NOV Inc.
Third Quarter 2024 Earnings
Conference Call Remarks

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Director, Investor Relations

Welcome everyone to NOV's third quarter 2024 earnings conference call. With me today are Clay Williams, our Chairman, President, and CEO, and Jose Bayardo, our Senior Vice President and CFO.

Before we begin, I would like to remind you that some of today's comments are forward-looking statements, within the meaning of the federal securities laws. They involve risks and uncertainty, and actual results may differ materially. No one should assume these forward-looking statements remain valid later in the quarter, or later in the year. For a more detailed discussion of the major risk factors affecting our business, please refer to our latest Forms 10-K and 10-Q filed with the Securities and Exchange Commission. Our comments also include non-GAAP measures. Reconciliations to the nearest corresponding GAAP measures are in our earnings release available on our website.

On a U.S. GAAP basis for the third quarter of 2024, NOV reported revenues of $2.19 billion and a net income of $130 million or $0.33 per fully diluted share. Our use of the term EBITDA throughout this morning's call corresponds with the term "Adjusted EBITDA" as defined in our earnings release.

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

CLAY WILLIAMS
Chairman, President, and Chief Executive Officer

Thank you, Amie.

Strong execution in the third quarter of 2024 enabled NOV to deliver higher EBITDA and margins both sequentially and year-over-year, and cash flow improved significantly compared to the third quarter of

2023 as a result. Rising long-cycle capital equipment revenues helped offset declines in drillpipe and certain shorter-cycle products and services tied to activity, resulting in consolidated revenues of $2.2 billion. Consolidated revenues improved modestly compared to the third quarter of 2023 but were down about 1% compared to the second quarter of 2024.

EBITDA improved to $286 million, up 2% sequentially and up 7% year-over-year, and margins moved up to 13.1%, helped by higher-margin backlog, lower costs, and improved operational efficiency. The Company posted fully-diluted GAAP earnings of $0.33 per share, up $0.04 per share year-over-year.

The third quarter saw our customers growing increasingly concerned about the global macro environment. Sliding Chinese oil demand, excess OPEC capacity, and potential non-OPEC oversupply are pressuring commodity prices. As a result, oil and gas operators and service companies are becoming incrementally more cautious in their near-term spending decisions.

Despite these emerging headwinds, we remain bullish on the long-term demand for oil and, in particular, natural gas over the next decade, given AI-driven electricity demand is forecast to rise sharply in the U.S., and stronger global economic growth will inevitably drive demand for more oil and gas. We believe this long-term view is shared by our E&P customers, as evidenced by their continued development of profitable projects in deepwater and in emerging unconventional shale basins around the world. Final investment decisions (“FID’s”) are continuing to move forward. Recent announcements include the greenfield development of Kaskida's high-pressure reservoir in the Gulf of Mexico, a feat made possible by NOV’s development of leading 20,000-psi or “20K” equipment. Other announcements include development projects in offshore Suriname and additional gas facilities in the Middle East.

Our customers’ commitments for these substantial capital investments give us confidence in the continued recovery of the offshore space, and the development of unconventional shale in international basins over the long term. And both will require NOV’s unique equipment and technology.

Next month will mark the ten-year anniversary of OPEC's 2014 decision to take back market share from North American shale producers. At that time, OPEC declined to impose additional quota restrictions, which would have ceded further market share to the rising supply of shale oil from the U.S. This prompted a significant, sustained decline in global oil prices. North American shale oil supply, built on the application of novel and expensive drilling and stimulation techniques, was regarded as a high-marginal-cost source, certainly a much higher cost-per-barrel source than Middle Eastern oil. North American shale was expected to be crippled by lower oil price.

It didn't exactly play out like that. Shale entrepreneurs employing horizontal drilling and hydraulic fracture stimulation in marginal rocks doubled down on efficiency to survive. And their relentless pursuit of lower marginal cost led to more than just survival – the U.S. shale oilpatch thrived and rocketed U.S. production from 6 MBOPD to over 13MBOPD. Instead of losing market share, U.S. unconventional shale *gained* share since OPEC's 2014 meeting. And, notably, investments in offshore and many international onshore fields collapsed. These became collateral damage, victims of the market share war with shale.

Shale innovation has been astounding. Rates of penetration and footage drilled per rig day in the complex horizontal wells required to make shale work have *doubled* in ten years, while lateral lengths have nearly doubled – increasing from 6,000 feet to 10,000 feet, with many now targeting 15,000- and even 20,000-foot laterals. Hydraulic fracture treatment has posted similarly astonishing productivity gains.

