

National Oilwell Varco, Inc.

Third Quarter 2020 Earnings

Conference Call Remarks

BLAKE MCCARTHY

Vice President, Corporate Development & Investor Relations

Welcome everyone to National Oilwell Varco's third 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 third quarter of 2020, NOV reported revenues of \$1.38 billion and a net loss of \$55 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.

CLAY WILLIAMS

Chairman, President, and Chief Executive Officer

Thank you, Blake

U.S. drilling activity during the third quarter of 2020 was the lowest measured since records started in the early 1940s, making this the worst quarter in the past 300 or so. The COVID-19 pandemic response kept a lid on air travel and business activity, which depressed global oil demand, and in turn diminished demand for NOV's products and services. NOV's consolidated revenue declined 7% sequentially, and EBITDA fell to \$71MM, or 5.1% of sales during the quarter ended September 30, 2020.



Although a vaccine and normalizing oil demand seem more likely than not in 2021, our customers, like us, are cutting costs and exercising extreme austerity in the near term, which led to modest orders during the third quarter. The company realized only 38% book-to-bill on a consolidated basis. Fortunately though, we are seeing rising inquiries in the Completion & Production Solutions segment that we expect to lead to increased orders, and the Rig Technology segment already surpassed its total Q3 order level during the first few weeks of October. New products are helping drive demand in both segments.

For the past few quarters, we've sought to be clear and transparent in our communications with you on what we are doing to navigate this historic downturn, namely: 1.) aggressively and proactively downsizing and reducing costs; 2.) reducing working capital and capex to maximize cash flow; 3.) maximizing liquidity; and 4.) continuing to invest in R&D and new products to position the company for the inevitable upturn. I'm pleased to report that we continue to exceed our targets on cost reductions. We have reduced our global facility footprint, workforce, and support services, making our operations leaner and more efficient. We also continue to prune businesses that are not yielding adequate returns. We've shared a lot of data around these cost and cash flow efforts with you on past calls.

On the other hand, we've talked far less about our new product investments, which we've been careful to sustain because they will form the foundation of NOV's growth going forward.

At our core, what NOV does is build franchises that possess sustainable competitive advantage. Market leadership frequently lends scale advantages, a status NOV enjoys. However, market leadership also carries the responsibility of technology leadership. Our customers expect us to push the envelope on technological innovation, to improve efficiencies and cash flows for their operations. Knowing this, we have sustained our investment in new technology through the downturn, and I'd like to tell you about a few new technologies we are bringing to market.

Hydraulic fracture stimulation is a critical part of unconventional shale production. The shale revolution is built on fracking. The industry has been experimenting with the use of lease gas to power fleets with electricity, to reduce gas flaring, carbon emissions, fleet maintenance costs, and diesel expense (which can run well over \$1MM per month). Generating power on-site to run electric motors that, in turn, drive pumps, instead of conventional direct-drive diesel engines and transmissions, can reduce mechanical complexity and maintenance costs. We've already seen this work in the drilling space, driving the evolution of drilling rigs towards AC electrification between 2005 and 2015. Throughout that period, the largest, best-capitalized drilling contractors, at the behest of their customers, the E&P companies, embraced this AC electrification improvement and invested in new rigs. Then something really interesting happened. They looked around when it was done and found their space reasonably well-consolidated. That's because only a handful of smart drillers could afford the price of admission to this new AC rig world, but those that made the leap

clearly benefitted. If you don't believe me, take a close look at Tier 1 land rig dayrates between 2015 and 2019. Despite the downturn, dayrates remained very healthy— strong evidence of an improved industry structure.

I cite this example because much has been said of the need to roll up the pressure pumping sector across North American shale through aggressive M&A to drive consolidation. In my view, there is another, capital efficient way to drive consolidation, and that is through technology disruption.

