NOV reported 1Q13 sales of $5.3b and fully-diluted EPS of $1.17.
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PRESENTATION

Operator

Welcome to the National Oilwell Varco first quarter financial results earnings call. My name is, Dawn, and I will be your operator for today's call. At this time all participants are in listen-only mode. Later we will conduct a question-and-answer session. Please note that this conference is being recorded. I will now turn the call over to Loren Singletary, Vice President of Investor and Industry Relations. Mr. Singletary, you may begin.

Loren Singletary - National Oilwell Varco Inc - VP IR & Industry Relations

Thank you, Dawn. Welcome, everyone, to the National Oilwell Varco first quarter 2013 earnings conference call. With me today is Pete Miller, Chairman and Chief Executive Officer 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 on National Oilwell Varco's financial results for its first quarter ended March 31, 2013, 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 risks 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, I will turn the call over to Pete for his opening comments.

Pete Miller - National Oilwell Varco Inc - Chairman & CEO

Thank you, Loren. Earlier today National Oilwell Varco announced first quarter 2013 earnings of $1.17 per share on revenues of $5.31 billion. Included in this is a pre-tax charge of $73 million for transaction expenses and the Venezuela bolivar devaluation. Excluding these charges, earnings were $533 million, or $1.29 per fully diluted share. Operating profit for the quarter was $816 million, or 15.4% of sales. Additionally, we announced new capital equipment orders of $3.04 billion, bringing our backlog to a record of $12.9 billion, signifying the industry's continued preference for National Oilwell Varco's products. The total exceeds our record backlog in Q3 2008 by over $1 billion.
I would like to thank all of our customers for their continued confidence in National Oilwell Varco and to all of our 63,000 employees worldwide for their excellent efforts to meet our customers’ expectations. I would also like to welcome all of the former Robbins & Myers employees to the National Oilwell Varco family. Now, I will turn the call over to Clay and Jeremy to expand on our results. Clay?

Clay Williams - National Oilwell Varco Inc - President & COO

Thank you, Pete. National Oilwell Varco faced a challenging quarter in the first quarter. It came in a little softer than we expected. Despite a choppy market in North America, broadly speaking, we remain bullish on demand for offshore rigs, for floating production systems and for products and services we sell into international land markets including fledgling unconventional shale developments. We had a terrific quarter for new orders for our Rig Technology segment and expect more in the second quarter. However, we are very cautious about North America and continue to see headwinds here as pricing and volumes remain under pressure and as demand for pressure pumping and drilling equipment remains weak and operators defer expenditures for consumables.

Rig Technology capital equipment orders totaled $3 billion, our second highest quarterly total ever. We received orders for 17 drilling equipment packages for jack-up rigs and 8 drilling equipment packages for floating rigs, including 3 for Brazil in the first quarter. We also had a significant increase in orders for FPSO equipment. Our outlook for the second quarter orders remains very strong as well as we expect even more FPSO orders plus another great quarter for jackups. There also remain a half-dozen floating rigs for Brazil that we have not yet booked, as we await down payments for these. We see rising interest in land rigs for international markets as new modern rig designs are steadily gaining acceptance overseas.

Through the first quarter, our very capable teams continued to manage their businesses for the long haul, while keeping an eye on our cost structures in view of near-term softness. It is an unusual time. We have some operations facing declining backlogs and P&L pressures brought on by low volumes, others face the opposite problem. They are overflowing with work and losing efficiency due to congestion and expansion. Our leaders are doing the heavy lifting required to reallocate resources, expand capacity in certain areas, right size others, and integrate many new acquisitions; making good progress on a solid foundation for future NOV earnings growth. By solid foundation for future earnings growth I specifically mean we are investing in a combination of CapEx and acquisition capital to further distance ourselves from our competition. Fundamentally we believe that leading market positions in technology, the largest, most economically efficient capacity within a particular sector, and a deep organizational commitment to the highest levels of service to our customers is a winning formula. That is the vision they and we pursue daily.

Since the beginning of 2009 we have generated $6.9 billion in cash from operations and raised $3.4 billion in debt financing, totaling $10.3 billion in capital generated or raised. We have paid $1.1 billion or 11% to our shareholders in dividends, invested $1.7 billion or 17% internally in capital expenditures and invested $7.4 billion or 72% in acquisitions. The largest of our acquisitions since 2009 is Robbins & Myers, which finally closed in the first quarter. It strengthened our position in a number of key technologies progressing cavity pumps, flow iron, artificial lift and down hole drilling motors just to name a few. This acquisition makes NOV the largest provider worldwide of enabling technologies required for the drilling and completion of horizontal wells, and caps a very busy four-year period that saw us close 51 acquisitions. We are excited about this aggregate addition of new businesses to NOV, including the talented teams that have joined our own.

We have expanded our substantial offering into the growing floating production systems’ world, strengthened our market leading oil field distribution franchise, added leading franchises in the supply of technology into unconventional shale developments and strengthened our offering into new technologies such as composite tubulars. Mostly businesses that we were in before, it’s just that now we’re bigger and stronger and more capable. In the near term, however, we continue to face market headwinds. All three segments saw sales falls from the fourth quarter as US rig counts drifted down another 3% sequentially and Canadian spending on consumables and production equipment declined even in the face of seasonal increases in rig activity.