I note this because it has important implications for NOV and the rest of the industry for the next several years. Unconventional basins in North America are maturing. We can debate the remaining inventory of Tier 1 drilling locations, but there is no question that there are fewer today than there were this time last year. As pressures decline basin-wide, gas/oil ratios, NGL cuts and API gravity are rising. Cost of capital to shale producers is far higher than it was a decade ago, and investors are more demanding that capital be returned to *them*, leading to widespread capital discipline magnified by recent widespread consolidation amongst shale producers. Many forecasts are calling for decelerating

U.S. production growth next year as a result. While I'm certainly not ready to call the peak of U.S. production growth, I do think it must be close to at least plateauing. And I think many of our international and offshore customers view unrestrained U.S. production growth as much less of a threat than it was in the early days of the Shale Revolution.

To put it in perspective, U.S. shale was responsible for more than 80% of global oil supply growth over the last decade, and it crowded out investment in many or most other sources of oil along the way. Places like the deepwater offshore. But that is changing, and the resumption in FID's, and the sanctioning of the projects I noted earlier are good examples.

Deepwater exploration and development have recovered post-COVID in South America, in West Africa, in the Eastern Mediterranean, and in the Gulf of Mexico Wilcox (2023 global exploration investments were up 40% from the 2015 to 2022 average). Re-engineering and standardization have lowered breakevens to $40/bbl or less, and offshore producers have increased their FID's to around $100B a year since COVID.

This is prompting rising orders for FPSO's and production kit, and as shipyards have filled and the supply chain for these has tightened, the quoted delivery dates for FPSO's have pushed out. This has delayed first oil and diminished the urgency of E&P's to contract offshore drilling rigs, cooling demand and flattening dayrate growth through the past several months– a phenomenon drilling contractors refer to as "whitespace" or uncontracted time in their calendars.

We now believe the whitespace effect is starting to slow some of the spending plans of our drilling contractor customers into 2025. For example, we were informed a couple of weeks ago of a decision by one of our customers to delay (not cancel, but delay) the planned upgrade of two offshore rigs. While we expect some to continue to invest in their offshore rigs through these periods of "whitespace," like another customer that booked two hookload upgrades to convert its 6th-gen drillships to 7th-generation, we know others are probably thinking about slowing their near-term expenditures.

I think most foresee higher drilling activity in 2026 and beyond, as demand accelerates on the backside of the FPSO supply chain catch-up. So our early expectation is for demand for offshore drilling equipment, as well as aftermarket spares and support for offshore drilling rigs, to decline modestly into early 2025, then to see demand grow again in the second half of 2025.

In contrast to the market for drilling equipment, we see demand for the offshore production equipment that we make continuing to grow. Over the past decade we have added turret mooring systems and swivel stacks, flexible pipe, gas and seawater processing systems, offloading systems, pump and composite piping products, and a myriad of other key technologies to enable profitable deepwater production. Preliminarily, we believe rising demand for production kit will be able to fully offset sliding demand for drilling rig equipment offshore in the coming year.

Our third quarter numbers provide good evidence. Solid demand for offshore production-related equipment continued to drive strong orders for the Energy Equipment segment. Total bookings of $627 million led to a book-to-bill of 111% for the third quarter, bringing book-to-bill to 123% year-to-date. Backlog for flexible pipe for deepwater developments eclipsed $1 billion for the first time ever.

NOV's Energy Equipment segment posted a 2% increase in offshore revenues compared to the third quarter of last year. The third quarter saw higher revenues from offshore stimulation equipment and deepwater rig upgrades to 20K, partially offset by lower revenues related to wind turbine installation vessels. The segment improved its EBITDA margin 260 basis points year-over-year on improved execution around its flexible pipe, pumps, mixers and production processing capital equipment orders.

However, despite the growth within the Energy Equipment segment, NOV's overall consolidated revenues for the offshore *declined* 2% year-over-year, as the Energy Products & Services segment's offshore revenue fell due to sharply lower drillpipe shipments and conductor pipe connection sales, both of which tend to be volatile quarter-to-quarter. However, the good news is that we saw a significant increase in orders for offshore drillpipe, up 64% sequentially, and our strong backlog for offshore conductor pipe connections are expected to lead to improved offshore results in Q4 for the segment. So to summarize, while we foresee modestly weaker demand for drilling equipment for the next few quarters, we believe demand for offshore production systems will continue to grow.

Turning to international land markets, NOC's in certain areas are embracing technologies pioneered by North American shale producers and applying these to unconventional rocks. Argentina, Saudi Arabia and the UAE are all pursuing unconventional development opportunities at scale.