We hear from E&P's that they increasingly prefer electric frac to conventional fracturing for environmental, safety and cost reasons. Two years ago, our Completion & Production Solutions segment began work on our Ideal e-Frac suite to capitalize on this market opportunity, and we brought it to market a few weeks ago. It offers reduced emissions and fuel costs for the operator, and lowers the total cost of ownership relative to conventional fleets by up to 40% for the pressure pumper. It does this through two means. First, it is designed to have the fewest electrical connections in the industry, a feature that significantly reduces the need for highly-skilled electrical labor at the wellsite, reduces overall wellsite congestion and safety risk, and reduces cable expenditures. Second, the Ideal system is designed with significantly higher power density than its market competition. It is the only offering today with a 5000-horsepower pump designed to fit hand-in-glove with the best-in-class turbine offerings, resulting in a smaller footprint and lower engine and transmission expenditures.

Additionally, it is transported in 40% fewer truckloads and rigs up faster, particularly with our FracMaxx Big Bore Quicklatch system and FlexConnect Frac Hose. It requires a smaller footprint and fewer people on site to operate. Engineered for 13.8KV, it can accept turbine or gas gen-set power (both utilizing lease gas and minimizing flaring), or work off line power— it's truly power-agnostic. Most important though is the reduction in total cost of ownership by up to 40%, with further improvements expected from its integrated condition-based monitoring, which will work with the predictive analytics we are actively developing.

We know pressure pumpers have limited access to capital, but we also know shale producers are anxious to become more ESG-friendly. A shale producer willing to sign a term contract with a pressure pumper, perhaps as short as only two years, could drive our first purchase order for a fleet. In the meantime we've executed an agreement with a major U.S. pressure pumping service provider to test one of our new Ideal e-Frac pumpers in the field, and we expect to be testing our blender and support equipment soon as well. Additionally, we are hearing of some clever entrepreneurs exploring opportunities in the power generation side of the emerging e-Frac opportunity. Stay tuned.

Within our Rig Technologies segment, we've discussed our growing installed base of NOVOS operating systems across both land and offshore rigs, with 72 rigs running it today. Operators love it for the drilling optimization algorithms it provides, but we believe they will begin to love it even more soon. That's because we expect to commercially introduce

a new robotic pipe handling system for land rigs in 2021, one that operates seamlessly within the NOVOS digital environment. We believe the growing NOVOS installed base is the digital foundation for the industry's leap forward to automate drilling. In North America it used to be that a "Tier 1" rig required greater setback, high torque top drives, high pressure mud systems and walking capability. Now the new definition of "Tier 1" rigs also includes digital rig enhancements like NOVOS, Softspeed, and Kaizen, which are driving further efficiency and safety improvements through artificial intelligence and machine learning.

Fully automated slips-to-slips drilling has been a vision shared by many for decades. The possibility of removing humans from the well center greatly reduces safety risks and frees up the rig crew to focus on higher value-add activities. Drilling automation can raise the performance standards of experienced drilling crews by permitting them to focus on the big picture rather than on repetitive manual tasks. But here's the kicker: our new robotic pipe handling system is very affordable. It's easily retrofittable to existing land rigs. We understand that capital is limited for drilling contractors these days, but we also know that E&P operators would strongly prefer a rig that can push-button trip. Enabling the retrofit of a contractor's existing fleet at a very affordable price is a fantastic opportunity that we think will attract a lot of attention among oil companies.

Rig Technologies is also seeing growing interest in its new Powerblade power management system, which cuts diesel consumption and CO2 emissions on offshore floaters. Even though we've just introduced this new technology, our first customer in the North Sea is already looking at upgrading additional rigs to improve their competitiveness on ESG metrics in a crowded marketplace.

Let me turn now to our Wellbore Technologies segment and speak to some real-world challenges our customers face as we all hurtle toward the digital utopia you have all been hearing so much about.

Wells are drilled and completed— and sometimes re-completed and then re-completed again, producing data for decades from many vendors and many sources. The data they generate is subject to limited or no data quality checks. It's produced in multiple protocols with no standards around format. Consequently, oil and gas producers spend a significant amount of time and money cleaning, aggregating, formatting, translating and contextualizing data before any actual analysis happens. Furthermore, solutions reliant on cloud connections introduce lag problems, and issues arise when remote communications are broken, and, guess what, the oilfield operates in the remotest of locations that often lack basic connectivity. Needless to say, these real-world complexities get in the way of easy, real-time decision making. Individual E&P operators who roll up their sleeves and try to develop their own solutions to these problems frequently lack sufficient expertise and scale because deployment is limited to their own operations, and the cost of maintenance and upkeep is hard to justify for all but the largest operators. Plus, you have this whole technological obsolescence thing.

