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

LOREN SINGLETARY
Vice President, Investor and Industry Relations

Thank you and welcome, everyone, to the National Oilwell Varco Fourth Quarter and full-year 2015 Earnings Conference Call. With me today is Clay Williams, President, CEO and Chairman of National Oilwell Varco, and Jose Bayardo, Senior Vice President and Chief Financial Officer.

Before we begin this discussion of National Oilwell Varco's financial results for its fourth quarter and fiscal year ended December 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.

CLAY WILLIAMS
President, CEO and Chairman

National Oilwell Varco faced deteriorating market conditions during the fourth quarter, to cap off a very challenging year. The company reported fourth quarter net income of $85MM, or $0.23 per fully-diluted share, excluding other items, down from $0.61 per fully diluted share in the third quarter of 2015 on a comparable basis. Other items included pre-tax charges of $1.6B in goodwill and intangible asset impairments, $139MM in restructuring, inventory write-downs, severance and facilities closures, and $7MM in FX losses in Argentina. GAAP net loss for the quarter was $1.5B or $4.06 per fully diluted share.

Fourth quarter 2015 revenues were $2.7B, down 18% from the third quarter of 2015. Operating profit for the quarter was $141MM or 5.2% of sales, and EBITDA was $308MM or 11.3% of sales, excluding other items from both. Decremental operating leverage was 35% from the third quarter to the fourth.

Our management teams across our Business Units are responding quickly to lower revenues, which fell further than we expected in the fourth quarter, by reducing costs and accelerating restructuring plans, which enabled us to hold decremental leverage to 35%, ex-charges, despite the sharp volume decline and renewed, intense pricing pressure we are seeing. As we have stated for the past few quarters our focus is to manage what we can, namely costs, while continuing to advance our longer term strategic goals. It nevertheless remains a very challenging time for everyone in the oil & gas industry, and our visibility remains limited.

For its full year 2015 NOV posted a GAAP loss of $1.99 per fully diluted share, including restructuring, asset impairments, facility closure costs and other charges of $2.0B MM pre-tax. Excluding these items earnings were $2.80 per fully diluted share, down 54% from $6.07 per fully diluted share earned in 2014. Operating profit was $1.6B or 11.1% of revenue, and EBITDA was $2.3B or 15.5% of revenue for the full year, excluding charges. Decremental operating leverage was 32% from 2014 to 2015, excluding charges from both years, a commendable result in view of the severe downturn and pricing pressures we faced throughout the year.

Cash flow from operations for 2015 totaled $1.3B, with $614MM of that coming in the fourth quarter, with improving working capital liquidation. We continued to invest in our future, closing seven acquisitions through the year, which, among other benefits, enhanced

our presence in Saudi Arabia, our wellsite services offering in Asia, and brought in new composites technology. We continued developing products with our new test rig, which we spudded at the beginning of the year. We also continued investments in the world's most promising regions, adding new facilities in Saudi Arabia, Abu Dhabi, Russia, and West Texas.
We returned $2.9B to shareholders in 2015 through dividends and share repurchases.

With regard to costs we were able to manage to good decremental operating leverage on our 31% decline in revenues, ex-charges, by close attention to costs and efficiency. We insourced tens of thousands of hours from outside suppliers to our own workforce to preserve our team wherever possible. Nevertheless, our global workforce, including contract labor, declined 21% through the year, and we closed 75 facilities since mid-2014, to retrench to a smaller, more efficient footprint. Restructuring will continue through the first half of 2016 and perhaps longer in view of the challenging market.

A second major decline in oil prices last year deepened and intensified late during the fourth quarter, and continued throughout January, when oil traded into the high $20 range- levels not seen since 2003. This, combined with hedges rolling off for E&P's, and term contracts expiring for drilling contractors, ratcheted up financial stress on our customers, and increased pricing pressures on NOV. We believe the present level of activity is insufficient to supply the longer-term demand for oil, and note that unlike the three most recent downturns through the past 20 years OPEC has not curtailed production to defend pricing. This has made the present downturn far more severe, but will perhaps lead to a sharper eventual recovery. With producers pumping furiously to maximize their cash flow, the relentless march of depletion; the deferral or cancellation of 68 major projects representing 3MMBOPD of future planned production; and the unfolding of severe capital austerity, will help bring supply and demand into balance. But we are not planning for a recovery in 2016. Instead we will continue to manage costs to the reality of the marketplace in the short term. Even with a rebound in oil prices, it will take time for our customers to repair balance sheets, reactivate crews, and ramp up the activity that drives our business. But each day that passes means we are a day closer to the inevitable rebound. Our plan is to emerge with new products, new business models, and new efficiencies.