This is an important opportunity for NOV, across multiple product lines. First, this will require better rigs. The North American shale revolution was preceded by a buildout of modern drilling technology, as the drilling rig fleet was first converted to fit-for-purpose AC rigs, with high setback and high-pressure mud systems. Second, specialized tools for hydraulic fracturing and coiled tubing for plug drillouts were required at scale. Third, innovations in plugs, toe valves, sliding sleeves, burst port subs, and other completion tools were required. And, now, fourth, better downhole bits, drilling motors, friction reduction tools and torsional vibration mitigation tools, along with higher-torque-capacity drillpipe, are being required to push laterals out three miles or more. NOV leads in almost every category I mentioned, and growing unconventional shale activity in places like the Vaca Muerta formation or the Jafurah field point to greater growth in the future for NOV. For example, this past quarter our Series 55 drilling motor that has dazzled customers in West Texas, completed its first international run in the Middle East.

Energy Equipment again saw solid year-over-year mid-single-digit growth into international land markets, led by chokes and gas processing equipment and new AC rig technology for the Middle East. Energy Products & Services posted more modest year-over-year growth, with strong demand for PDC bits, completion tools and composite pipe systems to support unconventional developments, offset by declines in drillpipe sales in the Middle East.

Finally, turning to North America land, activity continues to be subdued as consolidation, efficiency gains, capital discipline, oil price uncertainty, and very low gas prices are taking a toll on overall shortcycle activity. And, frankly, at this time, we don't see much that points to activity improvement through the end of the year.

The good news for NOV is that we continue to outperform activity declines, owing to the technically better products we've introduced over the past few years. NOV's new technologies have led to material market share gains in everything from PDC bits, where we've recaptured the number one position in North America, to drilling motors, friction reduction tools, and torsional vibration mitigation tools. All these technologies continue to set performance records for our customers as they drill ever longer horizontal wells.

Energy Products & Services posted a modest increase in North America revenues year-over-year during the third quarter, helped by our acquisition of the Extract electrical submersible pump business along with market share gains. Composite pipe revenues for this market declined, as E&P consolidation pushed projects out, but we are seeing many of these projects restart now.

Energy Equipment posted a 6% increase in North America sales during the third quarter, despite its sale of Pole Products since the third quarter last year. Strong shipments of Ideal™ e-Frac pumpers, and high demand for drilling robotics tools and mud plant upgrades contributed to the strong performance.

The key to NOV's steady improvement in the absence of a major capital equipment buildout cycle is our capacity to innovate to improve results for our customers, including new digital technologies. For example, our drilling instrumentation and digital data acquisition services secured a 20+-rig fleet of a major Texas-based exploration and production company during the quarter. Chosen for our differentiated service and technology, our edge-to-cloud digital capabilities enabled by our proprietary Max™ platform are driving better efficiency for this operation. We are a trusted supplier to the industry's leading operators.

While our profitability improved in the quarter, we acknowledge that achieving our 2024 exit margin target will be challenging. Nevertheless, we remain focused on the things we can control - driving operational efficiencies and optimizing our cost structure. We are confident we can navigate the current market dynamics and grow profitability, even if the path to reaching our margin and return goals elongates a bit.

In sum, NOV is well positioned to capitalize on the evolving, multi-year up-cycle. I am grateful to our extraordinary NOV employees who deliver our portfolio of innovative technology and are committed to improving business efficiency. I am confident they will continue to drive strong financial performance. To all those listening, thank you.

Jose?

JOSE BAYARDO

Senior Vice President and Chief Financial Officer

Thank you, Clay.

Overall, despite a few emerging headwinds, Q3 was a solid quarter for NOV. As Clay mentioned, profitability, backlog, and cashflow improved on a modest increase in revenue compared to the third quarter of 2023. NOV's consolidated EBITDA improved 7 percent year-over-year to $286 million, with margins increasing 90 basis points to 13.1 percent of sales. The steadily improving quality of our capital equipment project backlog, along with efforts to improve our operational efficiencies, more than offset the typical effect declining North American drilling activity has on our higher incremental margin shorter-cycle businesses.

Cash flow from operations totaled a healthy $359 million due to higher levels of profitability and improving working capital efficiencies. Capital expenditures totaled $82 million, resulting in $277 million of free cash flow. Year to date, NOV generated $480 million of free cash flow and we expect our fourth quarter results will put us comfortably beyond our target of converting at least 50 percent of our EBITDA to free cash flow for the year.

