tools business posted another solid quarter of growth and profitability, and we saw strong sequential growth for de-sanders and spherical sand traps (which are up to three times more efficient than traditional designs) for North American producers.

Turning to international markets, the recovery continued to unfold slowly. A quick reminder: our international revenue stream tends to be more project-driven and, therefore, lumper than our North American businesses. The Middle East was once again a standout, posting solid double-digit sequential growth numbers on demand for products such as shaker screens, rig instrumentation packages, and liner hangers, as well as rig equipment sales into Algeria and Kuwait. Our new world-class fiberglass pipe manufacturing facility is set to open in Dammam, Saudi Arabia on April 1, expanding our capabilities to serve the Middle East region.

In Latin America, NOV posted double-digit revenue growth sequentially in the fourth quarter, helped by strong shipments of flexible subsea pipe into Brazil. We continue to expand our presence in the Vaca Muerta shale play in Argentina. During the quarter, we were awarded a contract to provide comprehensive wellsite services to a major IOC, and shipped a new, modern land rig into the region.

After a particularly deep downcycle over the past five years, the Asia Pacific region is starting to show signs of life as substantial revenue improvements were driven by growth in the Chinese and Singapore markets. Additionally, the first installation of our offshore liner hanger system for a major operator in the region is another indication that our completion tools strategy is growing legs.

Finally, turning to the offshore, NOV saw very strong sequential performance, as revenues increase 23% sequentially, driving our offshore mix to 37% of consolidated revenues, or about $888MM. Q4 saw excellent flexible subsea pipe sales in Brazil, as our customer pulled deliveries forward. Outside of Brazil, our subsea flexible pipe business is seeing intense competition on tenders for fast-track brownfield developments and tiebacks. Our business that makes conductor pipe connections, XL Systems, posted record high bookings, with strong activity in support of the ramp-up in activity for offshore South America. However, conductor pipe orders have slowed in the first quarter, indicative of the uncertainty in the offshore marketplace. On previous calls, we stated our expectation for the offshore businesses within CAPS to bottom in the second half of 2018. However, due to the accelerated deliveries we executed in the fourth quarter, the bottom may still be a quarter or two away.

In the offshore drilling space, activity around rig reactivations continues to build momentum, driven by a rising volume of tenders that drilling contractors are readying their iron to go out and win. As we have returned to rigs that have not worked for some time and reflect upon what we’ve seen, here’s what we have discovered: The longer a piece of steel sits in saltwater, the rustier it gets. Reactivations tend to become costlier and more complicated with time spent idle—stacked time drives up rig reactivation costs. Rig upgrade orders, which frequently go hand-in-hand with reactivation projects, have of late focused on increasing hoisting capacity, adding crown-mounted compensation, and adding more sophisticated control systems like NOVOS. Some of these reactivations are driving demand for new drill pipe, which, again, helped our fourth quarter.

As I stated at the onset, we enter 2019 with more uncertainty than usual. A $20 drop in crude price during budgeting season is bound to take a toll on activity plans. When we ask our customers what they expect, the answers we hear are all over the map. But the most consistent theme seems to be their fidelity to earning returns on the capital that they do deploy, and here’s where NOV shines. Our relentless focus on innovating technologies and tools and delivering superior service and know-how, all with a singular objective of reducing our customer’s cost of operations and cost per barrel, positions NOV to enable our customers to maximize their capital returns.
So, we are cautious in the near term, keeping a close eye on costs, while we continue to position the company to be at
the right place, at the right time, with the right tools, for the recovery.

To our employees who are listening around the globe, you put up a tremendous fourth quarter and full year 2018—keep
up the great work! Your talent and dedication make NOV a world-class business and make me very, very proud. Jose,
Loren, and I appreciate all that you do.

Now I’ll now turn it over to Jose.

JOSE BAYARDO
Senior Vice President and Chief Financial Officer

Thank you, Clay.

To recap the quarter, NOV consolidated revenue increased $244MM, or 11%, sequentially, and EBITDA improved
$34MM to $279MM, or 11.6% of sales. Operating profit was $87MM, and we posted Net Income of $12MM or three
cents per share. On a GAAP basis, our operating profit and net income included $21MM of pre-tax charges, primarily
related to the closure of one of our facilities.