Our Completion & Production Solutions Segment revenue fell 7% sequentially in the fourth quarter, and posted 56% sequential decremental operating leverage, excluding restructuring and other items. Orders declined from 99% book-to-bill in the third quarter to 59% in the fourth, which led backlog down to $969MM.

Strong sequential improvements in our XL Systems conductor pipe connections unit in the fourth quarter capped off a solid year for this unit, with higher YOY margins. However, these failed to fully offset sequential double-digit declines in our other products within the segment. In NAM customers delayed picking up well stimulation equipment previously ordered, and some are now buying frac spreads at distressed pricing to use for spare parts, which further reduced sales, but which may ultimately help erode the equipment overhang. In NAM, sales of spares and consumables like coiled tubing declined with reduced activity, but the FSU and the Middle East remain comparatively strong.

Sales of composite oilfield pipe declined as the costs of competing steel flowlines have plummeted 35% or more, and our sales into marine construction slowed. Our value proposition for the composite pipe that we manufacture is much lower lifetime costs due to its corrosion resistance, but E&P's under extreme duress are opting for the lowest investment option to bring on wells and cash flow.

About 20% of the Segment's mix is in production equipment- pumps, separators and artificial lift- which also fell in the quarter as distributors slowed purchases. We have six major facility consolidations underway within this unit which will drive better efficiency going forward.

Within our offshore production-related businesses, we saw rising pricing pressure for flexible pipe but were pleased to post 111% book-to-bill as we landed some significant orders for pre-salt applications in Brazil. Our floating production vessel unit continues to pioneer new business models we launched a few years ago that leverage NOV's unique vessel construction capabilities to improve construction costs and reduce risk. Our new vessel concepts which seek to accelerate production from certain types of deepwater fields are being met with high enthusiasm from our customers so far. We are encouraged by new designs that are steadily whittling costs, but operators remain slow to sanction major deepwater projects. It is nevertheless a promising target, with 400 discoveries in the offshore.

Our Wellbore Technologies Segment revenues fell 9% sequentially in the fourth quarter, and posted 69% sequential decremental operating leverage, which resulted in a negative 4.1% operating margin, excluding restructuring and other items. EBITDA margins were 9.0% for the segment, ex-other items.

Two-thirds of the sequential decline came from NAM, where operators stacked major drilling campaigns, intensifying pricing pressures and reducing volumes. Rentals of solids control equipment, rig instrumentation and downhole equipment declined at high variable margins. Nevertheless, we were able to increase share in our bits business owing to new Tektonic designs, which we are successfully packaging with our ERT drilling motors.

In the FSU we expect to begin manufacturing downhole tools at our new Kostroma plant within a few weeks to supply the local market, which, along with Asia, posted higher sequential revenues in the Q4. Latin America saw a significant declines for the segment across Brazil, Mexico and Argentina.

Our Tuboscope pipe coating business held up well through the quarter on drillpipe strength in China, but pipe-mill inspection activity in NAM declined with 9 months of casing on the ground, the highest level of inventories seen since the 1980's. Rising activity around tubing, pipeline and linepipe helped offset this somewhat, but we are even seeing workover activity fall in West Texas, which is unusual- prior downturns have seen workover activity hold up better, owing to quick pay-backs. Drillpipe sales increased modestly in the fourth quarter, but remain low and under price pressure.

Growing operator interest in closed-loop automated drilling technology drove higher revenues for our IntelliServ wired drillpipe unit in Q4, to produce solid YOY improvements for the group. This innovative service grew six-fold in 2015 as compared to 2014, and we have lots of interest from E&P's as well as drilling contractors eager to differentiate their rigs by enabling high-speed data transmission from the bottom of the hole.

Our Rig Aftermarket Segment posted flat sequential revenues, but margins fell due to mix. A decline in spare parts sales was offset by higher repair revenues, which came at lower margins, partly due to rising discounts to win repair work. As rigs come down, particularly onshore, they are being cannibalized for parts, impacting our spares business for the quarter.

