National Oilwell Varco, Inc.
First Quarter 2015 Earnings
Conference Call Remarks

LOREN SINGLETARY, VP, Investor and Industry Relations

Thank you, Brandon, and welcome, everyone, to the National Oilwell Varco First Quarter 2015 Earnings Conference Call. With me today is Clay Williams, President, CEO and Chairman of National Oilwell Varco.

Before we begin this discussion of National Oilwell Varco's financial results for its first quarter ended March 31, 2015, 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, let me turn the call over to Clay.

CLAY WILLIAMS, President, Chairman, and Chief Executive Officer

Q1 RECAP

Thank you, Loren, and welcome, everyone, to National Oilwell Varco's first quarter 2015 earnings conference call. This morning we announced that the Company earned $0.76 per fully diluted share in its first quarter ended March 31, 2015. Excluding charges related to a voluntary retirement program, the write-down of Venezuela assets, and a discreet, non-recurring tax exposure, fully diluted earnings per share were $1.14, down 33% sequentially and down 12% YOY, excluding other items from all quarters.

Revenues were $4.8B in the first quarter of 2015, down 16% sequentially and down 1% YOY. Consolidated operating profit excluding other items was $692MM or 14.4% of sales in the first quarter. Decremental operating leverage was 37% sequentially.

First quarter EBITDA excluding charges was $837 million or 17.4 percent of sales. This compares to $1.2B in the prior quarter and $1.0B in the first quarter of last year, excluding other items from all periods.

EXTRORDINARY DECLINE IN ACTIVITY

Business in the first quarter of 2015 declined significantly in response to lower oil prices. We entered 2015 with oil prices half of what they were just a few short months ago.

All commodity prices signal producers to add or to diminish supply, and oil is no exception. So, in the first quarter, with global supplies outpacing global demand by one and a half million barrels per day, the oil price signal rolled through our industry like thunder, and thunderstruck participants responded vigorously. Spending is falling in almost all regions, driving the worldwide rig count down by a third since September. The rate of decline of active rigs, most acute across NAM, is breathtaking and unequalled in prior downturns.

NOV saw activities and orders slow in just about all areas of our business, and all of our units are experiencing pricing pressure. Most all of us in the oil and gas industry have been through downturns many times before and have honed our skills at rapidly adjusting spending through the cycles. So, following record results for NOV in the fourth quarter of 2014, our revenue declined 16% in Q1, and is expected to decline further for the next few quarters.

RECOVERY OUTLOOK

There's been much debate as to the shape and timing of the eventual oil price recovery. We don't know if we are in for a v-shaped, a u-shaped, or a w-shaped recovery, but we will all know soon, because the industry is conducting its first grand, global empirical test of price elasticity of the supply of oil.

What we do know is that NAM oil shales are emerging as the new swing source of oil. Since 2011, in a one-hundred-dollar-per-barrel price environment, NAM oil shales grew about 4.5MMBOPD, while the rest of the world posted a half-million-barrel per day production decline. We know individual shale wells decline exceedingly quickly, 8-10x the rate of conventional resources. We know that the sharp and rapid decline in the addition of fresh, new producing wells of all kinds will result in diminished global oil production over time. We also know that the excess productive capacity around the world, the oversupply, is, thankfully, just a few percent- far less than my first downturn in the 1980's. We also know that global economic activity, which drives demand, is not strong, and that lower oil prices will act as an economic stimulus to many economies. The facts as we know them point to a pretty good foundation for an eventual recovery.

All wells, all fields and all basins left wanting for investment inevitably decline. And economies need more energy to grow, so demand for oil will grow, driven by the engine of people desiring a better standard of living. So eventually supply and demand curves will cross and we will see oil prices signaling producers to get back to production growth. We just don't know when. And frankly we cannot wait for the eventual recovery.

COST REDUCTIONS

Therefore 2015 will be a year for restructuring at NOV. Given our short-term lack of visibility into the timing of the recovery, our approach will be to focus on costs, without sacrificing our long-term opportunities. We are managing our infrastructure to the market, reducing costs as utilization levels permit. This began in earnest in the first quarter, when we reduced SG&A 8%, coming off exceedingly high levels of utilization last year. It started with a voluntary early retirement for our long-serving employees, and is being followed by reductions in facilities and workforce as utilization dictates. We are working to insource more of our production needs, as utilization declines across our manufacturing plants, with a goal of preserving as much work as possible for our own plants and our own employees.