Looking at a couple select items on the P&L, Other Expense increased $9MM, mainly due to higher FX losses, and, like
last quarter, we reported an outsized income tax expense, primarily a result of valuation allowances that prevent us from
recognizing foreign tax credits.

In our segment level detail, higher intercompany sales resulted in a $13MM sequential increase in revenue eliminations.
The margin associated with higher intercompany revenues and an increase in unallocated expenses resulted in a $23MM
increase in eliminations and corporate costs. In the first quarter, we expect intercompany sales as a percentage of pre-
elimination revenues to remain in line with Q4. Lower intercompany revenues along with lower corporate costs should
reduce eliminations and corporate costs by roughly $10MM in the first quarter.

In the fourth quarter of 2018, cash flow from operations totaled $221MM, and after deducting $71MM in capital
expenditures we netted $150MM in free cash flow. NOV has always been focused on generating cash flow and returns,
which is why we explained on last year’s call that we were making a concerted effort to improve the management of our
working capital. We exited 2018 with a revenue run rate that was 22%, or $1.7B per year higher than our run rate at the
end of 2017 and only added a total of $86MM to our working capital in 2018. Our working capital as a percent of our
revenue run rate decreased to 36.7% at the end of 2018, from 43.6% at the end of 2017. While we consider our efforts
related to working capital in 2018 a large success, we still see opportunity for additional improvement.

In 2019 we expect our capital expenditures to increase roughly $100MM, to about 50% of our annual depreciation and
amortization expense, primarily due to the construction of our new rig manufacturing facility in Saudi Arabia which we
will use to execute on our $1.8B rig order. We’ve always prioritized investing in compelling organic investment
opportunities and this project checks that box.

Let’s turn to the results of our operations.

Wellbore Technologies
Our Wellbore Technologies segment generated $884MM in revenue in the fourth quarter of 2018, an increase of
$37MM or 4% sequentially. Solid sequential revenue increases in our WellSite Services, Grant Prideco, and Tuboscope
business units helped the segment meaningfully outpace industry activity levels, particularly in the U.S., where the segment posted 4.5% revenue growth against a 2% increase in the active rig count.

A better mix of business and higher volumes drove very strong sequential EBITDA leverage of 54%, resulting in a $20MM increase in EBITDA to $155MM, or 17.5% of sales.

In our WellSite Services business unit, we realized sequential revenue increases in all major product offerings and in almost all operating regions. Revenues increased 7% in the business unit’s core solids control business, led by increased job counts in the U.S. and Latin America. We realized strong sequential increases in Columbia and Peru and successfully wrapped up a long-term project in Brazil. Screen sales also improved in most regions, with notable strength in Africa and Southeast Asia. The capital equipment sales portion of WellSite Services also realized strong growth due to a sharp increase in shaker sales, which resulted from three consecutive quarters of improved bookings.

Our Grant Prideco drill pipe business recorded its third straight double-digit percent sequential increase in revenue and posted its fourth straight quarter of bookings in excess of $100MM. Additionally, we are seeing sales of Delta™ drill pipe into international markets increase, demonstrating broad application and demand for this high-performance, premium drill pipe connection that delivers faster connection times and lower total-cost-of-ownership. We are encouraged by the growing adoption of Delta drill pipe and are equally encouraged by a sharp increase in offshore bookings, accounting for almost a third of our order book in Q4. This was the first meaningful uptick we’ve seen in offshore orders for drill pipe since 2015, an indication that that certain inventories of pipe for offshore markets are drawing down to unsustainable levels.

Notwithstanding the strong Q4 performance and solid bookings, near-term challenges remain in our drill pipe business. Rental companies and operators exhausted capital expenditure budgets at the end of 2018 and appear to be heading into the new year with some trepidation as a result of lower oil prices. So, despite what we believe are meaningful improvements in underlying drill pipe market fundamentals, we have already had a number of customer requests to defer first quarter deliveries of new drill pipe for the North American marketplace.