Enter Wellbore's new Max suite of edge and cloud technology, which we've been quietly developing for the past three years. We are going to the field next month for testing and expect it to be commercial in 2021. Our value proposition is simple: enable our customers to use their own data and run their own businesses with a uniform version of the truth, both at the office and in the field. NOV Max, NOV's new digital ecosystem, enables them to capture, aggregate, visualize, and analyze their data in real-time, at high speed on the edge, in their cloud or our cloud, in their office, and at the wellsite. One version of the truth, both at the office and the wellsite, in real-time. Like a Bloomberg screen our vision is to collect disparate data streams and put them on a single screen- synched up and formatted and contextualized for easy use by the owner of the data.

We are taking Max to market through Wellbore Technologies' 80 year-old MD Totco division, the leading provider of rig instrumentation services with global 24/7 support and boots on the ground throughout the oilfield. MD Totco makes sensors, both surface and downhole, which helps avoid garbage-in, garbage-out problems in data generation. NOV Max gathers and translates that data, and can run customer-owned, NOV or 3rd-party analytics or applications at the wellsite or remotely. While others require a "middleman," NOV provides all services and solutions "sensor to screen," meaning we don't just connect to the data, we build the equipment that provides the data. With the largest installed base of equipment in the industry, NOV products are most likely already at the wellsite and in place to gather data. As the market leader in control systems, we speak machine language, and can affect automation on the wellsite, a primary means by which customers can drive economic benefit from their data.

Max is built on a new technology stack that lives at the edge, out in the field where work is done. This edge technology has to be robust, secure, connected and manageable at an incredible scale. Available technologies just didn't fit the bill, so we developed MAX Edge to include military-grade encryption and TLS secure communication, keeping data and analytics safe. The solution handles 31 inbound industrial protocols, including support for 12kHz wave form vibration data on critical channels, and 15 industry-standard outbound protocols including AWS IOT, Azure IOT Hub, and Google IOT Core.

I'm proud of the NOV engineers, programmers, and scientists who are introducing new, better, safer, and more efficient ways of developing and producing oil and gas during the worst quarter for the industry in more than 75 years. I'm also proud that NOV continues to pursue opportunities in renewable energy, building on our strong position in the offshore wind and geothermal energy space. I've said many times before that we view the transition to a carbon-free future as one of the greatest economic opportunities in human history, and I think capitalism will produce the solutions required. However, I want to stress two important points that guide our decisions with respect to resource allocation.

The first is that we will remain true to our oil and gas customers. We will continue to bring them new and better technologies and support their operations, despite the popular narrative that the world will soon abandon oil. We

respectfully disagree and recognize that oil continues to lift people out of poverty and improve all our lives. There are currently more than 1 billion motor vehicles; 39,000 aircraft and billions of dollars of construction, mining and agricultural equipment around the world, representing tens of trillions in capital investment. It all becomes worthless overnight without hydrocarbons. While renewable sources of energy will certainly grow in the mix of the energy pie, at the end of the day, oil and natural gas continue to be the fuels that power the world.

The second point I want to make is that all of our investments in all products and technologies, both traditional oil and gas as well as renewables, are constrained by our responsibility to be good capital stewards. We only aim at markets where we believe we can carve out a clear, sustainable competitive advantage. In the long run, fundamentals always prevail.

When this crazy year passes and the economic shutdown fades, the world is going to need a lot more oil and gas, and the world will need this industry to get back to work. NOV is going to be there, leaner and meaner than we've ever been, to make sure it has what it needs to do so efficiently and safely. The dedicated, creative, service-minded NOV employees, for whom we are so very grateful, will prove once again why they are the best in the world.

With that, I will turn it over to Jose.

JOSE BAYARDO
Senior Vice President and Chief Financial Officer

Thank you, Clay.

