National Oilwell Varco, Inc.
First Quarter 2020 Earnings
Conference Call Remarks

BLAKE MCCARTHY
Vice President, Corporate Development & Investor Relations

Welcome everyone to National Oilwell Varco's first quarter 2020 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 first quarter of 2020, NOV reported revenues of $1.88 billion and a net loss of $2.05 billion. 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, Blake.

This has been a challenging time for all of us. As we always do, Jose and I will be discussing the results of operations through the first quarter of 2020, and our actions and expectations as we look to the future. However, first I want to say that our thoughts are with those most affected by COVID-19, particularly those on the front lines of this crisis.

Through the past several weeks, we have sought both to protect the health of our employees and to serve our customers who are facing daunting challenges and are relying on NOV to keep their operations running. This has been no easy task. As of today, 64 NOV facilities around the world remain shut down due to government mandates, which means approximately 3,300 of our valued employees globally are unable to come to work. This number varies daily with evolving government restrictions and was as high as 4,000 employees a few weeks ago. Additionally, thousands of other NOV employees have been working from home or are working reduced hours.

The rest of our facilities remain operational, although challenged—many are short-handed and some working flex shifts. We are committed to operating in as safe a manner as possible, and we've been able to do that thanks in large part to the multitude of social-distancing measures implemented by our management and the careful adherence to these measures by our employees. "Social distancing" at NOV includes: modified scheduling; staggered lunch breaks; mandatory periodic hand-washing; incremental facility cleanings; working from home where possible; telephone and video conferences instead of in-person meetings; and increased spacing on shop floors. NOV's facility managers have stepped up to do an amazing job leading their teams safely through this scary pandemic, and I'm grateful for their leadership.

NOV's employees are also working to help support their communities during the pandemic, including donating personal protective equipment and cleaning supplies to front-line emergency personnel and delivering portable generation systems from NOV's WellSite Services business to provide critical power and air-conditioning to COVID-19 quarantine, testing, and distribution centers. In fact, a NOV engineer helped design a low-cost mechanical ventilator and is now working with the Massachusetts Institute of Technology to validate the design and create a 3D model that will be used to print the ventilator using additive manufacturing.

During the first quarter of 2020, NOV's consolidated revenue declined 17% sequentially and EBITDA fell to $178MM, or 9.5% of sales. Continued deterioration of the North American market, international seasonality, and operational challenges posed by the COVID-19 crisis led to all three segments reporting sequential EBITDA declines.

Although difficult to measure precisely, we believe the COVID-19 disruptions through March 31, 2020 negatively impacted our reported Adjusted EBITDA by approximately $40MM. Delayed shipments, which may or may not be made in future quarters, and services that NOV could not perform due to travel restrictions, made up the bulk of this.

When we reported our Fourth Quarter 2019 results in early February, we noted that our fiberglass pipe plant in China was closed—an early example of what I am talking about. That plant re-opened in March, but it continued to experience supply chain disruptions, including difficulties in obtaining resins and other raw materials and accessing freight to ship its products. The facility worked short-handed throughout the quarter because certain employees that had travelled home for the holidays could not return to work, limiting the plant's absorption and efficiency. The good news is that things have slowly gotten back to normal for us within this particular facility; in fact, all of our Chinese facilities are largely back to normal.

The bad news is that many facilities in other countries have been pulled into a similar trajectory as we entered Q2, which has seen similar challenges—employees prohibited from coming to work, shut down suppliers, shortages of freight and freight containers, service technicians prohibited from entering customer's facilities or rigs, and at times even being required to quarantine for two weeks prior to entering these.

Our offshore drilling customers and those with remote international operations typically rely on skilled, international workforces that may travel in from several countries to work their 28-day hitch. These operations also count on specialized experts like NOV's service technicians to travel internationally to and from these facilities to perform specific tasks related to the maintenance, repair, and efficient operation of these rigs and facilities. The imposition of two-week quarantine requirements or outright travel bans has proven highly disruptive to the normal flow of these kinds of operations, to say the least.

Interestingly, the threat of disrupted supply chains has presented NOV with the opportunity to introduce new ways of doing business. For example, NOV's proprietary TrackerVision™ system permitted one of our customers to perform a factory acceptance test of his equipment remotely via satellite linkup and augmented reality, keeping his project on schedule despite the disruptions. TrackerVision also enables efficient remote troubleshooting and support of ongoing operating equipment.

