Welcome everyone to National Oilwell Varco’s third quarter 2018 earnings conference call. With me today are Clay Williams, our Chairman, President, and CEO, and Jose Bayardo, our Senior Vice President and CFO.

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

Our comments also include non-GAAP measures. Reconciliations to the nearest corresponding GAAP measures are in our earnings release available on our website.

On a U.S. GAAP basis for the third quarter of 2018, NOV reported revenues of $2.15 billion and a net income of $1 million.

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.

Thank you, Loren.

National Oilwell Varco’s revenue in the third quarter of 2018 increased 2% and EBITDA increased $19MM to $245MM, or 11.4% of revenues. While the company posted consolidated sequential improvement, our third quarter performance fell short of our expectations. This was due to a combination of market headwinds which arose late in the quarter in North America; a sharper-than-anticipated falloff of product sales into offshore markets; and a couple of self-inflicted execution challenges, which we are focused on fixing.

Jose will go into these in more detail in a few minutes, but generally our Completion & Production Solutions segment saw completion services customers slow deliveries of pressure pumping units, spares, and coiled tubing strings in September in North America. Some of this revenue will push out into the fourth quarter as deferred units are delivered, but nevertheless we recognize that our North American customers for this equipment are facing lower day rates and pricing. They began slowing acceptance of equipment on order and cutting expenditures to manage their cash flows over the past few weeks. The CAPS segment’s offshore products also showed significantly lower sequential sales, which were
partly offset by much higher sales of fiberglass pipe and completion tools, at good incrementals, throughout the third quarter.

Wellbore Technologies achieved its expectations for revenue, but with a different mix, owing to some tool shipments that didn’t make it out by the end of the quarter, which was roughly offset by higher drill pipe and drilling fluids sales. Margins for the group were below expectations due to mix and inflationary forces around labor and steel. We have been less successful than we anticipated at passing on higher costs, as our customers are pushing back hard on price increases. Rig Technologies posted better-than-expected margins compared to guidance despite lower revenues, owing to a higher mix of aftermarket revenue associated with land rig demand and offshore rig reactivation activities, as well as better execution on offshore projects. These revenue gains were offset by lower-than-expected revenues on a lower-margin land rig, that was expected to ship in the third quarter, but did not, which shifted revenue to a later period.

Overall NOV’s EBITDA improved 8% sequentially. While EBITDA is going in the right direction, we are focused on delivering better results, as we continue to position the company for future growth, which we expect to unfold in 2019.

Before Jose goes into our detailed financial results for the third quarter, I’d like to spend a few minutes offering color into some of our major geographic markets, beginning with North America. 46% of NOV’s consolidated revenues came from North America during the third quarter, reflecting sequential growth of 7% or $66MM. U.S. revenues increased 6% sequentially, and Canada’s seasonal improvement produced 17% sequential growth. Within the North American directional drilling market, downhole tools saw increased sales, with share gains in both bits and downhole drilling motors. Our high-torque, high-flow-rate ERT motors continue to win share, and we are seeing more operators rent motors directly from us as opposed to relying on directional drilling service providers to supply them. The strong performance of our motors has led to a 30% increase in power section sales YTD, and our first-half price increases appear to be holding, at least for these products. On the other hand, MWD spares sales into North America slowed in the third quarter after strong performance through the first half.

Drill pipe saw double-digit sequential revenue growth, and 58% of our global drill pipe bookings were for U.S. markets in the third quarter, as we achieved our highest level of Delta premium connection sales to date at $44MM. Drill pipe demand still remains materially below its long-term averages, despite customer-owned inventory at the lowest levels we’ve seen since 2010, but customers are focused on Delta’s lower cost-of-ownership as the resume buying. U.S. solids control rental jobs increased 6% in the quarter, and we’ve been able to get selected price increases in North America for rig instrumentation services. Nevertheless, steel and labor costs are continuing to rise, eroding margin gains from price increases across many of our businesses. Tuboscope posted North America revenue gains on both coating and inspection services. Higher steel prices are driving demand for our tubing and sucker rod reclamation services, which provide lower-cost used pipe and sucker rods as compared to new.