NOV's consolidated revenue decreased \$112MM, or 7% sequentially, to \$1.38 billion as our businesses felt the full effect of the sharp reductions in North American drilling activity that occurred during Q2 and the continued activity declines in most international markets. EBITDA decreased only \$13MM as our relentless focus on reducing structural costs and improving operational efficiencies across the organization limited decremental margins to only 12%. During the quarter we exceeded our \$700MM annualized cost savings target. While we've surpassed our goal, we have a number of cost reduction initiatives that will carry into the next few quarters and we will continue to work to identify additional ways in which we can improve profitability and return on capital for NOV.

Our efforts to improve our working capital efficiencies, where we are making great strides in a difficult environment, are part of our ongoing efforts to improve return on capital. Our success in reducing working capital, along with our capital-light business model, is allowing us to deliver best-in-class cash flow generation. During the third quarter, we delivered another \$323MM in cash flow from operations and \$274MM in free cash flow, bringing our year-to-date cash flow from

operations and free cash flow totals to \$740MM and \$567MM, respectively. We expect to generate an additional \$100-200MM in free cash flow during the fourth quarter.

Our resilient cash flows have enabled us to continue to strengthen our balance sheet while making meaningful investments in new product development and growth initiatives that will drive future growth for NOV, including the offerings that Clay just described.

During the third quarter we successfully completed a tender for \$217MM of our senior notes due December 2022, leaving us with only \$183MM remaining outstanding on these notes, which we expect to pay off with our cash-on-hand prior to the maturity date. Our next maturity does not occur until December of 2029.

At September 30, our net debt totaled \$339MM with \$1.485 billion in cash and \$1.824 billion in debt.

Moving to results from operations and outlook.

Our Wellbore Technologies segment generated \$361MM of revenue during the third quarter, a decrease of \$81MM, or 18% sequentially. The decline in revenue was in-line with the sequential decrease in global drilling activity and reflected a full quarter impact of the sharp reductions in North American drilling activity and continued declines in international markets. Revenue declined 28% in North America and 12% in international markets, both in-line with drilling activity levels. Continued progress on cost savings initiatives partially offset the impact of lower volumes and pricing pressures, limiting decremental margins to 26%.

Our ReedHycalog™ drill bit business realized a 10% sequential decrease in revenue but achieved a modest improvement in EBITDA due to cost savings and improved product mix. U.S. revenues declined 26%, meaningfully outperforming the sequential decline in U.S. drilling activity levels, a result of industry-leading technology that is allowing the business to capture market share and help customers set drilling records. COVID-19 disruptions continued to hamper activity and cause project delays in international markets, particularly in the Middle East and Africa. More recently we're seeing countries in Latin America and Africa emerge from lockdowns, activity levels in the Middle East stabilize, and North American rig counts increase off the trough established during Q2, giving us some optimism that we will realize modestly improved results for the business in the fourth quarter.

Revenues in our Downhole business unit fell sharply during Q3 as customers halted orders for drilling tools while they work down existing inventories to levels better aligned with projected drilling activity. As activity begins to stabilize in

international markets and improve in North America, we expect the de-stocking of these consumable products will be completed in relatively short order, resulting in a stabilization of this business unit's results in the fourth quarter.

Our Grant Prideco drillpipe business also experienced a sharp decrease in revenues, a result of two straight quarters of limited order intake. A higher mix of larger diameter pipe deliveries and cost savings initiatives helped to limit decremental EBITDA margins. It will take time to alleviate the overhang of drillpipe from recently stacked rigs around the globe; however, we believe the tightening supply of drillpipe that we saw as recently as January of this year will shorten the timeframe typically required to re-establish market equilibrium. While we are likely still a few quarters away from a strong inflection in demand, we are beginning to see pandemic-delayed international projects resume, additional opportunities for drill pipe risers emerge, and drillpipe brokers and rental companies in the U.S. reengage, resulting in orders booked so far in Q4 already equaling half our Q3 total.