SPS activity on offshore rigs rolled over in the fourth quarter, but remains active nonetheless. The Rig Aftermarket segment is actively working on about 40 projects, either underway or in the bidding stage, but these are fluid as drilling contractors are curtailing scope, or in some instances electing not to proceed with an SPS without a clear line-of-sight on a contract for the rig.

Service and repair work in the US GOM improved sequentially for Rig Aftermarket, and BOP repair work in the Middle East remained strong.

As we disclosed in December we reached a confidential settlement with one of our shipyard customers in Brazil to cancel 7 floaters, which reduced our backlog by nearly $1.2B and led to a year-end backlog of $6.1B for the Rig Systems Segment. At year end our backlog includes $1.8B for the remaining 15 rigs across three shipyards in Brazil. I would stress that the situation in Brazil with regard to these remains uncertain and continues to evolve owing to the failure of the yard's customer to secure long-term financing for these projects. We suspended work within two of these remaining shipyards early last year, and we are in discussions with all three yards regarding the resolution of their programs. We recognized only $10MM in revenues from the remaining newbuild rigs in Brazil during the fourth quarter.

As we wrap up a challenging year in 2015 we recognize we are facing increasing headwinds in 2016, but we also recognize that extraordinary opportunities will arise as a result of the stress our industry is under. I am pleased with the execution of our experienced leaders, who are cutting costs and improving efficiency but also continuing to advance our long term strategic initiatives- like closed-loop automated drilling opportunities (which we expect to grow in 2016), new FPSO business models and designs to improve deepwater economics, and new products to improve drilling operations, completion techniques and more profitable production. Our E&P customers' business models simply don't work in this low-oil-price environment, and therein lies the opportunity for NOV to once again pioneer new, more efficient ways of extracting oil and gas.

Importantly, NOV represents a diverse portfolio of market leaders that participate in every major oilfield market around the globe. If we examine the major global sources of oil which make up the 90+ MBOPD global industry we see 10MBOPD coming out of each of Saudi Arabia and Russia- both areas where we have invested heavily through the past few years, with our investments continuing to support relatively high levels of activity. Another 10MBOPD come from the Gulf States, where, again, we are expanding our presence and the oilfield remains comparatively busy. Nearly 10MBOPD has been achieved from deepwater production, where we have benefitted disproportionately from the rigs we have built, and expect to pioneer better methods of production in the future. Another 10MBOPD, roughly, comes from NAM, which is dominated by shale production techniques. Each of these major productive areas have been enabled by NOV technology, and we continue to help our customers adapt to lower oil prices across them all. NOV remains well positioned globally for when the eventual recovery comes, wherever it shows up first.

Our market leading positions have been assembled through a combination of organic investments and acquisitions, and we are actively pursuing several targets now. It has been challenging and sometimes frustrating to reach agreement with potential sellers, but as the downturn lengthens everybody in this space is becoming a lot more realistic. We will remain patient and disciplined on values, and realistic in our outlook, as the option value of our capital flexibility steadily rises. I am pleased that NOV has the balance sheet and financial resources to pursue these. But I am more pleased that we have tough, capable, experienced managers who can skillfully integrate acquisitions and execute our business plans. To all of the NOV employees, I congratulate you for navigating such a challenging year in 2015, and I thank you for your contributions in building such a strong enterprise. We have a tough road ahead, but we are laying the groundwork for our future success.

JOSE BAYARDO
Senior Vice President and Chief Financial Officer

I will provide some additional detail on our Segment operating results for the fourth quarter and full year 2015, and provide some commentary on the near-term outlook.

Our Rig Systems Segment generated revenue of $1.0B, down 32% from the $1.5B earned last quarter and down 60% from the $2.6B generated in the fourth quarter of 2014. For Q4, the split between offshore and land-related revenue was 73% and 27%, respectively. Revenue out of backlog was $843MM, down 35% sequentially. As Clay indicated, sliding delivery schedules and limited new order intake have contributed to the decline in revenue.

You may recall that in the first quarter of 2015 we announced we were negotiating certain customer-requested delivery delays for offshore newbuild rigs. Although not our first choice, modifying delivery schedules allowed us to better manage our cost structure and level-loading across our operations as we began sizing our business to support reduced levels of demand.