Select NOV businesses also outperformed expectations as a result of the pandemic. Orders for spare parts for rig equipment actually increased 4% sequentially, increasing in February and March as concerns began to grow around supply chain disruptions from customers who did not want to be caught short of a critical spare part with no way to access it. Demand for certain other industrial products for pharmaceuticals and consumer products increased in response to the war effort to defeat the virus.

Nevertheless, overall, COVID-19 has affected NOV and our customers quite negatively, and, unfortunately, the destructive nature of this deadly virus doesn't end there. Its impact on our economy and industry will present additional, longer-term challenges.

The economic shutdown to slow the virus' spread has resulted in an unprecedented decline in global economic activity and crude oil demand. With a third of the global population quarantined in their homes instead of driving and flying, demand for crude oil has declined 20 to 30 million barrels per day, or 20% to 30% of the roughly 100MBOPD we consumed and produced before.

As production has continued at more-or-less the old rate, storage tanks around the world are filling rapidly and will soon be full. Oil prices have been crushed and prices in many regions are now below cash operating costs, meaning producers spend more to produce oil from existing wells than they make in revenue. This will lead to shut-ins by their owners to conserve cash. In other regions, pipelines and transportation companies have refused acceptance of crude, regardless of its lifting cost, because there is simply no place for it to go, which will lead to additional forced shut-ins. In the aggregate, we are on the precipice of forced well shut-ins totaling 15-20 MMBOPD—a scale never before seen in this industry.

Rig and well-servicing activity around the world, particularly in North America, is plummeting, as it is difficult to make an economically-rational argument that anyone should be drilling a new well against the current commodity backdrop. While international markets tend to react a bit more slowly due to the longer time-horizons of the NOCs and IOCs, they are not immune to the stark realities of this price collapse and will significantly curtail their spending later in the year. This will likely be the worst downturn any of us in the oil & gas industry will experience in our lifetimes. Many companies will not make it, but NOV will.

NOV is fortunate to have a strong balance sheet and $3.1B in liquidity. Nevertheless, to ensure that we survive now and prosper later, we must continue to take measures to maximize cash flow, avoid consuming cash, and protect, defend, and strengthen our enterprise through this downturn.

Critically, NOV offers a diverse portfolio of products and services that span all phases of oilfield activities. NOV possesses the largest installed base of products across several categories and, as an OEM, benefits from our customers' need for OEM support to run their assets. NOV is geographically diverse—we work in every major oilfield basin globally where we are legally permitted to do so. We are balanced between North America and international markets, land and offshore, and drilling and production. NOV is a technology and market leader, benefitting from first-mover, scale economies and intellectual property advantages in the basic inputs required for safe and efficient oil and gas operations. All of this stabilizes and strengthens our enterprise through periods of hardship.

Through the past few years, we've taken several tangible steps to improve our resiliency and performance to adapt to more challenging market conditions. In 2017, unsatisfied with our cash generation from working capital, we implemented measures to reduce the working capital intensity of our business, including directly tying management compensation to net working capital targets. In 2018, we saw our working capital intensity fall from 44% the prior year to 37% by year-end, and we added economic-value-add criteria to our long-term incentive compensation awards to improve focus on return on capital. In 2019, we strengthened our balance sheet by reducing our debt by $500MM and refinancing another $500MM, extending maturities out to 2029, and further reduced working capital to 31% of annualized revenue by year-end. We also analyzed our product portfolio to optimize capital allocation to the highest-return opportunities and exited business lines where we are no longer the best owner. Importantly, we avoided the temptation to pursue large, empire-building acquisitions that would have levered up our balance sheet and eroded our return on capital. In 2019, we also undertook another company-wide cost savings initiative that by year-end achieved $170 million of annualized savings and identified another $60MM, for a total of $230 million in anticipated annualized cost savings. These measures formed our foundation for 2020.

On a year-over-year basis for the first quarter, NOV posted an increase in EBITDA of $38MM, despite a reduction in revenues of $57MM, reflecting the hard work the team put in during 2019 to reduce our cost structure and improve the operating leverage of the company. But as we face the harsh realities of the oil and gas markets in early 2020, it is clear that we must do more.