Our Tuboscope business experienced a revenue decline of approximately 20%. The unit's U.S. and Eastern Hemisphere operations experienced particularly sharp declines in revenue as the fall off in oilfield activity and COVID-19-related shutdowns resulted in customers having more than ample quantities of finished tubulars in their possession to carry them through the quarter. With slowly-improving activity levels in North America and fewer pandemic-related restrictions, we expect our Tuboscope operations will realize a slight improvement in the fourth quarter.

Our MD Totco business unit saw a 14% sequential decrease in revenue due to the continued activity declines in North America and the Eastern hemisphere, which were only partially offset by improvements in Latin America. Our KAIZEN™ intelligent drilling optimizer, which employs artificial intelligence to help mitigate drilling dysfunction and improve performance, continues to be adopted by key customers in the North American market and now has two technical trials with large NOCs scheduled for this quarter. As Clay mentioned, MD Totco's technology portfolio is rapidly evolving, and we expect to see significant market penetration by several of these products in the near future.

Our Wellsite Services business unit experienced a high-single digit sequential revenue decline in the third quarter. Increased activity in the Gulf of Mexico, Trinidad, and the North Sea, along with increased screen sales in the Middle East, partially offset sharp declines in Africa and the North American land market. More recently, the business unit has notched some sizeable wins in the international markets, including an order for 60 Brandt™ shakers to upgrade 15 jackup rigs in Asia and a contract for our proprietary hot oil thermal desorption equipment to treat drilling waste in Guyana. These awards, along with improving activity levels in North America, should result in improved results during the fourth quarter.

As we've said many times in the past, our Wellbore Technologies segment is the most sensitive to real-time changes in global drilling activity and also carries the highest operating leverage of our three segments. Its leadership team has moved swiftly to right-size the organization and stabilize results in unprecedented market conditions. For the fourth quarter, we expect revenues for our Wellbore Technologies segment to improve 1 to 3 percent sequentially with incremental margins in the 30 percent range.

Our Completion & Production Solutions segment generated \$601MM of revenue in the third quarter, a decrease of \$10MM or 2% sequentially. Strong execution on international and offshore project backlogs mostly offset limited demand for our shorter cycle products and aftermarket parts and services. EBITDA declined \$5MM to \$63MM, or 10.5% of sales.

Orders for the segment fell 14% to \$169MM as the lockdowns and ongoing uncertainty associated with the pandemic caused customers to defer decisions on new projects. Encouragingly, we have seen a sharp increase in activity around pre-FEED studies and general tendering activity in the last few weeks. We are cautiously optimistic that order intake bottomed in Q3 and believe the actions we are seeing bode well for more meaningful improvements in 2021.

Our Fiber Glass Systems business unit achieved a small sequential increase in revenue. Sizeable deliveries of large-diameter, high-pressure pipe in the Middle East and continued solid performance from our fuel handling business more than offset lower revenue from our marine customers who are postponing deliveries of scrubber systems. The global pandemic has caused an unexpected glut of middle distillates, usually processed into jet fuel, to be used in the production of inexpensive very-low sulfur fuel oil, making marine scrubbing systems an uneconomic investment for our customers until the historical price spread between very-low sulfur and high-sulfur fuel oil returns. New orders from our Fiber Glass Systems business have not been sufficient to offset large recent shipments, leading us to expect a sequential fall-off in Q4 revenues.

Our Process and Flow Technologies business unit posted a 10% sequential increase in revenue due to strong project execution on offshore production-related backlog and due to the easing of COVID-19-related lockdowns, which allowed our production and midstream operations to deliver delayed shipments of reciprocating pumps and chokes into Latin America, the Middle East and Africa. While orders for our Process and Flow Technologies business remained soft in Q3, a still-solid backlog in the unit's APL turret mooring and Wellstream Processing operations should allow for additional growth in Q4. More importantly, pre-FEED studies and tendering activity have picked up, particularly for our APL operation. We believe our customers are preparing to get back to work on large projects in 2021 and expect orders to start to pick up modestly to support their plans.

Our Subsea flexible pipe and XL Systems businesses each experienced sequential revenue declines as three straight quarters of customers pushing orders to the right began to affect operating results. We expect both businesses to see additional revenue declines in the fourth quarter, but tendering activity has improved modestly, giving us some optimism that bookings could improve in Q4.