As I mentioned, our well intervention equipment business within our Completion & Production Solutions segment saw generally lower sales for everything except coiled tubing units for North America—pumping unit deliveries fell from 40 units in the second quarter to only 24 this quarter, but processing equipment like mixers and blenders still see comparatively strong demand. We secured new orders for about 27,000 horsepower in the third quarter for replacement units. We are seeing high interest in our new high-capacity coiled tubing units, and our new 2.4-million-pound Sandbank proppant silo system, which we’re introducing this quarter. Coiled tubing string sales declined in the third quarter, at high decrementals, hurt by higher steel costs. Within workover rigs, our customers are interested in taller masts and 1,000-HP pumps to reach down the longer laterals characterizing North American unconventional wells.

We sold another super-spec land drilling rig to a repeat customer for North America, and we saw improvements in demand for spares for land contractors. 57% of our overall Rig Technologies capital orders in the third quarter were for land markets, partly in support of DC-to-AC land rig conversions, as well as to add high-torque top drives. We continue to promote super-spec rigs to North American drillers, complete with NOVOS™ operating systems. Higher drilling day rates in North America, around $25,000/day, mean they are very interested, but smaller operators tell us that securing financing remains very challenging. Overall, our drilling contractor customers for North America seem to be willing to increase their spend, while pressure pumperers are retrenching hard, as we enter the fourth quarter.
On the production side, North America revenue for fiberglass flowlines was very strong, particularly into West Texas. Higher steel prices are helping shift more demand to composite fiberglass flowlines, where NOV is the global leader. Our Completion Tools business sold its first new liner hanger product into the North American market in the third quarter. Midstream pipeline valves and closures are seeing brisk demand within our PFT group, offset by lower demand for artificial lift products, as many producers in Canada and elsewhere appear to be moving a little more to gas lift. The PFT group won a nice order for 93 reciprocating pump packages from a major U.S. pipeline operator during the quarter, and we are seeing high interest in separators and sand traps for the North American market for the group as well.

Turning to international markets, overall National Oilwell Varco’s revenues declined 2% sequentially, due mostly to lower offshore production equipment sales. Middle East activity has been steady. NOV’s consolidated revenues from the Middle East and North Africa totaled 14% of our third quarter mix and were roughly flat sequentially, with lower rig sales offset by higher Wellbore Technologies revenues. During the third quarter we saw strong demand for drilling motors, roller reamers, and fishing tool packages, including our Wide Catch overshot, grow to support new drilling programs across the Middle East/North Africa region. Bit sales declined following large sales into Algeria and Kuwait in the second quarter, but we did win a large 3-year tender in North Africa during the third quarter, and MWD sales improved there as well. 27% of our third quarter global drill pipe orders were for the MENA region.

However, we saw the sale of one string of wired drill pipe into the Middle East actually slip into the fourth quarter as the operator pushed its spud date for this pipe back a quarter. Pressure pumping aftermarket sales improved sequentially in the region, offset somewhat by lower coiled tubing sales, but demand generally for stimulation equipment across the region appears to be rising. Demand for fiberglass tubulars is also high, again, helped by higher steel costs shifting demand to composites. We are currently commissioning our new fiberglass tubular production plant in Saudi Arabia. Our Completion Tools business sold its first i-Frac system and burst port subs to a national oil company in the Middle East during the quarter, but planned shipments of a large pump skid order into Kuwait by PFT were delayed.

Nearby, in central Asia, we had successful test runs for our new rotary steerable offerings and MWD tools; unfortunately, though, these was completed after the end of the quarter, so, again, revenue was deferred into the fourth quarter. We expect fourth quarter sales of rotary steerables and MWD into Russia and China to be strong, while bit sales slow seasonally. Our Completion & Production Solutions segment benefitted from higher sequential shipments of fiberglass pipe into China and Russia, and our Completion Tools business in Russia remains strong, as operators are adopting our burst port subs and liner hangers, even though the oilfield market has been under pressure related to FX and budget constraints. Within Rig Technologies we are also pursuing large opportunities around the Caspian region.

Turning to Latin America, NOV’s revenues declined 2% sequentially, and made up 10% of our consolidated revenue mix. Gains in Mexico were offset by declines in Brazil. In Mexico we are benefitting from leasing rotary steerable tools, MWD equipment and drilling motors to an independent directional drilling services firm. In Argentina we saw significant pressure on Tuboscope and WellSite Services related to the devaluation of the peso, but we were nevertheless able to post sequential gains owing to fiberglass pipe shipments and rig sales into the region, and Completion Tools sold its first i-Frac order for three wells there during the third quarter. Despite the FX challenges in Argentina that Jose will address in a moment, the country remains a key focus area for us as operators there seek to replicate North American unconventional successes in the Vaca Muerta formation.