While reductions in contract labor, overtime, and shifts help mitigate decrementals, we will face under-absorption overall. We are also under pricing pressure and requests to cancel work, which we are vigorously opposing. We are seeking to structure discounts around volume-related rebates tied to payments and expanded product purchases, in effect picking our points, to try and win greater share, defend volumes, and improve absorption in our plants. We don't want our customers to get out of the habit of buying from us, to maximize our market position when the inevitable recovery comes.

OPERATIONAL EXCELLENCE

This downturn is an opportunity to become better.

We have long focused on operational excellence- continually evolving to utilize modern techniques to be the best manufacturer. This downturn will drive us to improve efficiency in a supply chain straining through the last decade to accommodate extraordinarily high demands from our customers.

Through the last decade NOV responded with an exceptional level of effectiveness, to a macro-cycle upgrade to the fleet of equipment the industry relies on; the next challenge for us is to retrench and transform, to pivot to new opportunities that are emerging, and to continue to lead the industry.

To that end we will continue to invest in numerous long-term growth opportunities, to execute our long-term strategic plan. Technology and equipment have transformed our industry to enable accessing new frontiers like deepwater and to access new sources of hydrocarbons from poor quality reservoir rocks like shales. NOV's DNA is to continue to press forward, to apply purposeful innovation, to continually expand the opportunity set of attractive investments for our customers.

This is a tough market, with tough challenges, but they are not new to us.

RIG ORDER OUTLOOK

Given the difficult oil price backdrop, first quarter orders were weak for our Rig Systems segment. We booked orders of $236MM, half of what we booked in the fourth quarter of 2014. We also booked a $99MM adjustment to our backlog related to FX, related to contracts denominated in foreign currencies. Since costs associated with these are also denominated in foreign currencies, there is no margin percentage impact, only a revenue impact. Shipments out of backlog totaled $2.25B, yielding an ending backlog of $10.4B, down 17% sequentially. The quarter included two jackup packages and a handful of land rigs, mostly targeting Middle East and Latin American markets.

Our outlook for orders for the second quarter is marginally better, but will remain slow as customers who need equipment are taking their time ordering. Areas of comparative strength are seen in platform rigs, fleet spares, components and software upgrades to improve tripping efficiency offshore (think iron roughnecks and handling tools); and BOP's, land rigs and well service rigs for Latin America and the Middle East. We continue to see growth in SPS projects, despite some being postponed, some rigs being stacked and or retired which had planned SPS's, and others seeing their scope reduced. We believe contractors seeking to differentiate the efficiency of their offshore rigs in a crowded marketplace will shape our near-term offshore rig orders, and a desire for tier one AC land rigs in international markets will characterize the next few quarters for land demand.

We also expect many more offshore rig retirements, in addition to the 30+ already announced, which will speed the inevitable fleet high-grading process, and bring offshore rig supply/demand into better balance. Many of our NAM land customers indicate they want to pursue upgrading their fleets to Tier 1 in advance of a potential 2016 recovery. In the short run, though, we expect continued soft orders as contractors struggle with lower dayrates, cannibalize components off of stacked rigs, in lieu of placing new orders with NOV.

Installation and commissioning activity around our existing offshore newbuild backlog remains very high. However, in several instances, we and the shipyards are working with the drilling contractors to delay rig deliveries. This helps the drilling contractors postpone stacking costs on uncontracted newbuild deliveries, and it will help us manage supply chain, freight and I&C costs more effectively, and level loading across our operations. We are also curtailing activity related to our Brazilian rigs, which I'll speak to more in just a moment. As a consequence, we are in effect shifting offshore revenue out of backlog to subsequent quarters. This will impact our near-term Rig Systems segment revenue forecast. Near-term total revenues for the Rig Systems segment will decline significantly in the second quarter, due to this effect, as well as expectation of lower land rig shipments in Q2. We expect second quarter revenues for this segment to be in the range of about $1.8B, down about 30% sequentially.