As NOV continued to adapt its operations to very fluid COVID-19 pandemic countermeasures through the first quarter of 2020, the Company has remained focused on cash generation and continued to shrink inventories and improve collections. Our sales professionals have heightened their focus on improving collections in coordination with our credit and collections teams. Our supply chain managers are seeking and achieving discounts from our suppliers, including our landlords for the facilities that we will retain. We've reduced our expected capital expenditures for 2020 by about 25%.

Most importantly, we have accelerated our cost-cutting efforts. We now estimate that we will increase our previously-stated goal of $230MM in annualized savings to $625MM, and we expect to achieve this run-rate by year-end 2020. We have reduced our workforce, our facility footprint, and management compensation. Although we have trimmed and slowed spending on certain technologies, we continue to invest in new products and technologies that will shape our organization and extend our competitive leads as the market emerges from the current downturn.

By making the right moves now, NOV will exit this downturn stronger and leaner and with the capital necessary to take advantage of the strategic opportunities that will emerge. Capital in the oil and gas space gets more valuable every day, and NOV will be in the small club of oilfield service companies that have it. Our customers recognize this, as several have expressed their intention to put more of their business our way, knowing that we will survive to support them in the future.

Before I turn it over to Jose to discuss the financial results, I want to make one thing clear: this virus isn't going to keep the global economy down forever, and when the world wakes up from this, we're going to need oil and gas again and we will need it for decades to come. This massive, historic contraction in a critical industry will affect the future supply curve dramatically. When demand recovers, this industry will find itself short of capital, of people, of equipment—a huge opportunity for those of us in the oilfield services industry still left standing.

To all our employees listening around the world, we have a very difficult two years ahead of us. It is your focus, resiliency, and hard work that are going to get us through these tough times, and I have never been more thankful to have you on our team. Jose, Blake, and I appreciate all that you do. Stay safe and know that better days lie ahead.

With that, I'll turn it over to Jose.

JOSE BAYARDO
Senior Vice President and Chief Financial Officer

Thank you, Clay.

NOV's consolidated revenue decreased $398MM, or 17% sequentially, due to seasonal declines in certain international markets, the ongoing contraction in U.S. drilling activity and COVID-19 related disruptions. Despite the sharp contraction in revenue, our accelerated and expanded cost-out efforts limited sequential EBITDA decremental margins to 28%, resulting in a $110MM decrease in EBITDA to $178MM.

Year over year, revenue decreased $57MM and EBITDA increased $38MM, which when adjusted for pricing and mix reflects the approximately $63MM per quarter, or $250MM in annualized cost savings realized since the beginning of 2019.

After we recognized the magnitude of damage COVID-19 would inflict on global energy demand we immediately began implementing numerous additional cost cuts, which include the elimination of certain layers of management, and the acceleration of decisions to exit operations that did not meet our return thresholds. By decisively executing on these new initiatives we have now removed costs that exceed our prior target for year-end 2020. We continue to execute on many longer-lead time initiatives and therefore increased our total targeted cost savings, relative to the beginning of 2019, to $625MM, which will require us to achieve an incremental $375MM in annualized cost savings during the remaining three quarters of 2020.

Cash flow from operations was $39MM for the quarter and capital expenditures totaled $68MM, resulting in a small use of cash during Q1. While we expect to generate positive free cash flow the remainder of the year, the outlook remains opaque and we anticipate working capital metrics will deteriorate due to the pressure on our customers to preserve liquidity and an increasing proportion of business from international markets.

As Clay mentioned, we believe we have more than ample liquidity to navigate through this severe downturn. At March 31, our net debt totaled $887MM with $1.1 billion in cash and $2.0 billion in debt. We have $400MM in notes due December 2022, which we intend to pay off with cash well before that date. Our other maturities are in December 2029 and December 2042. Our primary, $2.0 billion, credit facility expires in October of 2024, remains unused, and is only subject to a 60% debt to capitalization covenant. As of March 31st, our calculated covenant debt to cap ratio was 29%.