North America weighed most heavily on NOV’s activity-driven businesses, Petroleum Services and Supplies and Distribution and Transmission, with 57% and 83% of sales mix coming from North America respectively. Sales were down in the low single-digit range for both at high declerements due to a combination of price discounting and lower volumes, which diminish margins. The Rig Technology segment was not immune from North America either, as sales of drilling, wire line and stimulation equipment into North America remained low and left our infrastructure that these products come from under absorbed. Broadly speaking, demand across North America is soft and price pressures for products and services continues...
to intensify. Gradually slowing North American rig counts and scattered reports of falling land rig day rates has subdued spending. Even high-growth regions like the Permian and the Eagle Ford are becoming more competitive as labor and assets from competitors slowly migrate into these regions.

However, overseas the picture is much better. Demand is up and we're expanding in places like Abu Dhabi, Oman, Dubai, South Africa, Russia, Angola, Brazil, and Mexico. Continued deep water development, application of horizontal drilling and hydraulic fracture stimulation to conventional prospects, and unconventional shale technologies will provide the basis for future growth overseas. NOV is exceptionally well positioned to capitalize on these opportunities.

Our Rig Technology segment is working through an extraordinarily busy delivery schedule now with offshore rigs tied to faster hole construction schedules in shipyards and much higher BOP demand post Macondo make replacement BOPs for old stacks that could not be recertified, second BOPs on new rigs, and fleet spare BOP demand all up sharply since 2010. To handle the volumes we have added a fifth and a sixth and now a seventh subsea stack rig-up pad in the past couple of years along with many new machine tools to our primary pressure control product plant. Expansion caused us to have to rearrange what we make where as we poured concrete and to temporarily increase outsourcing, which has been disruptive but necessary to meet the needs of our customers. To put it in perspective, we will nearly double output from our Houston BOP manufacturing plant in 2013. Shipments are expected to be up 83% year on year.

This expansion and tight delivery scheduling affected the first quarter in two ways. First, higher overtime, freight and expediting costs drove unfavorable manufacturing variances for a couple of major components that are included in most rig projects. A cost roll across these, along with draw works, mud pumps, late in the first quarter together with higher expediting and INC costs resulted in a net $32 million in aggregate costs being pushed through our rig construction projects. All of this was booked in the first quarter pursuant to our percentage of completion accounting on projects. Second, discrete start-up costs around this expansion, along with start-up costs associated with a huge new flexible pipe plant in Brazil, expansion of our Bama Road aftermarket facility, a top drive manufacturing facility and other build outs added an estimated $10 million in start-up costs this quarter related to the hiring and training of new work forces and operational disruptions. These will continue for a couple more quarters, but excluding these as well as the effects of the adverse cost roll, margins for Rig Technology would have been in the mid 22% range consistent with fourth quarter of last year.

I know of no better equipment manufacturing team in the world than our professionals who manage this business. They are always working diligently to reduce costs. For instance, we have concrete steps underway that will reduce BOP costs including design changes for ease of manufacturing and new transportation logistics to cut costs. Elsewhere we are moving other products to lower cost manufacturing geographies in Asia and Latin America. Finally, Rig Technology first quarter margins were also affected by double-digit sequential declines in aftermarket spares and services, following a very busy Q4 last year. We see this as a temporary pause in a strong, long-term growth trajectory. In fact, year over year, aftermarket spares and services for the group increased 11% benefiting from the growing installed base of NOV rig equipment, particularly in the offshore and recent expansion of our aftermarket infrastructure through build outs and acquisitions.

With that let me turn it over to Jeremy.

Jeremy Thigpen  -  National Oilwell Varco Inc  -  SVP & CFO

Thanks, Clay. National Oilwell Varco generated earnings of $1.17 per fully diluted share in its first quarter of 2013 on $5.3 billion in revenues. Excluding $73 million in pretax transaction and devaluation charges, first quarter 2013 earnings were $1.29 per fully diluted share. That's down 20% -- $0.20 per share, or 13% from the fourth quarter of 2012, and down $0.15 per share, or 10% from first quarter of 2012. Sales of $5.3 billion declined 7% sequentially, but grew 23% year over year despite the fact that the average US rig count declined by almost 12% from Q1 2012 and a worldwide rig count dropped over 5% during that same period.

Excluding transaction charges from all periods operating profit for the quarter was $816 million, down 14% sequentially and down 7% from the first quarter of last year. Operating margins on this basis were 15.4% for the first quarter of 2013 compared to 16.8% for the fourth quarter of 2012 and 20.5% for the first quarter of last year. Although the rig count in the US continued to decline and margins for the quarter were somewhat lower than we had initially hoped, we're proud of the work that was done in first quarter of 2013. We remain extremely excited about the future prospects for the Company.

Jeremy Thigpen  -  National Oilwell Varco Inc  -  SVP & CFO

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Turning to our segment operating results, the Rig Technology group generated revenues of $2.6 billion in the first quarter, down 9% sequentially but up 16% compared to the first quarter of 2012. Operating profit for the segment was $557 million, and operating margins were 21.2%, down 120 basis points from the prior quarter and 320 basis points from the first quarter of 2012. As you will remember from the Q4 conference call, we indicated that we expected rig tech revenues to decline in the 10% range following flush year-end shipments and very little demand for pressure pumping and coiled tubing equipment in the US. As expected, revenues from backlog were down 10% sequentially and revenues from our pressure pumping and coiled tubing equipment businesses were down 46% and 41% respectively as well service firms continue to utilize existing assets and were reluctant to send equipment in for repairs.