BRAZIL

Within our backlog at March 31 are orders for 22 drilling equipment packages for floating rigs for Brazil, totaling $3.3B. At the time of our last call the ultimate customer for these rigs, a financing vehicle 10% owned by Petrobras called Sete, was within a day or two of securing long term financing to get current on payments to the Brazilian shipyards building these rigs, which are NOV's contractual customers. Unfortunately the corruption scandal in Brazil was linked to Sete just prior to signing, which resulted in the banks backing away from the proposed financing package then on the table. Since then, our Brazilian shipyard customers have come under significant financial stress due to a lack of payments from Sete. Currently we understand that the banks and shareholders have granted Sete a 90 day window to seek a solution to its financing struggles, and we know that there is an intense level of activity around securing a permanent financing solution, involving several banks.

The origin of the rig building program in Brazil arises from public policy goals set forth by the government to foster a local oilfield services and vessel construction industry, to employ more Brazilians, and thus far Petrobras remains contractually committed to employing these locally built rigs once they are completed. There are specific requirements within the lease concessions for pre-salt blocks granted to Petrobras by the Brazilian government, which require local content ranging from 37-55%. According to the Brazilian press these local content requirements have created over 120,000 jobs in the country. We therefore continue to believe that there is considerable political pressure in Brazil to ultimately get these rigs built. We believe these rigs will eventually get built.

We are engaged with our shipyard customers in Brazil to adjust manufacturing schedules for the now delayed programs, and are slowing activity pending payment. Our contracts are still in place, and the down payments and progress billings we have received thus far exceed our investment, as per our contracts. One of the four shipyards we are working for has continued to pay us due to their Asian partner stepping in to finance operations there. During the first quarter we recognized $172MM in revenues associated with the program, about 7% of total segment revenues, but this will slow substantially for at least the next couple of quarters, contributing to our lower guidance for Rig Systems Q2 revenues. And apart from the derricks on these rigs, the components we have built in WIP are marketable in the event of ultimate default.

Overall we remain confident in the eventual monetization of our existing contractual Rig Systems backlog, both in Brazil and elsewhere, and are working with customers to modify schedules to accommodate the challenges they are facing, and to ease the stress on our supply chain.

RIG AFTERMARKET

Turning to our other segments, revenues from Rig Aftermarket fell 15% sequentially, more than we expected, as drilling contractors curtailed expenditures sharply, more than we anticipated. We typically see the first several weeks of the year slow seasonally as contractors set budgets, and then see spare parts orders and repair services pick up in March, as contractors begin work under their new annual budgets. However, this year, the March pickup never came and April has remained soft. We expect flattish sequential revenues in Q2, with rising SPS work and relatively strong demand in the Middle East, offset by mounting price pressure on repair services and drilling expendables, which will drive margins lower by a couple of hundred basis points.

Our strategy within Rig Aftermarket is unchanged- to capitalize on our leading and growing installed base of NOV equipment, to provide OEM support close to our customer's rigs.

WELLBORE TECHNOLOGIES

The Wellbore Technologies segment declined 23% sequentially, with all major business units posting declines and significant price pressure tied to drilling activity. Drill pipe sales declined the most, coming off an exceptional fourth quarter, and orders for drill pipe slowed to a trickle as most operators are cannibalizing pipe from idled rigs in lieu of buying new pipe. Looking in to the second quarter we expect double-digit revenue declines to continue, at high decremental margins, as discounting continues to outpace the speed of our cost reductions.

One bright spot is our IntelliServ wired drill pipe unit, and new closed loop drilling automation services through our Dynamic Drilling Solutions business unit that continue to attract operator interest through demonstrated reductions in drilling times. We are very excited about the potential of this technology to transform drilling efficiency, and materially improve E&P drilling economics in shales, in the deepwater, and in other basins around the globe.

C&PS

Completion & Production Solutions segment revenues declined 28% sequentially, at 28% decremental margins, as most products within this group saw sliding demand.