During the quarter we took $2.3 billion in mostly non-cash impairments and other charges due to the deterioration in global market conditions and our ongoing restructuring efforts. We expect our depreciation and amortization expense to decrease to $80MM in Q2 as a result of these impairments,

Moving to results from operations.

Our Wellbore Technologies segment generated $691MM in revenue in the first quarter of 2020, a decrease of $73MM or 10% sequentially. Revenue from North America declined 2%, in line with the average decrease in drilling activity during the quarter, while revenue from the segment's international operations declined 18%, due to a combination of seasonality, large year-end sales of equipment that didn't recur in Q1, and impact from COVID-19-related disruptions. Incremental costs incurred from these disruptions, along with a less-favorable business mix and the anticipated respite from aggressive cost savings realized in the preceding two quarters, led to outsized decremental margins and a corresponding EBITDA decline of $40MM sequentially to $103MM.

Cost savings realized to date have resulted in significant improvement in profitability for our Wellbore Technologies Segment, as demonstrated by the 12% decremental EBITDA margins when comparing this quarter's result to Q1 of 2019. This equates to capturing more than $110MM of annualized cost savings during the past year. As COVID-19 and the ensuing collapse in commodity prices have thrown our customers' plans into disarray, we continue to move quickly and decisively in right-sizing our operations to successfully navigate through rapidly deteriorating market conditions.

Our ReedHycalog™ drill bit business posted an 8% sequential decline in revenue, which was primarily due to seasonal declines in the Eastern Hemisphere, falling activity in the U.S., and COVID-19-related disruptions. Revenue declined only 1% in North America, as stronger activity in Canada mostly offset declines in the U.S. In our international operations, COVID-19's disruptions amplified seasonal declines and began to affect this business unit's operations late in the quarter. Mandatory shutdowns of all our Eastern Hemisphere bit manufacturing facilities required that our Texas plant supply our global customer base. While we've been able to meet the delivery needs of our international customers, having to hot-shot deliveries using shipping service providers facing their own COVID-19-related challenges resulted in higher costs. Looking ahead, we expect seasonal recoveries in certain international markets and tenders in which ReedHycalog captured additional market share will only partially offset the sharp activity declines across most of the Western Hemisphere and Africa and the ongoing COVID-19-related disruptions in the Middle East and Asia.

Revenue in our Downhole Tools business unit fell 6% sequentially. A slight decrease in U.S. revenue was mostly offset by stronger Canadian activity, resulting in a 1% decline in revenue in North America, where our new drilling motor, agitator, and other drilling tool technologies have enabled us to gain market share through their proven ability to meaningfully reduce costs for our customers. Revenue from international markets declined 11% due to the regular seasonal fall-off and delayed deliveries in certain Eastern Hemisphere markets from COVID-19-related disruptions. Our Downhole management team is working to quickly reduce the business' footprint and cost structure while continuing to focus on execution and leveraging our technology leadership to gain market share. Despite their efforts, we expect to see a sharp fall in Downhole's revenue during the second quarter with high decrementals.

Our MD Totco business unit's core rig instrumentation business declined five percent sequentially. Market share gains drove a slight sequential improvement in revenue from North America, which was more than offset by seasonal declines in the Eastern Hemisphere and COVID-19-related slow-downs across most of Latin America.

Revenue from MD Totco's drilling automation services realized a sequential decline in revenue due to projects which completed in Q4 and early Q1; however, we expect several new automation projects to commence throughout the second quarter, which should drive sequential improvement in revenue associated with this growing product offering. Unfortunately, this growth will not be enough to offset the rapid contraction in global drilling activity, which will directly impact MD Totco's core operations and result in a harsh sequential fall-off in revenue at high decrementals.

Our Grant Prideco drillpipe business realized a sharp revenue decline due to a combination of seasonality and COVID-19-related challenges. These challenges included the closure of one of our manufacturing plants for 22 days and the holdup of shipments at the border between Mexico and Texas. Despite softer than anticipated revenue, we realized a surge in orders during the early part of Q1, resulting in the highest level of bookings for this business since the fourth quarter of 2014. The strong Q1 order flow, of which over half the bookings were for the U.S., supported the assertion we've made over past several quarters that drillpipe inventories were unsustainably low for the then-current levels of drilling activity. Unfortunately, with the recent collapse in the price of oil, we expect our recent orders and the drillpipe from stacked rigs to satisfy the bulk of the industry's need to replace worn-out pipe on the limited number of rigs that will continue to operate near-term. Accordingly, the business unit is taking decisive actions, including shutting manufacturing facilities in France and Dubai, to prepare for volumes that we anticipate will fall below the prior cyclical low.