Aftermarket revenues also decreased by 12% sequentially with higher revenues from training and installation and commissioning and relatively flat spare part sales being more than offset by declines in repair and service revenues, which posted exceptionally strong fourth quarter results. Overall, non backlog revenues declined 6% sequentially. Still, we were pleased to receive a partial quarter’s contribution from the Robbins & Myers acquisition, which added $11 million of incremental revenues to Rig Tech. We were excited to see material improvement out of our FPSO business, which grew revenues 22% sequentially.

You will also remember from the Q4 conference call that we stated that margins would be challenged to move meaningfully from the 22.4% that we posted in the fourth quarter of 2012 because of three issues. First, a relatively soft North American land environment, which curtailed capital spending for new well stimulation equipment, which, by the way, represented 16% of total Rig Tech revenues in Q4 and produces margins that are accretive to overall Rig Tech margins. Second, a growing percentage of FPSO related revenue, which generates margins that are currently dilutive to overall Rig Tech margins. Third, incremental expenses associated with longer-term strategic growth initiatives and capacity expansion. [While] Issues one and two, which I will describe as product mix, impacted us about as expected with revenues from well intervention and stimulation equipment declining overall 39% sequentially and FPSO related revenues increasing 22% over that same period.

This shift in mix is a current drag on Rig Tech margins, but we believe it to be a transient issue. Demand for complete frac spread and coiled tubing units will return in the US. We remain convinced that other countries around the world will ultimately require our technology to access and benefit from their own shale reserves. We also believe that FPSO margins will increase with both volume and our continued migration from a project to a product focus. It’s important to note that the incremental flow through on the 22% sequential increase in this group was 56%. So, while we are not where we want to be yet, we feel confident that we’re heading in the right direction.

Issue three, which I will describe as capacity expansion, had a greater impact on us than we anticipated. As Clay mentioned, we knew that we would incur some additional expense associated with the start up of new facilities. However, $10 million was a bit higher than we expected. It is now clear that we did not fully appreciate the incremental costs tied to the expansion of some of our existing facilities, especially our Houston BOP manufacturing plant, which along with increases in a couple of other major components and higher expediting and INC costs, resulted in the $32 million increase in costs in Q1. Much like product mix, we also believe this to be a transient issue as many of our expansion projects will be completed this year enabling us replace start-up cost with efficiency gains. However, until those projects are completed, we are sticking with our previous guidance for Rig Tech margins to remain in the 22% to 23% range for most of this year.

Now let’s transition to our backlog. As evidenced by the $3 billion in new orders demand for our technology remains very strong. For the quarter we booked 8 drill ships and 17 jackups. We also had a solid quarter of FPSO related orders. And while the overall sentiment for new land rigs and pressure pumping and coiled tubing equipment in the US seems somewhat muted, we were encouraged by the fact that we still managed to sell several complete land rigs into the market as well as some disparate pieces of equipment to upgrade our customers’ existing fleets. We also managed to increase our new order booking for well stimulation equipment by 10% sequentially. All of these new orders were partly offset by revenues out of backlog of almost $2 billion, and led to a record quarter-ending backlog of $12.9 billion up 9% sequentially and up 25% year over year.

Of the total backlog, approximately 92% of this is offshore and 92% of this is destined for international markets. We expect for almost $2 billion of revenues to flow out of backlog in the second quarter of 2013 and an additional $3.7 billion to flow out over Q3 and Q4. Looking into the second quarter of 2013, we expect for orders for new drilling equipment packages for both drill ships and jackups to remain strong. We also anticipate a strong bookings quarter for our FPSO equipment and we continue to see strong demand for new land rigs in Latin America and the Middle East that could materialize into orders in the quarter. As of now we are planning for Rig Technology revenues to increase in the low single-digit percentage
range as continued declines in our pressure pumping and coiled tubing equipment business will be more than offset by a full-quarter contribution from Robbins & Myers and continued growth in our offshore and aftermarket businesses.

Speaking of aftermarket, it's important to remember that the first floaters constructed this cycle are turning five years old this year, which means that they will be returning to the shipyards for their five-year surveys. While in the shipyards, drillers will use this time to perform major maintenance and upgrade activities and NOV will be there to help. In fact, we're uniquely positioned to support our customers during this time as we have been actively deploying capital into facilities and inventory and investing heavily in our service technicians to make sure that we can meet the needs of our customers as their rigs come in for their surveys. We've also been working on the front end to understand our customers' various requirements such that we can make the equipment and the personnel available as needed by our customers and compress as much as possible the time that their vessels are in the yards. We will also see aftermarket gains associated with the recent acquisitions of Robbins & Myers, which brought us a larger install base of land BOPs as well as the service infrastructure to repair, test, and certify existing equipment. Needless to say, we're excited about the aftermarket prospects.

The Petroleum Services and Supplies segment posted revenues of $1.7 billion, which was down 4% sequentially and essentially flat year over year. Operating profit declined 12% sequentially to $311 million. Operating margins were 18.3%, down 180 basis points from the fourth quarter of 2012 and down 450 basis points from the first quarter of last year. Compared to the fourth quarter of 2012, the $69 million revenue decline carried 64% decremental operating leverage. As we mentioned on the Q4 call, because we were entering the year with diminished backlogs and a US customer base that seemed reluctant to release orders, we expected PS&S segment sales to decline in the low to mid-single digit percentage range and for operating margins to tick down into the high teens. We also said that we were hopeful that the US rig count would remain relatively flat through most of Q1 and actually start to improve as we entered Q2 and that the winter drilling season in Canada, which got off to a late start, would last a little longer than normal.