Finally, turning to the offshore, NOV saw revenues decline 1% sequentially, driving our offshore mix down to 33% of consolidated revenues, or about $720MM. As we noted last quarter we continue to see positive signs of offshore recovery. XL Systems, for instance, which makes conductor pipe connections, posted its fifth quarter in a row of book-to-bills north of 100%. Orders today for these products speak to offshore drilling plans for late 2019/early 2020, given lead times for specialized heavy-wall, large-diameter pipe from international mills. This business, like many other businesses, is having only mixed success on recouping higher steel costs through higher pricing, but the growing volumes of demand are a clear indicator of expected future growth in offshore drilling. Rig Technologies is seeing rising inquiries and spares bookings on rig reactivations for the offshore, including larger, more complex reactivations. Overall spares bookings
increased 7% for Rig, our fourth quarter in a row of rising bookings, and SPS work improved $7MM sequentially, as contractors are seeing rising levels of rig tenders, particularly for jackups. This fits with what we hear from operators, who tell us that they are moving toward more FIDs and higher levels of activity given higher, stable oil prices.

After a few years of low activity, the offshore market needs to get back to work. We are not seeing a lot of urgency here yet, but inquiries and tenders and studies appear to be accelerating. So in the meantime we continue to pursue field development projects in our subsea flexible pipe unit, in the face of tough competition and price pressure. Likewise, our Wellstream Processing group within PFT is bidding fluids processing skids into several offshore projects, and our turret mooring systems group, which won a nice order this quarter for the Jubilee field in West Africa, is doing the same. While we are still probably a couple of quarters away from significant activity level increase in the offshore, our customer’s actions point to the early stages of an offshore recovery in the works, underpinned by higher oil prices and growing global energy demand. All while we continue to invest in new drilling and production automation technologies, subsea water treatment technologies, and fluids processing technologies, to position ourselves for the coming recovery.

Although the near-term outlook is clouded by North American activity challenges, we think the coming year will see this reverse, and 2019 more likely to bring a broad-based, offshore and international recovery. It is clear that North American producers have embraced capital discipline and are returning more cash to their shareholders, while also facing short-term logistical constraints in certain unconventional basins. IOCs are continuing to reduce their per-barrel development costs offshore after cutting capex by half since 2014, and are also exhibiting restraint and returning more capital to their shareholders. And many NOCs are struggling with outdated rig fleets and methods, while facing inadequate cash flows to fund both drilling needs and government takes. Globally, oil companies in all regions have been cautious and measured in their drilling and development budgets through a difficult downturn, as they’ve navigated extraordinary challenging commodity price declines. Meanwhile, global crude inventory overhangs have now evaporated, and oil prices have doubled, nearly tripled. While I think the next couple of quarters will be challenging, we also see more signs of recovery and improving macro tailwinds bolstered by stronger price decks.

To our employees who are listening, I want to tell you how much we appreciate all that you’ve been doing to take care of our customers around the globe that depend on you. You are part of a great NOV team, and you make me, Jose, and Loren very, very proud. Thank you.

Now I’ll now turn it over to Jose.

JOSE BAYARDO
Senior Vice President and Chief Financial Officer

Thank you, Clay.

To recap the quarter, NOV’s EBITDA improved $19MM to $245MM, and operating profit increased by $21MM to $73MM. However, net income declined sequentially to $1MM due to higher Other Expense and a higher tax rate.

Other Expense increased $17MM, primarily due to FX losses from the continuing devaluation of the Argentine peso against the U.S. dollar. Argentina was designated as a highly inflationary economy, requiring us to change our peso currency functional ledgers to U.S. dollar functional during the third quarter, a change that has the unintended effect of amplifying the impact of movements between the Argentine peso and U.S. dollar on our income statement. Other Expense also reflects a small loss associated with the divestiture of a small, non-core, operation.

Pretax income totaled $33MM and we reported an income tax provision of $29MM. The outsized income tax expense is primarily the result of valuation allowances, which prevent us from fully recognizing tax credits, and other increases in non-deductible expenses. As we’ve previously mentioned, we will continue to have significant volatility in our effective tax rate until we begin reporting higher levels of pretax income.
One other item on the consolidated P&L worth pointing out is SG&A, which increased $17MM sequentially, due to higher employee benefit and workers compensation costs, and an increase in property tax assessments. We expect to report a slight sequential increase in SG&A in the fourth quarter.