Our Tuboscope business experienced a slight revenue decline in both coating and inspection operations due to falling rig activity and COVID-19-related disruptions. With the sharp decline in customer activity, we anticipate that Tuboscope's operations will realize a sharp fall-off in revenue once our existing backlog begins to thin out in mid-May.

Our Wellsite Services business unit saw revenue decline 5% sequentially, driven by declining U.S. activity, COVID-19-related logistics issues that slowed certain international and offshore projects, and the shutdown of our U.S. Fluids business, an action resulting from the in-depth returns analysis we've recently completed. As we've previously described, we developed tangible plans for near-term improvement, or slotted for divestiture or closure, businesses that do not meet our internal return thresholds. The recent, significant deterioration in global market conditions has meaningfully reduced our tolerance for fixing operations, and we have accelerated plans to exit certain product offerings and markets over the next several quarters.

Over the past several years, our Wellbore Technologies Segment has been relentlessly focused on improving operational and process efficiencies, developing technologies that materially improve our customers' economics, and fixing or exiting product lines and markets that do not meet our returns thresholds. These efforts, taken together with our customers' recent push to better align themselves with NOV because they know we will be there to meet their needs regardless of the market environment, will enhance the segment's ability to navigate through the challenges that lay ahead. Despite the segment's solid positioning, its businesses are highly correlated to global drilling activity levels and is dependent on the ability to move people and goods around the world. While the rapidly-declining activity levels and the increasing frequency of COVID-19-related disruptions do not allow for a great deal of confidence in the precision of our outlook, our best current estimate is that the segment will realize a sharp sequential revenue decline in the mid-twenty percent range with decremental margins in the upper 30% to lower 40% range, as increasing pricing pressures offset additional cost savings.

Our Completion and Production Solutions segment generated $675MM of revenue in the first quarter, a decrease of $124MM or 16% sequentially. Continued weakness in the North American completions market, seasonality, and logistical disruptions caused by the COVID-19 virus all contributed to the sequential decline.

EBITDA fell to $71MM or 10.5% of sales. Decremental margins were limited to 20% due to ongoing efforts to quickly reduce costs and right-size operations.

Net bookings for the segment fell 33% sequentially to $335MM, yielding a book-to-bill of 81% and backlog of $1.2B, down 9% from year-end 2019 levels. Last quarter, we expressed optimism regarding the order outlook for 2020, as our tendering activity and potential project pipeline was robust. Although our orders were in-line with expectations due to strong order inflow in January and February, we had anticipated a bit of a pullback in Q1 due to the timing of various projects; however, the recent collapse in commodity prices has considerably altered our outlook for the remainder of 2020. While certain projects may still be awarded, we think most new FIDs will push into 2021, which will delay orders.

Revenue in our Production and Flow Technologies business unit declined 9% sequentially. Sales from the unit's Production and Midstream product offerings experienced a double-digit percent decrease due to declining demand in North America and the postponement of deliveries resulting from the inability to complete final acceptance testing due to COVID-19 restrictions. The offshore-oriented components of this business unit collectively posted a sequential improvement by capitalizing on a healthy backlog built over the four preceding quarters. Much of the unit's backlog relates to LNG projects for which customers still express the intention to move forward. While new bookings were light in Q1, and while we anticipate significant deferrals of a meaningful number of new project FIDs that we previously expected to occur during the course of 2020, we are working closely with several customers who remain confident their projects will proceed in 2021 and are asking us to help them use the extra time to optimize designs through expanded FEED studies.

Our Subsea flexible pipe business realized a 22% sequential decline in revenue primarily due to a reduction in deliveries and slower progress on certain projects. Bookings for the quarter were light, but the unit's healthy backlog should partially insulate the operation near-term. While we still currently anticipate a slight uptick in Q2 revenue and orders, the outlook for late 2020 and for 2021 has become murky at best.