Our Tuboscope business realized another solid quarter on strength from our coating operations, where we achieved double-digit percent sequential revenue increases in our U.S. and Eastern Hemisphere coating operations. Tuboscope’s inspection services saw a slight decrease in revenues on lower volumes from U.S. steel mills and outside processors and from lower sleeve sales in Europe.

In our Downhole business unit, we saw a small sequential decrease in revenues during the fourth quarter. Notwithstanding the recent year-end softness, we’ve seen a remarkable growth in demand for our drilling motors, reflecting market share gains enabled by our technology leadership in products such as our Series 50 and ERT motors and power sections. A large, independent operator recently drilled its fastest intermediate section in a zone where temperatures exceeded 300°F using a NOV 8¼-in. ERT motor. The operator was able to drill 13,800 ft in 223 hrs, setting records for both time and interval length in this field while also achieving a 19% reduction in cost.

Another promising new technology in our Downhole business unit is our SelectShift™ downhole adjustable motor. This tool offers the ability to adjust the motor bend setting while the tool is in the wellbore, saving money by eliminating trips, improving rate of penetration, and reducing tortuosity. We began testing this tool in the second quarter of 2018 and have now logged over 700 hours on the tool, drilled over 57,000 ft, and completed more than 150 downhole shifts. Based on this success, we’ve begun to build out our fleet of commercial tools.

Our ReedHycalog business unit also realized a small sequential decrease in revenues during the fourth quarter in the Eastern Hemisphere due to bulk sales in the MENA region, which occurred in Q3 but did not repeat in Q4. This fall-off was partially offset by solid improvements in the Western Hemisphere. ReedHycalog’s downhole measurement and steerable technology businesses realized sequential improvements, led by increased demand from the Eastern Hemisphere.
Lastly, work on land-based North American drilling optimization projects slowed as we prepared for major ramp-ups in automation and optimization work for Equinor in the North Sea, having signed an agreement with them to outfit their global drilling fleet with IntelliServ™ wired drill pipe. Interest in wired drill pipe continues to grow as more customers recognize the performance and safety improvements made possible by control systems and applications that can harness real-time, broadband data transmission from along the drillstring and BHA.

As Clay mentioned, outlook is opaque at best, but in the first quarter of 2019 we expect to see slightly lower activity levels in the U.S., a slightly slower than normal start to the year in the Eastern Hemisphere, and fewer deliveries of drill pipe and capital equipment. If this scenario plays out, we would expect revenues for our Wellbore Technologies segment to fall between 5 to 10% with decremental margins in the 40% range.

Completion & Production Solutions
Our Completion & Production Solutions segment generated $788MM in revenues during the fourth quarter of 2018, an increase of $53MM or 7%. All business units reported sequential top-line growth except for Fiber Glass Systems, which suffered raw material supply shortages that we spoke about on our last call. Holiday slowdowns and the raw material issues impacted manufacturing plant absorption, limiting sequential EBITDA leverage to 25%, and resulted in a $13MM sequential increase in EBITDA to $112MM, or 14.2% of sales.

Bookings of $470MM increased $98MM or 26% sequentially and exceeded shipments of $456MM, resulting in a 103% book-to-bill for the fourth quarter, led by XL Systems. Total segment backlog at year-end was $894MM.

Our Intervention and Stimulation Equipment business unit realized a 3% sequential increase in revenues. Despite the fall-off in completion-related activity and resulting fall in demand for pressure pumping equipment, global bookings for coiled tubing equipment remains strong. NOV’s technology leadership in all things coiled tubing makes us the go-to supplier as the industry continues to push the limits on extended-reach lateral well completions. Even as the market leader, we never sit still. In the fourth quarter, we delivered our first Genesis coiled tubing unit, which is designed to carry the largest tubing load possible from a single-trailer unit. Additionally, we will begin deliveries of our new HR6120 injector head, which combines the ability to handle higher strength, heavy-wall coiled tubing with increased pull and snub capacity, all in a platform that’s smaller and weighs less than our legacy units. Our QT-1400 is the highest tensile strength coiled tubing on the market and, as highlighted in our press release, we recently introduced our TRUE-TAPER™ XR string design. The string’s improved weight distribution enables users to place more weight in vertical sections of the well and less weight in lateral sections, extending the limits for which coiled tubing can be used in extended-reach applications. One customer recently used TRUE-TAPER XR to reach TD on several wells that were each over 4 miles in measured depth and had one to two mile long laterals. This application was not possible with other string designs.