Unfortunately, the average US rig count declined an additional 3% sequentially and in Canada spring breakup came earlier than anticipated. As a result, revenues from PS&S, excluding the $50 million contribution from Robbins & Myers in the first quarter, actually declined by almost 7% sequentially with every business, with the notable exception of fiberglass pipe, which benefited from a full quarter's contribution from the Fiberspar acquisition, experiencing a decline. While the lack of activity in the US and Canada was somewhat discouraging, the group continues to benefit from our recent investments in the international arena. Over the past few years we have built new and/or added to existing manufacturing capacity across all of our PS&S businesses, with new down hole manufacturing capacity in Brazil, the UAE and Singapore; new Grant Prideco drill pipe manufacturing and tube and scope inspection and coating facilities in both Mexico and the UAE; and new fiberglass pipe manufacturing facilities in Oman and Brazil, just to name a few.

These investments have enabled to us move product, service and people closer to our customers and the final point of consumption and are enabling to us capture a larger share of key markets. As we enter the second quarter of 2013 we expect PS&S segment sales to be relatively flat as the negative impact of spring breakup in Canada should be offset by a full quarter of contributions from Robbins & Myers and continued growth in international markets. And although we cut costs, including reductions in force and facility consolidations in a number of our businesses in Q1, we are current forecasting margins for the segment to tick down a bit more as mounting pricing pressures on several products, under absorption in a number of our facilities and incremental expenses associated with both right sizing our existing businesses and integrating recently acquired companies will all put pressure on our margins in the near term. Still we are excited about the future prospects for this segment.

Our international business remains strong. Our US customers seem to be more optimistic. Candidly, even if the US rig count remains in the 1,750 range for the foreseeable future, our customers will ultimately consume their inventories and begin placing more orders for more of our products and services and when they do, it's important to remember that the flow through on that incremental revenue in this segment is usually north of 35%.

The Distribution & Transmission segment posted revenues of $1.2 billion, down 3% sequentially but up 118% as compared to Q1 of last year, due largely to the acquisitions of Wilson and CE Franklin in mid 2012. Operating profit declined 17% sequentially to $65 million but improved 51% as compared to Q1 of 2012. Operating margins declined to 5.3%, which represented a 90 basis point drop from Q4 2012. On the Q4 call we indicated that revenues within the D&T segment should move up in the low single-digit percentage range at slightly lower margins. However, even with the
$49 million contribution from Robbins & Myers in the quarter, the 3% sequential decline in the US rig count coupled with a shortened winter drilling season led to the shortfall against expectations. It’s important to remember that 83% of this segment's revenues are generated in the US and Canada.

Looking into the second quarter of 2013, we expect Distribution & Transmission group revenues to be relatively flat as the negative impact of spring break up in Canada should be offset by a full quarter of contributions from Robbins & Myers. We are currently forecasting flat to down margins as we battle pricing pressures and incur incremental costs associated with right sizing existing businesses and integrating recently acquired companies. On the topic of integration, the group has done an exceptional job of combining NOV’s legacy distribution group with both Wilson and CE Franklin. At this point, we believe that we have captured most of the low hanging fruit. We have reorganized the team, consolidated over 20 facilities in the US and Canada, aligned pricing with key customer accounts, leveraged spending with key suppliers, and rolled out a field level incentive plan to reward margin enhancement.

We’re now down to the heavy lifting, which includes implementing a common ERP platform across the business and consolidating our Houston area facilities into a single building. The group intends to begin the ERP implementation in Q4 and is planning to relocate into the new Houston facility in Q3. Once completed, both of these initiatives will result in margin expansion for the segment. So, as we review the first quarter for all of NOV, I think that it would be fair to say that we were disappointed that the US market experienced yet another drop, that the winter drilling season in Canada was shorter than hoped, and that the costs on some of our product resulted in a rebaselining of projects that negatively impacted our Rig Tech margins to the tune of 122 basis points. However, we feel really good about our overall Q1 performance, our market position and our industry leading margins and we remain as bullish as ever on the growth prospects for each of our three operating segments.

In Rig Tech, we continue to see strong demand for onshore -- offshore drilling equipment packages, both floaters and jackups. We are encouraged by the solid sequential growth with high flow through in our offshore floating production equipment business. Despite a challenging market, we continue to see US land drillers upgrading their respective fleets and we are starting to see far more interest for new land rigs in the Middle East and Latin America. We know that orders for complete frac spreads will ultimately return and we will be even better positioned than before due to our 2012 acquisition of Interflow. Perhaps most importantly, we know that our aftermarket business will continue to grow as we deliver more and more rigs to the marketplace.

In PS&S, once our US base customers work through their inventories, we believe that our recent acquisitions of companies like Robbins & Myers and Fiberspar, coupled with our expansion of capacity in international markets will lead to very nice growth with tremendous flow through. In D&T, we are excited about the margin enhancement that will result from the integration initiatives that are currently underway within our NOV Wilson distribution group and our Mono Moineaus artificial lift and industrial pump group.

Turning to National Oilwell Varco’s consolidated first quarter 2013 income statement, gross margin declined 50 basis points sequentially due to all of the reasons already discussed. SG&A increased $15 million sequentially due to the full-quarter effect of the four acquisitions that we closed in the fourth quarter of last year plus a partial quarter of Robbins & Myers. Overall, SG&A as a percentage of sales was 8.9% in Q1 as compared 8% in Q4 and 9.1% in Q1 of last year. Transaction costs primarily related to the Robbins & Myers acquisition and Venezuela currency devaluation charges combined for $73 million in pretax costs. Interest expense rose $7 million to $28 million reflecting a full quarter of interest expense on the $3 billion in bonds that were issued in mid November of last year.