Our backlog for the Completion & Production Solutions segment declined 18% during the first quarter, as net new orders of $327MM were offset by revenues out of backlog of $563MM, and an FX adjustment of $81MM. Demand for composite pipe and process & flow products led to book-to-bill levels close to one for the first quarter, but we saw sharp declines in pressure pumping equipment demand. Orders for flexibles and FPSO products also fell short of revenues out of backlog. Ending backlog for the first quarter was $1.46B.

We were pleased that our FPSO turret business achieved record revenue levels in the first quarter, with great progress on existing projects. Interest by IOC's and NOC's in our FPSO strategy has risen considerably through the past few quarters, as operators are actively seeking to pioneer new ways of constructing these complex vessels to achieve on-time, on-budget deliveries and, ultimately, improved development economics. The industry appears to be latching on to our standardization and modular construction thesis, recognizing that we must do things differently to develop the billions of barrels that have been discovered in the deepwater. "Design one, build two" is a great idea. We are engaged on a dozen or so projects, but project awards are going slowly as most are conducting extended FEED studies to reengineer and recalibrate costs, and waiting for deflation in the supply chains. We continue to believe that NOV's extensive experience in managing complex equipment / vessel integration projects in shipyards positions us well to pioneer a better way in FPSO construction.

As we expected our pressure pumping product sales fell sharply during the first quarter, as customers delayed picking up their orders, and pressed hard for pricing concessions. We closed three facilities within the unit during the first quarter and continue to reduce costs within our supply chain. NAM was hit hardest, but the Middle East and other international markets are more stable, a recurring theme through many of our businesses.

Looking to the second quarter, we expect revenues to decline a few percentage points, but margins to fall further as the full force of discounting kicks in.

Obviously our second quarter outlook across all our segments is very guarded, and our situation is fluid. While we face a difficult market near term, we will be looking for revenues to stabilize across Rig Aftermarket, Wellbore Technologies, and Completion & Production Solutions in the second half of the year, and will manage Rig Systems to the backlog and the work available in that marketplace. The significant drilling cost deflation underway will benefit producers- a modest oil price rebound coupled with lower drilling costs may bring about some green shoots of activity in the second half, and we'll be watching closely, but, as I said, we plan to manage to whatever size the market is, across all our businesses, quarter-by-quarter.

CAPITAL ALLOCATION, BEING OPPORTUNISTIC

Prior downturns in our industry have provided great opportunity for those with capital and the foresight to look through near-term adversity. NOV is a remarkable franchise. We are also at the forefront of several transformative trends in the oil business. Closed loop drilling automation and FPSO supply chain management are two I mentioned earlier. Add to the list the key global supplier of pressure pumping and coiled tubing technologies that have enabled hydraulic fracture stimulation and the shale revolution. Gas-tight conductor connections. Thermal desorption technologies to clean up drill cuttings for safe disposal. RFID technologies to track the myriad of assets used by this industry. Flexible pipe systems for subsea developments. Water desalination, de-oiling and sand separation technologies. Reeled composite pipe for flowlines. Bits, drill pipe, and top drives used to set world records on extended reach wells exceeding 8 miles. Permanent magnet advancements for rotating equipment. Although the industry is still in the early innings of upgrading to AC electronic controlled rigs, we are at work designing the next generation of drilling rigs, and we'll be there with new and better technology for the inevitable upturn.

We continue to invest in technology and new products to grow organically, and we will continue to pursue interesting acquisitions in this environment, making sure that we are very disciplined about valuations in view of the current market challenges. We closed two transactions so far in 2015 and have several more negotiations underway.

We have also retired 10% of our shares outstanding through the past several months, given our stock price downturn, because we view it as an extraordinary opportunity to reduce our cost of capital in a historically low interest rate environment. Our debt increased $1.1B as a result, but with our $3.0B cash balance, net debt is still only $1.2B, about 6% of capitalization. I will note, too, that we are currently slowing our repurchase efforts in view of some potential acquisition candidates coming into sharper focus.

THANK YOU

I am proud of the leadership NOV employees provide in this endeavor. While the current market is very tough, we are well positioned, with strong financial and operating resources and an industry-leading installed base of complex equipment in need of continuing close OEM aftermarket support. I am grateful to all of the great NOV employees who are remaining focused on taking care of our customers through this difficult time.