Looking at our operating segment detail, lower intercompany sales led to an $11MM sequential decrease in revenue eliminations. This decrease, along with lower compensation costs and a reduction in third party service expense, resulted in an $18MM EBITDA improvement at the eliminations and corporate costs line.

Most of our business units sell products or services to at least one other business within NOV and the need for our intercompany sales are fairly obvious. For example, if a customer orders a new drilling rig and wants it equipped with a full string of drill pipe, our drill pipe business unit will sell the string to our rig operation that will send one invoice to the customer. Some intercompany sales may be less obvious, such as Rig Technologies providing certain engineering, procurement and manufacturing for large components associated with our Seabox™ subsea water treatment system that is sold by our Completion & Production Solutions segment. We regularly leverage the scale and diversity of our operations around the globe to manufacture, fabricate or assemble products in the plants where we can be the most efficient. Frequently, this results in sales across segment lines. The amount of intercompany revenue can fluctuate quite a bit from quarter to quarter, as it did in Q3, due to a decrease in transactions between Rig Technologies and CAPS. As all of you know, total third-party revenue and profit is reflected in our consolidated results.

For the fourth quarter we expect revenue eliminations will remain in-line with Q3, and corporate costs to increase approximately $5MM. Cash flow from operations was $190MM and capital expenditures totaled $71MM.

We did not complete any acquisitions during the third quarter but see the potential for several attractive transaction opportunities in the fourth quarter and the early part of 2019.

Turning to results of our operations.

**Wellbore Technologies**

Our Wellbore Technologies segment generated $847MM in revenue in the third quarter of 2018, an increase of $54MM or 7%, in-line with our expectations. Segment revenue continued to meaningfully outpace the rig-count in the U.S., but this growth was partially offset by a 12% decline in Latin America, mostly due to the devaluation of the Argentine peso, resulting in 2% growth in the Western Hemisphere. More signs of life are emerging in other international markets allowing the segment to post its second quarter in a row of double digit growth in the Eastern Hemisphere at 17% for Q3.

EBITDA increased $2MM sequentially to $135MM, or 15.9% of sales. While we noted on our last call that rising inflationary forces were impacting our business, we had lower than expected success in passing costs through to customers in North America. We also had mix changes, resulting in poor EBITDA flow through. Even though drilling activity has not been materially impacted by the takeaway constraints in WEST TEXAS, and the resulting slow-down in completions activity, it is difficult for an E&P drilling department to tell their executive management team that they are accepting price increases while their fellow completion department is boasting of price concessions from completion service providers.

Clay mentioned that our Downhole tools business unit realized solid growth from all major regions of the world, outside of Latin America, driving a 5% sequential increase overall. The business unit is also seeing more demand from the offshore markets and received orders for two 8045 TorqueMaster™ units used to make and break threaded connections on offshore rigs, the first such orders received since mid-2015.
The Downhole tools business also continues to advance new technologies. Our SelectShift™ downhole adjustable motor, which offers the ability to adjust the motor bend setting while downhole, has been undergoing field trials in the Permian and the Bakken. The tool completed 13 runs, drilled over 45,000 ft. and completed over 100 motor bend changes while downhole. Use of the tool is delivering substantial increases in rate of penetration and reductions in vibration, which should meaningfully improve economics for our customers.

The business unit also recently began field trials for its next-generation 2¼-in. coiled tubing Agitator™ tool. The new tool is designed to generate significantly higher-pressure pulses than earlier generations of the product, this is important because it can significantly increase the distance for which coiled tubing can effectively mill plugs in extended reach laterals.

Our ReedHycalog business saw a 5% sequential improvement in revenue during the third quarter. Share gains for fixed cutter bits and increased Canadian activity after the seasonal Q2 breakup, were partially offset by hurricane related slowdowns in the Gulf of Mexico. Unlike other businesses in this segment, revenue decreased slightly in the Eastern Hemisphere after realizing strong growth in the prior quarter. Improved sales into the UAE, Qatar and Turkey were offset by a sequential decrease in sales into other countries.

This group is achieving success with its directional drilling and downhole measurement tools. We recently commenced rotary steerable field trials in three countries. Two of the trials are ongoing but one successfully completed, resulting in the sale of two VectorEXAKT™ rotary steerable kits to the directional driller. Additionally, we received our first orders for our symmetric propagation resistivity LWD tool. With the successful commercialization of these products, we have filled two critical holes in our directional drilling tool portfolio and we are now positioned to capitalize on the compelling directional drilling tool market opportunity. We’re also advancing our closed-loop drilling automation systems, selectively executing on North American land projects and preparing for a major ramp-up in North Sea activity with several jobs expected to begin by year-end.