Our Fiberglass business unit posted a solid Q1 with only a slight decrease in revenue despite COVID-19 headwinds in China during February and March. Continued improvement in deliveries of large diameter composite pipe for water systems in the Middle East and U.S. was offset by mandatory facility closures in China. Orders for this business unit also remained solid with a 92% book-to-bill, including an additional $25MM in orders for marine scrubber equipment. Despite the business unit's solid backlog, we anticipate second quarter results will be hampered by the increasing frequency of operational disruptions, particularly in Malaysia, from COVID-19-related facility shutdowns and shelter-in-place directives, which are causing delays of product installations in numerous jurisdictions around the world. We also expect these delays and weakness in industrial markets to cause customers to take a "wait and see" approach toward new orders.

Our Intervention and Stimulation Equipment business realized a 21% sequential decline in revenue due to reduced demand for completions equipment, seasonality, and a few COVID-19-related logistical challenges that made customer final acceptance testing impossible. After several quarters in a row of strong coiled tubing equipment deliveries, revenue fell sharply for this product line due to these factors. However, our backlog of coiled tubing equipment for the international markets remains healthy, which could drive a sequential increase in revenue for this product line. Even though we might achieve better results from our Coiled Tubing Equipment product line, and the broader Intervention and Stimulation Equipment business unit posted a 100% book-to-bill from healthy demand for wireline equipment destined for international markets, our international customers will not be immune from the rapid deterioration of the global energy markets. As a result, we expect the business unit to post another double-digit percentage decrease in revenue, and management is moving as quickly as possible to rationalize and right-size their product offerings and manufacturing footprint.

With the uncertain market backdrop and an environment of an increasing frequency of COVID-19-related disruptions, for the second quarter of 2020, we anticipate revenue from our Completion & Production Solutions segment will decline 8-12%, with decremental EBITDA margins in the mid-to-upper 30-percent range.

Our Rig Technologies segment generated $557MM of revenue during the first quarter, a decrease of $202MM or 27% sequentially. EBITDA fell to $56MM, or 10.1% of sales, representing 28% decremental leverage, sequentially.

The segment realized a sharp sequential decline in capital equipment sales, as several previously anticipated equipment orders did not materialize. These deferred orders also led to a $65MM, or 31%, sequential decrease in bookings. Orders totaled $146MM, yielding a book-to-bill of 70%, and the segment ended the quarter with a backlog of $2.9B.

Looking ahead, the order outlook has materially weakened due to the fall in commodity prices and the ensuing decline in global rig activity. Customers are focused on conserving cash wherever possible, and the recent momentum in demand for rig upgrade packages that was realized over the last few years is likely to come to a standstill for the time being. We expect orders over the next few quarters to consist primarily of equipment and parts that are essential to keep active rigs turning, as contractors focus on minimizing capex and preserving liquidity.

Aftermarket revenue also experienced a double-digit percentage sequential decline. Bookings for spare parts were robust during the first two months of the quarter but fell sharply in March. As Clay mentioned, order intake through February was bolstered by customers working to mitigate potential logistical disruptions from COVID-19 by ensuring critical spares were readily available. Such disruptions did materialize and have increased in frequency as border restrictions, mandatory quarantines, and general shutdowns handicap the industry's ability to move people freely around the globe.

To put this disruption in perspective, today we have 39 service technicians that are working outside the borders of their home countries—normally we would expect to have around 400 technicians troubleshooting and fixing customer issues around the globe. Fortunately, we are able to leverage our TrackerVision augmented reality technology that Clay referenced to stream real-time audio and video from rigs to our subject matter experts anywhere in the world. Our professionals can then utilize augmented reality tools to provide specialized instructions along with visualizations to the rig contractor's personnel, who can then make necessary repairs.

In light of the weak market conditions, installed base has never been more important, and we expect our aftermarket business to be key in sustaining our Rig Technologies segment's activity. Despite the recurring revenue nature of our aftermarket business and the segment's 86% weighting to international markets, no market will be immune from this downturn, and we expect minimal demand for new capital equipment sales. As a result, we expect revenue from our Rig Technologies segment to be down 8-12% in the second quarter with decremental margins in the upper 30% range.

With that, we will now open the call up to questions.