CFO

We announced last week that our CFO, Jeremy Thigpen, has left us to become CEO at one of our important offshore drilling customers, Transocean Ltd. We appreciate Jeremy's leadership through 18 years of service here, in both finance and operations, and we wish him and Transocean the very best.

Our very talented Chief Accounting Officer, Scott Duff, has agreed to serve as Interim CFO as we conduct a search process for Jeremy's replacement, and our long-serving Vice President of Investor Relations, Loren Singletary, will pinch-hit on today's call to step us through the detailed financial results by segment.

So with that let me turn it over to Loren.

LOREN SINGLETARY, VP, Investor and Industry Relations

Thanks, Clay. I will discuss our segment operating results for the first quarter of 2015.

NOV RIG SYSTEMS

NOV Rig Systems generated revenues of $2.5B, down 1% sequentially but up 12% compared to the first quarter of 2014, as we continued to execute on our backlog: completing 14 offshore drilling equipment packages in the quarter. Operating profit for the segment was $488MM, yielding operating margins of 19.3%, down 70 basis points both sequentially and year-over-year. EBITDA was $511MM and or 20.3% of sales.

Q4 to Q1, offshore revenues, which represent 75% of the segment total, declined slightly and land revenues, which represent 25% of the segment total, remained flat. Segment margins fell slightly as bad debt accruals more than offset cost reduction efforts in the quarter.

Now, let's discuss capital equipment orders and the resulting backlog for NOV Rig Systems. In the first quarter, we received $236MM in new orders and recognized $2.25B of revenue out of backlog and an FX adjustment of $99MM, resulting in a book-to-bill of .11x and a quarter-ending backlog of $10.4B, down 17% sequentially. As Clay mentioned earlier, orders were half of what they were in Q4, and Q1 was one of the first quarters in recent history where land bookings outweighed offshore. Of the total $10.4B backlog, approximately 91% is offshore and 92% is destined for international markets.

Outlook

As we move into the second quarter of 2015, Clay noted that NOV Rig Systems revenues will decline as much as 30%. We expect revenue out of backlog to slow to the range of $1.4 to $1.5B from Q1's $2.25B as we ship fewer land rigs and see the impact of accommodating certain customer-requested delivery modifications for offshore newbuilds. We believe margins will decline into mid-teens percentage from 19.3% in the first quarter. Our goal in working with our customers on these scheduling modifications is to maximize the margins on the contracts we have in hand, and to maintain our core team capable of exceptional performance. This is the right thing to do for our franchise and for our shareholders. As we have noted many times before, NOV and our shipyard partners have been extremely busy scaling to large numbers of offshore floating rig newbuild projects through the past few years, most with build schedules of less than three years, which is a considerably faster pace than the four year+ delivery schedules that characterized orders from 2005-2008. This shift has resulted in higher costs from a supply chain and an NOV infrastructure straining to accommodate these more aggressive delivery schedules. Our record results of 2014 to meet these demanding deliveries drove up overtime and air freight and extended our supply chain past our optimal costs. Spreading the work out now, to later quarters, gives us time to manage our supply chain costs down, to achieve lower pricing from our vendors, to avoid excess overtime costs, and to tackle these projects with our core team in a more efficient, more measured way. And, as Clay noted, it helps our customers cope with their stacking costs on certain uncontracted rigs. Our revenue recognition out of backlog will likely be in the range of $1.4 to $1.5B for the next few quarters, and we expect total segment revenues for the second quarter to be in the range of $1.8B.

Our outlook for further offshore newbuild orders remains subdued for the foreseeable future. Nevertheless, we do expect to see some orders for offshore capital equipment as our customers seek efficiency-driven upgrades and spare parts to support their existing rig fleets and SPS activities. On land, we expect to see continued demand for tier-one AC-driven land rigs in international markets, particularly the Middle East and Latin America. Given our outlook, we are aggressively managing costs down on all fronts.