As Clay noted, our drill pipe business recorded its second straight double-digit percent sequential increase in revenue, but integration costs associated with our acquisition of Vallorec’s drill pipe business limited EBITDA flow through during Q3. Bookings decreased slightly from the second quarter but remained over $100MM for the third quarter in a row. We expect a traditional seasonal Q4 slowdown in drill pipe bookings as many customers have exhausted drill pipe capital budgets for 2018. Notwithstanding the anticipated one quarter pull-back in orders, we believe customers will expand budgets in 2019 as their inventory levels continue to decline.

Our Tuboscope business realized a 5% sequential revenue increase in coating services driven by increasing sales of drill pipe, partially offset by record Thru-Kote™ sleeve sales in Q2 that did not repeat. Tuboscope’s global inspection service revenues decreased slightly. Strong demand for tubular inspection services in North America was offset by decreasing revenue in Latin America, due to currency devaluations.

Lastly, our WellSite Services business posted a 9% sequential increase in revenue led by strong sales of drilling fluids in the U.S., our well cellar containment systems, and solids control services in North America and Europe. Improved sales were partially offset by lower revenues, on higher volumes, in Latin America as a result of currency devaluations against the U.S. dollar. Demand for solids control services for offshore markets remains challenged; however, we saw our backlog for our PRIME inspection services increase to twelve jobs, from two, during the third quarter. PRIME inspection services are detailed assessments of the condition and performance of solids-control, fluid-processing and waste management systems on offshore rigs. The service informs drilling contractors of what equipment needs to be repaired, replaced, or upgraded in order to ensure solids control and waste management packages operate reliably and efficiently. This is another clear indication that offshore drilling contractors are preparing to get back to work as Clay mentioned a few minutes ago.

For the fourth quarter we expect the strong momentum in most of our Wellbore Technologies businesses to more than offset any softness in fourth quarter activity levels resulting in a 2 to 3 percent sequential increase in revenue. We
anticipate a better mix of business and slightly improved success in passing on increasing inflationary costs to our customers resulting in incremental EBITDA margins between 30 and 35 percent during the fourth quarter.

Completion & Production Solutions

Our Completion & Production Solutions segment generated $735MM in revenue in the third quarter, a decrease of $3MM sequentially. Slowing demand for pressure pumping equipment and sharper than anticipated declines in our offshore-focused businesses more than offset strong growth in our Fiberglass and Completion Tools businesses. An improved mix of product sales led to a $5MM increase in EBITDA to $99MM, or 13.5% of sales. Shipments of $439MM exceeded our bookings of $372MM, providing us with an 85% book-to-bill. Total segment backlog at quarter end was $880MM.

Sales in our Intervention and Stimulation Equipment business fell sharply late in third quarter. As anticipated, revenue from sales for coiled tubing equipment increased sequentially, but not to the full extent we expected, as deliveries of several large coiled tubing spreads slipped into the fourth quarter. The modest growth in coiled tubing equipment sales was more than offset by significantly reduced demand for pressure pumping units and associated aftermarket sales. Wireline equipment deliveries also fell short of expectations, due to a combination of customer change orders on several wireline skids and manufacturing challenges. The decrease in revenue also resulted in high decremental margins as inflationary pressures on steel, aluminum, hydraulic components and labor compounded the business unit’s challenges.

Q3 Bookings declined 24% sequentially resulting in a 69% book-to-bill for the quarter. Demand for coiled tubing equipment remained strong and, as Clay mentioned, we are still seeing limited opportunities for additional pressure pump unit sales, primarily for replacements or backup units. Demand remains steady for other pressure pumping support equipment and wireline equipment bookings remain strong globally; however, U.S. customers are becoming noticeably more cautious as a result of the slowdown in completion activity in West Texas. So, while we expect to ship the Q3 unit deferrals in the fourth quarter, we may see additional pushback in the fourth quarter.

Our Fiber Glass Systems business unit posted a 23% sequential increase in revenue with strong incremental margins despite inflationary pressures on raw materials and wages. The business unit shipped major projects of jointed pipe into China, Russia and West Texas and delivered large orders of our Fiberspar™ spoolable composite pipe into Argentina, Oman and the U.S. As expected, bookings for the quarter returned above the $100MM threshold, an increase of 44% over an uncharacteristically low Q2. While global demand for our corrosion-proof composite pipe remains strong and our backlog is solid, we were recently notified by our supplier of a critical resin used to make our flexible pipe that it had experienced a major plant failure, which will persist into December. Consequently, there is a significant global shortage of this resin, which we expect will result in total business unit revenues falling back to the levels we saw in the second quarter. We anticipate high decremental margins associated with the revenue decline due to the additional absorption challenges we expect to face in our Fiberspar™ manufacturing plants.