We repurchased $80 million of our shares and paid a $29 million dividend, returning $109 million to our shareholders in the third quarter. To recap our return of capital framework, our top priorities are to maintain a strong balance sheet, make investments that are in the best long-term interest of our shareholders, and return excess capital to our shareholders. Our balance sheet is in optimal condition with a net debt leverage ratio below one, a gross debt leverage ratio well below two, and we have more than ample free cash flow to maintain our asset base, invest in organic growth opportunities and pursue opportunistic M&A.

Our acquisition strategy is focused on smaller, technology-focused rifle shot opportunities that accelerate existing strategic objectives, and that can be completed at compelling valuations. Consistent with this strategy, in early October, we completed the acquisition of Fortress Downhole Tools. Fortress developed a patented setting tool technology and unique recycling program that offers proven reliability, reduced downtime, and significantly less waste compared to conventional field redressable and disposable setting tools. The business complements our existing completion tools portfolio and is run by a great team, which we were excited to welcome to the NOV family.

Our return of capital framework calls for us to return at least 50 percent of Excess Free Cash Flow, defined as cash flow from operations, less capital expenditures and other investments, including acquisitions, annually.

Through September 30, 2024, we returned $196 million to our shareholders, meaning that we have returned 49 percent of our Excess Free Cash Flow, which accounts for a net $76 million invested in acquisitions, leaving us well positioned to return at least 50 percent of our Excess Free Cash Flow for the year. If we do not achieve this threshold through our base dividends and share repurchases during the year, we will pay a supplemental dividend in early 2025 to meet this objective.

Moving on to segment results.

Energy Products and Services

Our Energy Products and Services segment generated revenue of $1.003 billion in the third quarter, a three percent decrease compared to the third quarter of 2023. EBITDA decreased $25 million to $172 million year-over-year, or 17.1 percent of sales, due primarily to a decline in drill pipe sales and the effect of lower U.S. drilling activity, partially offset by contributions from our recent artificial lift acquisition.

As a reminder, our Energy Products and Services segment generates income from three revenue streams: services and rentals; consumable products; and sales of shorter-lived capital equipment. The segment's sales mix for the quarter was: 51 percent service and rentals, 29 percent capital equipment sales, and 20 percent product sales.

Revenue from service and rentals include tubular coating and inspection services; solids control services; drilling data acquisition, analytics, and optimization services; and rentals of our downhole drilling tools, drill bits, and artificial lift equipment. During the third quarter, revenue from NOV's service and rental businesses increased in the low single digits year-over-year, with market share gains from new technology introductions and the contribution from our new artificial lift business more than offsetting the effect that a ten percent decline in U.S. drilling activity would typically have on this more North America weighted revenue stream. Excluding the contribution from our artificial lift business, revenues from service and rentals were flat year-over-year.

Capital equipment sales within the Energy Products and Services segment include drill pipe, conductor pipe connections, composite pipe and tanks, shale shakers and managed pressure drilling equipment. Sales of the segment's capital equipment fell in the upper-teens year-over-year primarily due to the sharp decline in drill pipe shipments and conductor pipe connections. As Clay mentioned, orders for drill pipe increased significantly in the third quarter, allowing the operation to improve its backlog for the first time in over a year, and we expect a pickup in conductor pipe connection deliveries in the fourth quarter.

In the segment's other capital equipment businesses, sales from our fiberglass operation decreased in the mid-single digit percent range compared to the third quarter of 2023, with lower shipments of composite equipment for industrial markets, partially offset by an increase in sales of composite pipe and tanks into oil and gas and fuel handling markets. The segment realized a strong increase in solids control equipment deliveries into the Eastern Hemisphere, but shipments of managed pressure drilling equipment declined year-over-year due to strong deliveries in 2023 that did not repeat.

Revenue from product sales, which include shorter-lived and consumable products used in drilling and completion operations improved in the upper-teens year-over-year. Excluding the acquisition of our artificial lift business, revenue was down low-single digits with fewer sales of glass-reinforced epoxy tubular liners, and drilling tool packages, only partially offset by a significant increase in drill bit sales into Africa and Asia.

For the fourth quarter, we expect revenues for our Energy Products and Services segment to be down between one and three percent when compared to the fourth quarter of 2023, but up mid-single digits sequentially, with EBITDA between $170 million and $185 million.

Energy Equipment

Moving to our Energy Equipment segment, revenue for the third quarter of 2024 was $1.219 billion, a $24 million or 2 percent increase year-over-year compared to the third quarter of 2023. EBITDA improved $35 million year-over-year to $159 million or 13.0 percent of sales, representing an incremental flow-through of over 100 percent. The robust incremental margins and margin progression over the last several quarters is the result of the improving quality of the segment's backlog as well as efforts to improve operational efficiencies. All of which helped the segment achieve nine straight quarters of year-over-year margin improvement.