NOV RIG AFTERMARKET

NOV Rig Aftermarket generated revenues of $719MM in the first quarter of 2015, down 15% sequentially and down 4% compared to the first quarter of 2014. Revenues fell harder than anticipated as the precipitous decline in land rig activity and recent stacking of relatively younger rigs negatively impacted demand across the aftermarket business. Operating profit for the segment was $199MM, resulting in operating margins of 27.7%, down 110 basis points sequentially but up 220 basis points year-over-year. Decremental margins were 35% and EBITDA was $206MM, or 28.7% of sales.

While there is some seasonality in first quarter revenues for aftermarket, the sequential decline was driven primarily by depressed activity levels. Uncertainty in the marketplace led our customers to reduce spending, consume existing inventories, cannibalize existing idle rigs, and postpone repair and upgrade work while they watched and waited—like us—for signs of market normalization. Margins contracted on the reduced volumes and the discounts made in selected areas to maintain existing customer relationships.

Land represented an increased percentage of total segment revenues, up from 20% in the fourth quarter to ~25% in the first, driven by higher activity in Asia and the Middle East. Additionally, we have recently expanded our service and repair facilities to align more closely with our customers' operations, including two new locations in the US to support activity in the Permian and the Marcellus.

Outlook

As we move into the second quarter, we believe NOV Rig Aftermarket revenues are stable and will remain flattish with a slight increase in spare parts and rising SPS work, offset by rising discount pressure. Revenues from SPS activities, which occur on a five-year basis, have become much harder to time as some likely candidates for survey work are stacked or retired amidst challenging offshore market conditions, but, nevertheless, our SPS project count is set to grow in the second quarter.

Operating margins will remain under pressure and may decline slightly from Q1's 27.7% for several reasons. In the second quarter, 1) we will see the full effect of the discounts we made for key customers in the first quarter, mostly in repair services and competitive drilling expendables, and 2) we anticipate our customers choose lower-margin repair work over large refurbishment programs, preferring to do the minimum required for maintenance versus a large SPS. Our longer term outlook for this group remains very bright, owing to the significant upgrade in rig technology at work in newer, more modern fleets, with a higher mix of NOV equipment, and a much larger installed base, which carries a pressing need for greater OEM aftermarket support

NOV WELLBORE TECHNOLOGIES

For the first quarter of 2015, NOV Wellbore Technologies generated revenues of $1.2B, down 23% sequentially and 8% compared to the first quarter of 2014, reflecting drilling activity declines. Operating profit for the segment was $124MM, resulting in operating margins of 10.6%, down 750 basis points sequentially and 690 basis points from the first quarter of 2014. Sequential decrementals were 42.5%, which were slightly better than anticipated owing to swift cost reduction efforts. EBITDA for the segment was $229M, or 19.6% of revenue. NOV Wellbore Technologies carries a disproportionally large amount of the company's total $190MM D&A load due to intangible assets associated with prior acquisitions, manufacturing and service facility infrastructure and sizeable rental fleets in two of the segment's larger business units.

Drilling activity drives NOV Wellbore Technologies. Though drilling activity has not completely abated, average global rig count fell 25% from the fourth quarter average. NOV Wellbore Technologies may be a global business, but it has a significant exposure to North America, where rig count declines were the most severe. In the first quarter, active US rig count fell by nearly 800 rigs, declining 66 rigs/week on average. In the 2008/2009 financial crisis, the pace of rig count declines averaged 55 rigs/week at its steepest point. In Canada, an unseasonably early spring break-up meant rig count was down 40% below the previous year. Our largest businesses were some of the most affected by depressed activity levels, namely: downhole tools, bits, and motors; drill pipe; and solids control and waste management equipment. In the current environment, our customers are pressing hard for discounts, and we are committed to preserving our market-leading positions during the downturn.

Outlook

We are currently experiencing the fastest US land rig count decline in the past 20 years, and outlook remains tenuous. Looking into the second quarter of 2015, we believe that Wellbore Technologies revenues will be down mid-teens percentage from $1.2B on lower activity levels, and margins could decline to mid-single digits from 10.6% with mid-40% decrementals, similar to the first quarter sequential leverage. Fewer rigs drilling fewer wells imply less demand for Wellbore Technologies's tools and services. Where there is demand, competition will be high and pricing pressure will be fierce.