Even with extremely limited orders for pressure pumping equipment, the business unit delivered a sequential increase in revenue and a 112% book-to-bill in Q4. However, we expect a rapidly contracting pressure pumping equipment backlog, softening demand for wireline equipment, and constraints on how quickly we can execute on our large coiled tubing equipment backlog to result in a fairly sharp fall-off in this business unit’s revenues during the first quarter.

Our Completion Tools business unit posted another quarter of double-digit percentage growth. While still a relatively small business for NOV, 2018 revenues almost doubled from 2017, primarily from organic initiatives, as this business unit’s last acquisition was completed in early 2017. Even in a slowing North American completions market, this operation continued its rapid growth by taking market share in the U.S. and continuing to leverage NOV’s platform to push its product offerings into additional markets. There were several examples of this in the fourth quarter, including our first sales of Burst Port Systems in Saudi Arabia, subsurface safety valves in Russia, and liner hangers in Bahrain, Iraq, and offshore China.

Our Fiber Glass Systems business unit’s revenues declined roughly 15% sequentially, in line with the expectations we set during our Q3 conference call. As a reminder, our primary supplier of a critical resin used to make our flexible pipe
experienced a major plant failure, leading to a global shortage of the resin. The supplier’s plant is now back on line but stocks of the resin remain low, which will continue to constrain Fiberspar’s production, albeit not nearly to the same extent as in Q4. Additionally, while the quarter played out as anticipated from a P&L perspective, bookings came in lighter than we hoped. Order intake fell sharply in December and remains low for North America as cautiousness has crept into infrastructure-related capital projects, but orders for international markets appear to be improving. Unfortunately, due to soft demand in the U.S. and certain international orders that we expected in late Q4 now expected in mid-to-late Q1, we anticipate our Fiber Glass Systems business unit will see another sequential decrease in the first quarter.

While the business unit’s traditional offshore market has not yet recovered, we are focused on other emerging opportunities, including a fairly large potential market resulting from IMO 2020, which requires ships use marine fuels with sulfur content of no more than 0.5% or install exhaust gas cleaning scrubbers on their vessels by January 1, 2020.

Analysts expect it will be more economic for larger vessels—those with over 80,000 dead weight tonnage—that are under 15 years old to install scrubbers rather than switch to low-sulfur fuels. There are roughly 25,000 existing vessels in this category. Scrubber systems are manufactured by folks such as Alfa Laval, Wartsila, and others, but are typically housed in composite towers, and gasses are ported in and out of the scrubber’s tower via corrosion-resistant composite tubulars. As you might imagine, ship engine rooms are low on space, and retrofitting a scrubber system will require a complex, highly customized solution. Based on recent experience, complete system installations average roughly $5MM, with NOV’s opportunity ranging from 80 to 250 thousand dollars, depending on the vessel. Fiber Glass Systems is the leading provider of composite materials to the energy industry and has a long history of providing and installing piping systems for marine vessels in shipyards, which means we are well positioned to support our customers in their efforts to comply with IMO 2020.

Our Process and Flow Technologies business unit realized solid top-line growth, but with little flow-through to the bottom line as a result of less favorable product mix. In the unit’s Midstream business, revenues declined slightly in North America from lower demand for reciprocating pumps, chokes, and our artificial lift “Red Iron” equipment. The fall-off in North America was more than offset by the Eastern Hemisphere, which realized strong demand for pump packages in Africa and Asia.

In our Wellstream Processing business, revenue from North America increased as we continue to expand the customer base for our spherical sand trap solution. We also realized a meaningful increase in revenues as we completed several large projects in our legacy offshore production processing business. While tendering activity remains high, awards continue to push, and with the aforementioned completion of several large projects, we expect a sequential decline for this operation and the business unit as a whole.