Equity income in our Voest-Alpine JV was $19 million. This was up $4 million sequentially due to improved product mix and an end-of-year credit from our billet supplier. We expect for income from the JV to decline in Q2 as demand for drill pipe and therefore the green tube in the US is limited.

Other expense decreased $15 million from Q4 to $13 million due to lower FX expense and lower bank charges. The effective tax rate for the first quarter was 30.9%, which was lower than our historical and expected rate of 32% due to a higher mix of overseas income at lower rates and higher US manufacturing deductions. Unallocated expenses and eliminations on our supplemental segment schedule was $117 million in the first quarter, down $10 million sequentially. Depreciation and amortization was $174 million, up $8 million from the fourth quarter. EBITDA, excluding transaction charges, was $1 billion, marking the sixth consecutive quarter that the Company generated over $1 billion in EBITDA. For the quarter EBITDA was 18.9% of sales.
National Oilwell Varco’s March 31, 2013 balance sheet employed working capital excluding cash and debt of $6.9 billion, up $204 million from the fourth quarter. Excluding the impact of Robbins & Myers, working capital was essentially neutral. Total customer financing on projects in the form of prepayments and billings in excess of cost -- less cost in excess of billings was $283 million, down $286 million from December 31, as costs incurred on major projects continued to outpace milestone invoicing. Current and long-term debt net of cash was $1.9 billion at the end of the quarter, with $4.3 billion in debt offset by $2.4 billion in cash of which only 10% resides in the US. Cash flow from operations was $506 million for the quarter.

During the quarter we acquired Robbins & Myers for $2.5 billion, which we funded using $1.1 billion of cash on hand and $1.4 billion of revolver debt borrowings, $185 million of which we repaid between the February 20 acquisition date and the end of the quarter, owing to our strong cash flow from operations. We also spent $168 million in CapEx as we continued to invest substantially in major expansion efforts, several of which we expect to be fully operational later this year. Cash tax payments were $171 million in the quarter and dividend payments totaled $56 million. Now, let me turn it back to Pete.

Pete Miller - National Oilwell Varco Inc - Chairman & CEO

Thanks, Jeremy. I think that Clay and Jeremy have really covered everything very, very well. I'd just like to make a few brief comments before we open it up for questions. I've spent a little bit of time the last quarter traveling overseas and trying to get a sense of things that I think are pretty important. I think some things that you need to keep an eye on, for the folks on this call, number one, I think is China. I think you should take a look at the shipyards there. They're becoming much more active, especially in the jackup arena. I think you will see some floaters and semis done there. We're positioned very uniquely to be able to take advantage of that. While there's been some press recently about the slow moving on the China shales, I also believe one of the reasons for that is because of the lack of infrastructure. And so, I might just remind you, we manufacture infrastructure. So, I think that -- in China, we are actually going to see some pretty good things happening with the shales.

I think Latin America looks very positive. I believe by the end of the year you are going to see Pemex pick up, and I think that has positive implications for all the service companies and manufacturers. Of course, as Jeremy and Clay pointed out, Brazil continues to be a very attractive arena for us. We're the leader down there in the drill ship awards. But more importantly than that, we're also supporting everything else that's happening down there through all of our other operations. So, I think Brazil will continue to be a linchpin of what we're doing.

Finally in Russia, I visited there earlier this quarter and I really think the Russians are just really almost begging for the technology that we have to be able to provide to them. We're investing there. Over the next four or five years you are going to see a complete transformation of the rig fleet and a lot of the equipment that are working in Russia. Again, I think we're very uniquely positioned to be able to take advantage of that. If you really keep your eye on Russia, China, and Latin America I think those are going to be very important things.

Finally, I would like to talk just for a moment about the fact that a lot of the domestic E&P people are getting a lot more free cash flow simply because of the price of natural gas today. Now, I don't think that means they are going to necessarily drill for natural gas, but what I do believe it means is they'll continue to invest and especially in the oily and liquid shales. Again, everything that we have to offer positions ourselves for that. You have heard us talk a little bit about some of the weaknesses in the frac spread. But you have to also remember, those frac spreads are beating the crap out 4of each other every day that they're out there working and eventually that then becomes something that's going to produce more and more revenues for us. That's really just a quick overview of the things that I'm seeing out there.

I might also add that a week from Monday is the start of OTC. As usual, NOV is going to have a nice presence there with a lot of the new products that we have. I would invite anybody that's on this call to please stop by our booth or go to our equipment show on Holmes Road where our Tuboscope facility and get an opportunity to see a lot of the exciting things that NOV is doing.

At this point, Dawn, I would like to turn it over to any questions that our customers -- or our listeners might have.
QUESTIONS AND ANSWERS

Operator

We will now begin the question-and-answer session.

(Operator Instructions)

Marshall Adkins, Raymond James.

Marshall Adkins - Raymond James & Associates - Analyst

Great overview as usual. Pete, you might have answered this first question I have a little bit in your summary there. The biggest push back I get from investors on your story is the perception that the backlog, this great backlog growth we're seeing right now, hits a wall next year, in some time in '14. We've got good visibility, obviously, this year with the rigs that have been ordered, but in '14, that falls off and that you are not going to be able to replace that. So, how do you respond to those investors that the growth rate in '15 and '16 goes away?