We are actively reducing costs across the segment to reflect reduced activity levels, but cost reductions lag revenue declines as we rightsize service and manufacturing infrastructure. Nevertheless, the cost reduction measures we are taking will better position us when the market does turn.

In today's lower commodity price environment, our customers remain focused on improving economic and drilling efficiencies. At NOV, we are developing new technologies that will help them achieve their goals, such as: Tectonic drill bits, which we are introducing at next week's OTC, new proprietary threads on drill pipe, and closed loop drilling automation systems. We continue to believe that new products are the lifeblood of any technology company, and we're proud to say that even in todays down market our new technologies are gaining traction. And we continue to innovate on next-generation technologies.

NOV COMPLETION AND PRODUCTION SOLUTIONS

NOV Completion & Production Solutions generated revenues of $948MM for the first quarter of 2015, down 28% sequentially and 5% compared to the first quarter of 2014. Operating profit for the segment was $108MM, resulting in operating margins of 11.4%, down 480 basis points sequentially and 290 basis points year-over-year. Sequential decrementals were 28%, and first quarter EBITDA for the segment was $163MM, or 17.2% of sales.

Q4 to Q1, demand declined almost equally for both shorter-cycle activity-driven revenues and revenues from backlog. Declines were driven primarily by a near-40% reduction in revenues for higher-margin onshore completion equipment, as strong fourth-quarter deliveries did not repeat in the first quarter and North American completion activity slowed. Segment revenues related to production – both on land and offshore – were also negatively impacted by reduced E&P spending.

Now, let's discuss our capital equipment orders and resulting backlog for NOV Completion & Production Solutions. In the first quarter, we received $327MM in new orders and recognized $563MM of revenue out of backlog, along with a $81MM FX adjustment, resulting in a book-to-bill of .58x and a quarter-ending backlog of $1.5B, down 18% sequentially. Orders were down 30% from the $469MM won in Q4, although orders for composite pipe and processing technologies showed relative strength in the quarter. Of the total $1.5B backlog, approximately 69% is offshore and 82% is international.

Outlook

As we move into the second quarter 2015, we believe revenues will tick down slightly from the $948MM recognized in the first quarter. We expect revenue out of backlog to be in the range of $500MM+. Given the current market uncertainty, we anticipate reduced demand and increased pricing pressures for equipment and technologies across the segment, which will reduce margins into the high-single digits, which implies low-20% decremental margins. As in our other segments, we are actively reducing costs in NOV Completion & Production Solutions to reflect lower activity levels.

Our order outlook for onshore completion equipment remains soft, particularly for the North American pressure pumping market as customers struggle with low utilization of existing equipment. We see customers cannibalizing spare parts and using existing stock wherever possible, but expect demand for repair and maintenance to return well in advance of orders for full frac spreads and coiled tubing units. By nature, FPSO-related bookings are uneven quarter-over-quarter. In today's lower commodity price environment, we expect orders to slow as customers recalibrate costs of offshore production projects, although FEED-related activities and interest in pre-salt work continues.

Now, let's discuss our financial statements.

Income Statement

Working down the Consolidated Statement of Income for the first quarter of 2015, you will see that gross margin declined 270bps sequentially and 200bps year-over-year to 24.4%. SG&A decreased 8%, or $42MM sequentially, as we make purposeful efforts to reduce costs across all business segments. As a % of revenue, SG&A was up 90bps sequentially and 40bps year-over-year to 10.1%. Other items were $122MM in the quarter due to charges related to our early retirement plan. Interest expense and interest income were flat sequentially at $26MM and $5MM, respectively. As compared to 2014, interest expense remained $26M and interest income increased $1MM from $4MM. Equity income in our Voest Alpine JV decreased $7MM sequentially to $9MM, as demand for casing and drill pipe, and therefore green tube, moderated. Compared to the first quarter of 2014, equity income slightly decreased by $1M. For the second quarter and full-year 2015, we believe that year-over-year equity income will continue to fall as demand for casing and drill pipe decreases. Other expense for the quarter was $56MM, which represents a $36MM delta sequentially primarily due to fluctuations in foreign currencies and write-offs. The effective tax rate for the first quarter was 37.6%, which was an additional 9.5% over the 28.1% rate that we posted in the fourth quarter of 2014. Excluding discrete items in the quarter, the Company's effective tax rate would have been 28.9%. We believe that a 30-31% effective tax rate for NOV continues to be a realistic estimate for the remainder of 2015.