During the third quarter, sales of capital equipment accounted for approximately 54 percent of the segment's revenues, unchanged from the second quarter of 2024, and mostly unchanged from the approximately 55 percent in the third quarter of 2023. Aftermarket sales and service accounted for the remaining 46 percent of revenue in the third quarter of 2024.

Drilling equipment aftermarket sales, which account for the majority of the segment's aftermarket revenue, improved mid-single digits year-over-year, led by higher spare part shipments, as well as higher service revenue from many upgrade, reactivation and recertification projects. Due in large part to the production related constraints that Clay described, the amount of "white space" is weighing more heavily on our offshore drilling contractor customers, which will affect some of their spending. We expect many customers to take advantage of this potential downtime to complete upgrades that will increase their capabilities for higher end work, improve efficiencies, and enhance safety. However, as Clay discussed, with fewer anticipated offshore drilling days, we expect a modest decline in aftermarket spares and support in early 2025, before a recovery in contracting for our customers drives our demand higher in the second half of the year.

Aftermarket revenues for intervention and stimulation equipment improved mid-single digits year-over-year, led by strong shipments of spares into the Eastern Hemisphere for wireline and coiled tubing equipment and increased deliveries of our advanced thermally processed coiled tubing strings in North America.

Switching to the capital equipment portion of the Energy Equipment segment, revenues were essentially flat compared to the third quarter of 2023. Normalizing for the divestiture of our Pole Products business, revenues improved in the low single digit range with solid growth in intervention and stimulation, drilling, gas processing, and subsea equipment sales more than offsetting a decline in revenue from offshore wind turbine installation vessel (WTIV) projects.

Sales of intervention and stimulation equipment improved in the mid-teens compared to the third quarter of 2023 in large part due to the delivery of 40k-horsepower of eFrac pumps along with two power pod systems that will allow our customer to operate the pumps in tandem with conventional pumps. We also delivered a few dual-fuel frac pumps as our pressure pumping customers continue to replace worn out assets with higher spec equipment that can operate more efficiently and have a lower total cost of ownership in an environment where frac intensity continues to increase the strain on equipment. Sales of drilling equipment improved north of twenty percent year-over year from greater progress on projects, including the 20,000-psi subsea equipment upgrade for an ultra-deepwater drillship we booked earlier this year, and the high-spec land rigs we are building in Saudi Arabia. Our Marine and Construction operation realized a sizable decline in revenue due to several wind turbine installation vessel (WTIV) projects nearing completion while more recently booked orders for cable lay and crane projects slowly ramp up.

Orders totaled $627 million, translating into a book-to-bill of 111 percent. Ending backlog was $4.5 billion, the highest level in over five years. Our drilling equipment business booked orders for two additional robotics systems from a repeat customer, and as Clay mentioned, booked orders to convert 6th generation drill ships into 7th generation technology rigs. The upgrades include larger load path equipment, associated structural enhancements, and the latest rig controls and monitoring technology, and are prime examples of how we expect our customers to take advantage of "white space" between projects in 2025.

Demand for wireline and coiled tubing equipment in the Eastern Hemisphere remains solid, while the market remains soft for intervention and stimulation equipment in North America. However, pressure pumping customers continue to kick-tires and express a desire to replace worn out assets. As Clay mentioned, our subsea flexible pipe operation had a high order intake during the third quarter, achieving a record high backlog. The unit has already received another large order that will ensure it delivers another quarter with a book to bill greater than one in the fourth quarter.

The strength in demand for offshore production equipment also drove very strong bookings for our Marine and Construction business. The operation booked fourteen cranes reflecting strong demand needed for offshore production-related activities. It also illustrates NOV's leadership in providing leading-edge active-heave compensation and all-electric crane technologies. While we did not book a wind turbine installation vessel order in the third quarter, nor do we expect one near-term due to delayed project FIDs and uncertainty regarding the size of turbines that will be used in future developments, we do expect additional opportunities to emerge in 2025 and see potential for meaningfully higher demand in 2026 and 2027 based on current expectations on the timing of offshore wind development FIDs. The operation continues to see solid demand for inter-array cable lay vessels and expects to book an order within the next one to two quarters.

Overall, order and quoting activity remain resilient for the segment, giving us confidence that we will realize a book to bill greater than one again in the fourth quarter. We expect the Energy Equipment segment to realize a slightly more muted than usual seasonal improvement in revenues in the fourth quarter, due to strong deliveries of stimulation equipment in the third quarter that will not repeat and lower progress on gas processing projects, resulting in revenue that will be flat-to-up slightly sequentially with EBITDA between $155 million and $165 million.

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