Pete Miller - National Oilwell Varco Inc - Chairman & CEO

Great question, Marshall. I might tell you the quote that I think of is Mark Twain, and it was -- The reports of my death have been greatly exaggerated. If I could go into how many times I've been told that the backlog is dead, let's go back to '08. You are going to lose half your backlog, or three-quarters of your backlog, and we lost about 3% when the financial crisis occurred. We've been told numerous times about the fact that, well, people just aren't going to keep ordering. The fact of the matter is, we feel very good about the prospects as we look into the future. I can talk until I'm blue in the face and people are going to believe what they want to believe on that. But, take a look at the jackup market. How many times have you heard about the death of the jackup market? Yet, this quarter we just had a plethora of jackups ordered. We continue to see a very active area in that arena.

You also have to understand that a lot of these shipyards in places like Korea, China, and Singapore, the shipyards are, in fact, the driver of their economic growth. And they are going to do everything they can to try to keep those shipyards filled with things. I think you are going to continue to see very attractive prices that are thrown out there for a lot of the deepwater drillers. If you take a look, the number of deepwater rigs out there, while it seems big on a historical basis, it's really a fraction of probably how many rigs you really need to be able to explore the deepwater basins all over the world. We -- and couple that, then, with the fact that we're expanding into the FPSO arena and when you take a look at what has to happen with FPSO, the approved solution for production on all these deepwater wells being drilled today is going to be the FPSO arena. And we've positioned ourselves to be able to take great advantage of that and we'll continue to look at ways to buy into different companies and also acquire things so that we can expand that even further.

So, we feel very comfortable that we're going to continue to have a solid backlog that's going lead to growth for NOV.

Marshall Adkins - Raymond James & Associates - Analyst

Excellent. That helps. One quick, somewhat unrelated, follow-up, really more a clarification. The margins, obviously, in Rig Tech a little less than some of us thought. I think you detailed why pretty well, but it sounds as if you expect a rebound once we get past these abnormal hotshot or transportation expenses, and that the one-time start-up costs fade over the next couple of quarters. Did I hear that right?
Clay Williams - National Oilwell Varco Inc - President & COO

That's exactly correct, Marshall. We had $32 million in net project expenses that hit this quarter, and then $10 million in sort of start-up costs around the globe. The start-up costs will linger for awhile, but the $32 million cost roll was all booked this quarter. So, we're confident we are going to end up in the 22% to 23% range going forward.

Marshall Adkins - Raymond James & Associates - Analyst

Thanks, guys.

Operator

Jim Crandall, Cowen.

Jim Crandell - Cowen Securities LLC - Analyst

First question concerns deepwater. How many deepwater rigs did you book in the first quarter? I assume by your comments that you booked the first three out of the nine in Brazil and there's another six to come. Also, could you comment on China, Pete? I know you had three deepwater rigs in the fourth quarter come out of the Chinese yards. Have there been any more? Over the course of this year, how many Chinese yards do you think could become engaged in deepwater rig construction?

Clay Williams - National Oilwell Varco Inc - President & COO

You're correct, Jim, we booked a total of eight floaters. Three of the floaters were for Brazil. As I said in my comments, we're hopeful that the last six there will also flow in once we get down payments on those rigs. That's the situation in Brazil. The other five were elsewhere around the globe, but more centered in the traditional shipyards. With regard to the Chinese yards, they've been very active on the jackup front and gaining share there on the jackup awards. Floaters they're interested in, but that's a little slower in developing.

Jim Crandell - Cowen Securities LLC - Analyst

Okay. Pete, I know you spent, as you said, you spent some time in Russia. My understanding, and tell me if I'm wrong here, is that Russian companies have to retire the sub basin mass in Russia after 25 years? Will operators do this, or do you think a number of them that you are speaking with aren't interested in upgrading their rigs but building new equipment, hence your new facility over there?

Pete Miller - National Oilwell Varco Inc - Chairman & CEO

Jim, actually, yes, they do need to. They need to redo their rigs after 25 years. I think that there's a tremendous interest level on getting new equipment and better technology. The Russians know that effectively, they've got 1980s vintage rigs, and the difference between an '80s vintage rig and a land rig today is night and day. So, we're confident that they're going to upgrade those rigs. I think that's going to be a multi-year expansion that's really going to play well into our hands. Just about every place we go we like to have a lot of local content, for a lot of reasons, but one of the main reasons is because your transportation charges are lowered dramatically trying to get the rig to the end user. We'll have our new facility up and running by next year, and in that facility we'll be building both rigs and a lot of our other equipment. But the Russians really have a demand for that technology and we're very bullish on what we're going to see over there the next couple years. I think they are going to have to retire a lot of those rigs. Not only by -- because of the law, but also because of just the need for better drilling efficiencies.
Jim Crandell - Cowen Securities LLC - Analyst

Pete, one quick last final question. I know you've been bullish on the outlook for FPSO orders, and I know you're not getting package orders and it's coming in the way of individual products. Could you characterize the magnitude of the pickup that you are seeing in the last one or two quarters? Then, take us through maybe this calendar year into '14 in terms of the projected magnitude of the pickup?

Clay Williams - National Oilwell Varco Inc - President & COO

Jim, this quarter we had products, major sales for turret mooring system and buoy products into four projects there, which is a very big pickup as we've talked about on previous quarters. Orders had been pretty slow there in that business, despite a lot of peak study activity, a lot of conversations with customers throughout last year and even going back into 2011. We are very pleased to see a sharp pick up in orders. In Q2, we expect even more. The trajectory is finally moving in the right direction, in the way we were confident it would be, so very, very pleased to see that pickup. I'll add too, that's in addition to flexible pipe sales, composite pipe, hose reel systems, riser pull systems, other components that we sell in FPSO's portfolio more broadly. Generally, I think we're seeing that whole market start to pick up as we have expected and pleased to see the direction that it's going.