Our Completion Tools business posted its second quarter in a row of double digit percentage growth. It is garnering market share gains in a number of markets around the world, a result of our innovative product offering and our ability to leverage NOV’s global infrastructure and customer relationships.

Our Process and Flow Technologies business unit saw revenues decline 6% sequentially. Strong demand for reciprocating pumps and chokes for midstream applications in North America, spherical separation equipment in the U.S. and pump packages in Africa and Southeast Asia were offset by weakness in Canada, delayed equipment deliveries to Nigeria and Russia, and challenging market conditions for the business unit’s offshore-oriented Wellstream Processing operation.

Our Subsea Production Systems business unit saw a significant sequential decrease in revenue, which was greater than expected, due to a customer-delayed delivery and new project orders coming in much later in the quarter than planned. Bookings also remained soft with the business unit posting an 81% book-to-bill during the quarter.
Notwithstanding the ongoing challenges, there are encouraging data points for the offshore businesses in our Completion & Production Solutions segment. Our Floating Production Systems business unit realized a slight sequential increase in revenue during the third quarter and, more importantly, had a book-to-bill in excess of 200%. Our XL Systems conductor pipe connector unit achieved the highest backlog ever recorded for this business. Lastly, tendering activity in each of our offshore businesses within this segment is materially higher today than it was at this time last year.

While we do yet see much urgency from our offshore customer base, as Clay mentioned, we believe market dynamics are improving and our operations are well positioned for the inevitable recovery in the offshore.

Looking at the fourth quarter, we expect to see more demand for midstream production equipment, modest improvements in our offshore operations, a pick-up in Q3 deferred deliveries of coiled tubing and wireline equipment, and higher conductor pipe sales, which should roughly offset the impacts from the slow-down of completion related activity in West Texas and raw material supply challenges in our fiberglass operations.

**Rig Technologies**

Our Rig Technologies segment generated $637MM in revenue, a decrease of $14MM or 2%. Revenue out of backlog decreased $20MM to $256MM and EBITDA decreased $6MM to $78MM, or 12.2% of sales. Margins came in better than guidance as a result of revenue mix.

After achieving three quarters in a row of improved bookings, new orders decreased to $151MM, a sequential decline of 32% excluding the $1.8B in Saudi rig orders received in the second quarter. We exited the quarter with $3.4B in backlog for the segment. While bookings for capital equipment were softer in Q3, we see growing opportunities to support our North American land customers by providing upgrades to existing rigs and through occasional sales of super-spec rigs into a market where utilization of these rigs remains near 100%. In the international markets operators continue to advance tenders for land rigs in the Middle East, Asia and North Africa.

We are realizing rapidly growing demand for our NOVOSTM operating system. To date, we have sold 103 NOVOS packages to a customer base that includes 11 land and 5 offshore drilling contractors. We also recently commissioned our first NOVOS installation on an offshore floater for one of these contractors, and it is performing well. We, along with certain customers, have written over 30 applications for the control system and are seeing more pull through sales from E&P operators who recognize the value of this unique process automation system.

While offshore contracting is slowly improving, the market remains oversupplied and we anticipate few near-term new-builds, apart from potential opportunities for niche applications, but we see growing opportunities to help our customers re-activate and upgrade rig fleets. As Clay mentioned, our offshore customers are seeing a significant amount of tendering activity and are working to make sure rigs are well positioned to go back to work. This work is driving demand for such items as our crown motion compensation systems, for which we booked an additional three orders in the third quarter.

For the fourth quarter, we expect continued progress on offshore projects and land rig upgrades for the U.S. market, land rigs which slipped from Q3 to ship, and a seasonal pickup in service and repair work in our aftermarket operations to drive a revenue increase of 4 to 6 percent with incremental EBITDA margins in the mid-teens.

While there will be near-term difficulties associated with year-end capital budget exhaustion and takeaway constraints in certain U.S. basins, we currently expect to realize a slight sequential improvement in our fourth quarter consolidated operating results. And, as Clay mentioned, we believe significantly improved macro fundamentals are setting the stage for a broader recovery in 2019.

We’ll now open the call to questions.