If you now quickly turn to the first supplemental schedule, you will see that Eliminations were $541MM for the quarter, down slightly from $556MM in the fourth quarter of 2014. Unallocated expenses and eliminations were $227MM in the first quarter, down $2MM sequentially on the lower volume of intersegment revenues. And, finally, if you turn to the last supplemental schedule, you will see that depreciation and amortization expense in the quarter was $190MM, down $9MM from the fourth quarter 2014, and $1MM from the prior year. EBITDA for the first quarter, excluding other items, was $837MM, or 17.4% of sales.

Balance Sheet

Turning to the balance sheet, our March 31, 2015 balance sheet employed working capital, excluding cash and debt, of $5.8B, up $355MM or 6.6% sequentially. Several factors contributed to the increase, and we expect working capital to convert to cash and begin to fall later in the year. The largest impact stems from our net of costs-in-excess-of billings, billings-in-excess-of-costs, and customer prepayments, which together make up the level of customer financing of our working capital and are tied to prepayments and progress billings. As orders have declined, down payments have declined, and our progress on projects is outpacing our progress payments, which we saw in the previous downturn of 2009 and which will continue for the next few quarters. The working capital impact of this was $425MM in the first quarter. Offsetting items include our accounts receivable, which decreased $392MM or 9% sequentially, due to lower revenues. Inventory increased $97MM or 1.8% sequentially, mostly due to the transfer of certain short-lived downhole rental tools from PP&E into inventory. While inventory is declining across most businesses, others are still receiving components ordered into construction schedules, so we expect inventory to begin to decline later in the year as we adjust our supply chain. We also had some customers postponing receipt of orders from us due to market conditions, which should turn around this quarter. Also, leading to a sequential increase in working capital, accounts payable, accrued compensation and accrued liabilities decreased $419MM which they do every year in the first quarter.

For the quarter, the Company generated $114MM in cash flow from operations. Capital spending for the first quarter was $130MM, down 44% sequentially. In the quarter, we also made dividend payments of $185MM; and, we spent $1.33B to repurchase 24.5MM shares for a total of $2.1B in share repurchases under our $3B authorization through the first quarter. To fund the share repurchases in the quarter, we borrowed $1.1B using our commercial paper program which increased total debt to $4.2B and our net-debt-to-capitalization to a very manageable 6.4%. As a result, we ended the first quarter of 2015 with a cash balance of $3.0B, down $512MM sequentially. Of the $3.0B in cash, almost 7% of the balance was in the U.S. at March 31, 2015.

Consolidated

In summary, NOV saw spending and orders slow in all areas of the business as lower commodity price drove down E&P capital spending and drilling activity, and we have a challenging quarter ahead as we see the full impact of reduced activity levels and pricing pressures on our business.

As an industry, we are actively reducing costs throughout the supply chain as we seek new levels of efficiency. While it is early and uncertain, we are encouraged as rig count declines begin to slow, and we get closer to trough levels. Deflationary costs may entice improved levels of activity, and as our industry moves from a contraction mode to an expansion mode, NOV will start to see the full effect of the cost-reduction efforts we are making today.

Our continued investments in technology, capacity, and aftermarket support have made us the oilfield's preferred equipment and technology provider, and as we pivot to new opportunities we expect NOV to emerge a stronger, more resilient, more dependable partner for our customers.

With that we would like to open it up for questions.

Q&A

CLAY WILLIAMS, President, Chairman, and Chief Executive Officer

I want to thank all of you for joining us this morning, and I again want to thank our terrific employees for the hard work they put in every day. Although we have a challenging road ahead we are adapting quickly, and have lots of opportunities emerging, to launch new products, to acquire interesting businesses, and to position ourselves to maximize performance in the upturn.

We look forward to updating you all on our call in July.