Revenues for our flexible subsea pipe business unit recovered nicely after a challenging Q3. As Clay mentioned, customer-deferred deliveries from Q3 shipped in Q4, and certain orders we didn’t expect to ship until Q1 were accelerated into Q4 by customers eager to exhaust 2018 capital budgets. This pull forward was good news for Q4, but will cannibalize first quarter results. Further compounding this challenge in Q1 are orders we anticipated receiving in Q4 that were deferred and are now expected in late Q1. The net effect will be a sharp sequential revenue decline in the first quarter. Consequently, we now anticipate that our primary offshore business units in this segment will not hit bottom until sometime in the first half of 2019.

Not all news related to the offshore markets is bad. As Clay mentioned, our XL Systems conductor pipe connector business unit had an exceptional quarter, delivering strong sequential growth and incremental margins. The unit also posted its sixth straight quarter with a book to bill in excess of one and achieved an all-time high backlog at year end.

Looking at the first quarter of 2019, we expect revenues in our Completion & Production Solutions segment to decline roughly 15%, with decrementals in the 30% range.
Our Rig Technologies segment generated $804MM in revenues during the fourth quarter of 2018, an increase of $167MM or 26% from the prior quarter. Revenues from capital equipment sales were up almost 50% due to better-than-anticipated progress on projects and two land rig deliveries. Additionally, certain customers became eager to receive equipment prior to year-end, and thanks to the segment’s strong execution, we were able to fulfill those requests. Yes, this is the same good news, bad news story you just heard in my remarks related to our Completion & Production Solutions segment. Aftermarket revenue increased by approximately 5% due to the traditional pickup in fourth quarter service and repair work, and due to spare part orders, which increased in each of the four quarters leading up to Q4.

EBITDA increased $24MM sequentially to $102MM, or 12.7% of sales. EBITDA flow through was limited to 14%, which was in line with expectations, primarily due to a lower margin product mix.

Bookings of $119MM were the lightest we have seen all year. The low level of order intake is due, in part, to the uncertainty that a sharp drop in oil prices injects into customers’ future plans. However, as we’ve mentioned in the past, we expect orders and financial results to be lumpy while this segment scrapes along near its cyclical bottom. Total segment backlog at year-end stood at $3.1B.

In North America, our drilling contractor customers became cautious as we entered 2019. They are concerned about a potential decrease in E&P company capital expenditures and the likelihood that 2019 budgets will be more heavily weighted toward completion operations to stem the growth in drilled-but-uncompleted wells. Even though the market is bracing for a pullback in drilling activity, Tier I AC “super spec” rigs remain in short supply, and day rates remain strong. As a result, inquiries for new-build rigs in North America have slowed, but customer inquiries related to upgrades remain robust. Contractors can obtain relatively fast paybacks for upgrades and, more importantly, keep more of their fleet working.

Due to a generational gap in rig technologies found overseas, economics associated with international land upgrades are not the same as in North America, creating more demand for future new-build rigs. While the pace of progress can be uneven in international markets due to NOC tenders that tend to push to the right, a growing number of international customers understand the value associated with NOV’s latest land rig technologies. We believe our 50-rig commitment from Saudi Aramco will serve as a solid baseload of activity to help manage the choppy nature associated with this business, and we are excited about breaking ground on our new rig manufacturing facility in Saudi Arabia this quarter.

Lastly, we still see limited offshore new-build opportunities outside of certain niche applications, including 20,000-psi capable rigs, but remain optimistic regarding potential reactivations and associated upgrades, as it certainly isn’t getting easier or cheaper to reactivate a rig as time elapses.

While we are seeing improving fundamentals and, more recently, customer inquiries that give us optimism regarding the future prospects for our Rig Technologies segment, near-term this business remains challenged due to the wind-down of offshore projects and customers that are still capital constrained. As such, for the first quarter of 2019, we expect revenues to fall 16 to 17%, with decremental margins between 25 and 30%.

In summary, the dedicated employees of NOV executed extremely well and delivered solid results in 2018 by continuing to develop, deliver and support the technology and equipment on which our customers rely. We are working through what will be a tough start to 2019, but we are optimistic that the recovery could resume later this year, and our people have positioned the organization well for any market environment.

We’ll now open the call to questions.