Our Intervention and Stimulation Equipment business saw a 9% sequential decline in revenue. Despite the uptick in North American completion-related activity, the market remains significantly oversupplied, which has resulted in limited demand for new equipment and customers deferring the purchase of new spare parts by cannibalizing idle assets. As expected, sales of most consumables took another step down in Q3; however, we continue to realize increasing market adoption of our FlexConnect Frac Hose, and demand for new coiled tubing strings improved more than 50% from the record low we experienced in Q2. More recently, we've seen a pickup in demand for coiled tubing equipment aftermarket service and repair work, and we continue to engage in a growing number of discussions with international customers regarding pressure pumping, coiled tubing, and wireline equipment, driven by increasing demand for multi-stage fracture stimulation services in markets outside North America.

For the fourth quarter of 2020, we anticipate revenue from our Completion & Production Solutions segment will decline 6 to 8 percent with EBITDA margins decreasing between 200 and 400 hundred basis points, as a result of a less favorable revenue mix and increasing price pressures.

Our Rig Technologies segment generated revenues of \$449 million in the third quarter, a decrease of \$27 million or 6% sequentially. Third quarter revenues reflect a mid-single digit sequential decrease in revenue from capital equipment and a 3% sequential decline in the segment's aftermarket sales. The slowing rate of revenue declines provided better visibility into the impact of the segment's efforts to reduce costs and improve operational efficiencies are having on results, with EBITDA improving \$14MM to \$28MM, or 6.2% of sales.

Pandemic-related logistical challenges remain as the virus continues to pop up in clusters around the globe and governments react with shut-downs and travel restrictions, but we are learning to mitigate the extra costs and disruptions to our operations and are doing everything we can to support our customers where they need us.

The impact of the economic turmoil caused by COVID-19 is perhaps most apparent in the segment's Q3 bookings. Already burdened by stretched balance sheets, several of our larger offshore customers made the difficult decision to enter the restructuring process during the quarter, which put a stop to new orders. Drilling contractors in general are doing all they can to preserve cash in this difficult market and have reduced spending accordingly. The segment realized a 23% sequential decline in capital equipment bookings, resulting in \$57 million of orders and a book-to-bill of only 29%.

Despite the tremendous stress our customers are under and the amount of idle drilling equipment that exists around the world today, we continue to believe that our industry-leading franchise is attractively positioned for the future, as operators continue to demand use of better technologies to drive efficiencies in their drilling operations. Even as we sit here today, in an environment with record-low drilling activity levels and only six months removed from negative oil prices, we're having dialogue with multiple customers around the world who still want to upgrade the capabilities of their drilling equipment. We still see demand for new high-spec land drilling rigs in the Middle East and in Latin America. We've had steady demand for new top-drives in multiple markets in Asia, and we've recently booked orders from a U.S. drilling contractor to upgrade several of its stand transfer vehicles, iron roughnecks and top drives. This need to continuously upgrade capabilities also exists in offshore markets. Operators are demanding the latest technologies as they look to reduce their environmental footprint (think our PowerBlade systems), and as they seek bigger prizes found in more challenging environments (think NOV's 20,000 psi BOP stack, which recently won the World Oil's award for Best Drilling Technology). Even with the unprecedented market challenges our offshore customers are facing, they are still talking to us about major upgrades for rigs that will be reactivated in the not-too-distant future.

Additionally, the segment's renewable business is beginning to see more wind turbine installation vessel projects come to fruition. As a reminder, we expect approximately a dozen of these vessels will be ordered over the next couple years, and we remain confident in our ability to win our fair share of the project awards.

While a firm recovery in the market for our traditional capital equipment business remains a ways off, we believe Q3 marked the bottom for orders and, based on discussions with customers, we currently expect to achieve a book-to-bill of around 100% for the segment during the fourth quarter. We also expect Rig Technologies' financial results to improve slightly compared to Q3, with revenue increasing between 1-3 percent and incremental margins in the mid 20% range.

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