Jim Crandell - Cowen Securities LLC - Analyst

Okay, good, thank you.

Operator

Robin Shoemaker, Citi.

Robin Shoemaker - Citigroup - Analyst

Wanted to pursue that FPSO a little more. You have told us before, I think what you think your maximum dollar value of sales is per FPSO. Could you remind us of that? Are you seeing any opportunities where you might get that total value?

Clay Williams - National Oilwell Varco Inc - President & COO

On the high end, first, FPSO's span a broad range of sizes and capabilities, as you know, Robin. They're not -- there's a lot of variability in the design of FPSOs and actually more broadly, let's say FS users, things that technically aren't FPSOs that we also sell lots of equipment into, as well. On the high end, I would say probably $150 million per very large FPSO is a sort of a reasonable number. Technically speaking for -- I think it's possible for us to go beyond that, perhaps well beyond that depending on the capabilities of the FPSO. But what's probably more useful is sort of an average number, might be in the $80 million to $100 million size range for us.

Robin Shoemaker - Citigroup - Analyst

Okay. My other question had to do with these faster hull construction times and how you've had to speed up the process and incurred a lot of overtime, and expediting and all the things you mentioned there. It seems like in the past the shorter the delivery time, the higher the price and the higher the margin, just in terms of what you could charge for, prompt delivery versus longer delivery. It just seems like now the hurry up kind of process isn't giving you the pricing leverage, or am I misunderstanding that?

Clay Williams - National Oilwell Varco Inc - President & COO

That's partly true. I would say that for certain components, for quick delivery, we clearly do get a premium. The broad level of activity out there, the portfolio of projects that we have today are being built a year or more faster than they were in 2007 and 2008 and have been awarded or bid,
let's say, more at our customer's leisure, if you will. Back in 2007 and 2008 there was a much higher level of urgency injected into the system, I think principally because the slots available at the shipyards were in short supply. Once a customer secured a slot at a shipyard, even though the gestation period in the rig took much longer, they tended to sign up pretty quickly with us on a DEP. This time around the shipyards have a lot more capacity. There's not as much urgency around the availability of slots. All of the slots are being bid at much faster construction schedule -- much shorter time than it takes to build a rig. So, we've shrunk the number of months from probably 42, 45 months for a sophisticated drill ship down to sub 30 this time around. But, the process leading up to signing a contract for that 30-month drill ship is a little more relaxed and it gives -- it means that there's a much more competitive fight for the work going into that rig.

Robin Shoemaker - Citigroup - Analyst

It sounds like this dynamic really isn't going to change in any near-term future. In other words, the availability of shipyard slots, you mentioned China getting into the business, so, it is going to continue to be --?

Clay Williams - National Oilwell Varco Inc - President & COO

What's happened, Robin, is that as the hull construction schedule has shortened, it's pressed our plants and our factories to move components out much more quickly. That concept is a little bit divorced from the process around bidding work and competing with our competitors to supply drilling equipment packages. But, I would also add that as our backlog has filled up and there's lots of rigs out there, in particular, buying components that are in a little shorter supply, we are certainly pressing for a few price increases here and there to cover these extraordinary costs that we're seeing.

Robin Shoemaker - Citigroup - Analyst

Right. Thank you.

Operator

Kurt Hallead, RBC Capital Markets.

Kurt Hallead - RBC Capital Markets - Analyst

I think I want to get a sense on here is recap the general average for the FPSO per unit? Can you just give us a rough update on floaters and jackups? Are we still around $200 million, $220 million for floaters and still in that $50 million to $70 million range for jackups? Does that change at all?

Pete Miller - National Oilwell Varco Inc - Chairman & CEO

Kurt, that's pretty accurate. On some of the floaters, depending on the complexity, if you've got a complete dual activity, depending if you want one or two stacks, things like that, you could be as much as $250 million. I think on the jackups it really is around a $50 million comp. We get the max on the floaters more so than many times than the jackup, but we've really picked up on the jackups as well, simply because of our jacking systems. We're putting a lot more jacking systems out there. So, I think that $200 million to $250 million and the $50 million number are still pretty accurate. I also might remind you that as we take a look at land rigs and especially places like the Middle East and some of the more complex land rigs, those will be up into the $30 million and $35 million range. We've been very successful when that arena improves, and we think that arena will do well over the last part of the year.
Kurt Hallead - RBC Capital Markets - Analyst

Pete, in that context, we’ve heard recently the Saudi rig count, Saudi’s are expected to increase the rig count from I think we’re counting something around 140 today to something around 200 by the end of 2014. First, can you corroborate that? Secondly, if Saudi is looking for, say, another 60 rigs, are they all going to be new, in your viewpoint? Where else do you see a similar size increase coming from --? I know you mentioned Russia. That sounded like a five-year process. If you could give us some color that would be great?

Pete Miller - National Oilwell Varco Inc - Chairman & CEO

I think, Kurt, we agree that the Saudi’s are going to pick up. I think it will be a combination of existing rigs that will be moving in and also new rigs. We’re uniquely positioned because we can actually -- we manufacture our land rigs in Dubai, in the Jebel Ali pre zone there and so we’re able to respond much more quickly. That’s been one of the reasons we’ve done that, because if the Saudi’s want a rig and we have to make it anywhere, in any other part of the world, be it China or even in the US, you have to add 60 to 90 days just for transportation charges. Whereas, if we can do it in Dubai, which is what we do, once we’re done, it moves across the border and you’re in Saudi Arabia in three days. We think that that’s going to be a very attractive market over the next year or so.

I think Russia is a more long-term market, but I think it is probably also a more sustainable market. It’s one that’s going to keep on giving for a period of time. I think Latin America, on land rigs, is going to be a little bit more exciting than people realize. I think Pemex, for sure, is going to be doing some things toward the end of the years, and I think that will be both on and offshore. I think you’re seeing some things in Colombia. Even the Venezuelans make noise that maybe something could happen there, but we’re probably a little bit more bullish on Latin America right now than we have been. I think that’s something that’s probably a second half of the year phenomenon as well.

Kurt Hallead - RBC Capital Markets - Analyst

Thanks, Pete. If I could just, one more here, just on the FPSO. You guys indicated, obviously initially, that’s going to be margin dilutive to historical Rig Tech average margins and as you get more volume that will improve. What’s the crossover point in terms of volumes and how close do you think the FPSO margins can get to historical Rig Tech averages?

Clay Williams - National Oilwell Varco Inc - President & COO

It depends on the mix a little bit. We have products within that offering that are accretive to the mix overall, but others that are dilutive. Right now the sum of the business is still dilutive, but we’re still at least a few quarters away from having the business be accretive to FPSOs. I would add, it would take a much larger volume through that business to turn that corner, so that’s still a ways off. Again, very excited about the prospects out there. As Pete mentioned, this is sort of the go-to solution for producing out of the deepwater. We have a great offering of equipment and technologies into that trend, so over the long haul very, very excited about what lay ahead.

Kurt Hallead - RBC Capital Markets - Analyst

That’s great. Appreciate your color. Thanks.

Operator

Bill Sanchez, Howard Well.
Bill Sanchez - Howard Weil Incorporated - Analyst

Jeremy, if -- I perhaps missed it in the prepared comments, but I think you gave as far as the revenue recognition on the backlog for Rig Tech $2 billion in 2Q, then I think you said $3.7 billion in the back half of the year. I missed the '14 expectation. Do you have that number?

Jeremy Thigpen - National Oilwell Varco Inc - SVP & CFO

Let me check. I didn’t say that on the call. Hold on a second.

Bill Sanchez - Howard Weil Incorporated - Analyst

Or if not it’s something we can do off line, but I know, Clay, you’ve typically given it in the past.

Clay Williams - National Oilwell Varco Inc - President & COO

I’ve got it here, $2.3 billion.

Jeremy Thigpen - National Oilwell Varco Inc - SVP & CFO

$2.3 billion.

Bill Sanchez - Howard Weil Incorporated - Analyst

$2.3 billion is the -- I’m sorry, that’s the ’14 total?

Pete Miller - National Oilwell Varco Inc - Chairman & CEO

No, no.

Bill Sanchez - Howard Weil Incorporated - Analyst

No, I was going to say --

Jeremy Thigpen - National Oilwell Varco Inc - SVP & CFO

I got it right here, it is $4.9 billion.

Bill Sanchez - Howard Weil Incorporated - Analyst

$4.9 billion. Okay, great. Thank you for that. Then I guess just one thing, just so I can just understand in terms of the margin progression here on the Rig Tech. Clay, coming from your comments, and I think it was confirmed in the earlier Q&A that margins in Rig Tech the next couple of quarters are going to be relatively flat, I believe, with the 1Q level, but yet I think Jeremy you said --
Clay Williams - National Oilwell Varco Inc - President & COO
No. Sorry, Bill, flat with Q4.

Bill Sanchez - Howard Weil Incorporated - Analyst
Flat with Q4?

Clay Williams - National Oilwell Varco Inc - President & COO
22% to 23% range.

Bill Sanchez - Howard Weil Incorporated - Analyst
Okay, right. Then that dovetails in, because I was -- it seemed like to get to the 22% or 23% range, certainly on average for the year, you had to see a step up in 2Q, so that makes sense. If not, you were going to have to have a pretty significant increase in 4Q margins. So, 4Q ’12 is basically a good proxy for 2Q ’13 in Rig Tech?

Clay Williams - National Oilwell Varco Inc - President & COO
Yes.

Bill Sanchez - Howard Weil Incorporated - Analyst
Okay. And one question just on PSS. Is it too early to say, given the mix of the product lines there, I know there's a backlog component to that business, that perhaps you lag rig count recovery here to some extent, but does 2Q likely represent the trough from the margin expectation?

Clay Williams - National Oilwell Varco Inc - President & COO
At this point in time we think so. We're starting to hear positive comments from our customers, the service companies and the drilling contractors, and typically we lag their positive comments by about a quarter. Our expectation is that rig activity does start to pick up at some point this quarter, even if it's not a lot, that our customers will start working through their inventories and start placing orders for our consumable products again, and services.

Bill Sanchez - Howard Weil Incorporated - Analyst
Okay. Great. I appreciate the time. Thank you.

Operator
I will now turn the call back to Pete Miller for closing comments.

Pete Miller - National Oilwell Varco Inc - Chairman & CEO
Thank you, Dawn. We appreciate everybody calling in today. We look forward to talking to you when we announce our second quarter earnings. I hope all of you can get an opportunity to come to the Offshore Technology Conference. Thank you, very much.
Operator

Thank you, ladies and gentlemen. A digital replay of today's call will be available on www.nov.com for 30 days. This concludes today's conference. Thank you for participating. You may now disconnect.