The success of our cost management measures are seen in our decremental operating profit margins, which were 23.9% on a 32% sequential revenue decline and which were 22.7% on a 60% year over year revenue decline.

Fourth quarter operating profit for the Rig Systems Segment was $160MM, yielding operating margins of 15.8%, down 260 basis points from Q3. EBITDA, was $184MM or 18.1% of sales, and EBITDA margins decreased 200 basis points compared to the third quarter of 2015.

During the fourth quarter, we received $89MM in new orders resulting in a book-to-bill of 10%. Q4 bookings were composed entirely of discrete pieces of capital equipment as we received no new rig orders in the quarter. Bookings included top drives and blowout preventers for international land rigs and cranes for offshore construction vessels. We ended the quarter with a backlog of $6.1B, down 24% sequentially, of which approximately 89% is for the offshore market and 92% is destined for international markets.

As Clay mentioned in his commentary, our customers are under increasing pressures related to falling day rates and utilization associated with this cyclical downturn. Our global portfolio of offshore rig equipment contracts typically incorporate a significant down payment and progress payments which minimize our working capital investments throughout the life of the agreement. While we do not expect meaningful charges from potential future breaches of contracts, cancelations, or other similar issues, the impact would vary dependent upon the specific contract, timing of the event and other circumstances.

For full year 2015, Rig Systems generated revenue of $7.0B, down 29% in comparison to 2014 as slowing project progress and declining orders drove revenue out of backlog down $2.6B from the $8.7B earned in 2014.

With a resolute focus on execution and commitment to continued cost reductions, Rig Systems generated $1.4B in full-year EBITDA and maintained EBITDA margins just over 20%, despite revenues declining almost 30% over the same period. Full-year 2015 operating profit was $1.3B or 18.9% of revenue, down 140 basis points from the previous year, representing decremental leverage of 23.5%.

As we move into the first quarter of 2016, at this point we expect total Rig Systems revenue to decline in the high single digit percentage range, and revenue out of backlog to decrease to about $775MM, but I will stress that our visibility remains limited. We plan to deliver on our current backlog while continuing to resize the business aggressively to meet a much lower level of demand. We are actively scaling facilities to single shifts, consolidating locations, and implementing other cost control initiatives. Despite these efforts, reduced volumes will work against us, and we anticipate some margin erosion on lower activity levels and continued delays, in the range of 200-300 basis points.

Declining energy prices will negatively impact our order book for the forseeable future and we expect new orders for large equipment packages, both on and offshore to remain low. We continue to win in the marketplace due to our commitment to technology, capacity, and operational service and support, but orders are scarce. As such, we do not expect this quarter's bookings to improve materially from the fourth quarter.

Our Rig Aftermarket Segment generated $569MM of revenue during the fourth quarter of 2015, roughly flat sequentially and down 33% year-over-year from a record $850M in the fourth quarter of 2014. Customers curtailed spending as rig utilization declined in both land and offshore markets. Land-related sales were approximately 21% of total Segment revenue, down slightly from 22% in Q3, but up on a percentage basis from 18% in the fourth quarter of 2014.

EBITDA for the Segment was $135MM, or 23.7% of sales, and operating profit was $127MM, or 22.3% of sales, down 330 basis points from last quarter on a higher proportion of lower-margin service and repair work as well as incremental pricing pressure on repair and select spare parts.

Overall, 2015 results reflected an increasingly uncertain environment, in which our drilling contractor customers reduced spending in an effort to preserve liquidity. Throughout the year, our customers chose to deplete existing spares inventories rather than purchase new and did de minimis repair and maintenance on their rig fleets, deferring more expansive work except where absolutely necessary.

For the full year, Rig Aftermarket generated revenue of $2.5B, down 22% from a record 2014. Full-year EBITDA was $647MM or 25.7% of revenue, down 250 basis points from 2014, and 2015 operating profit was $617MM, or 24.5% sales, down 290 basis points from the prior year.

Looking into the first quarter of 2016, we expect Rig Aftermarket will see revenues decline in the mid to upper-teens percent range. Due to the seasonal nature of the aftermarket business, we typically expect lower activity with a better mix of spares to service and repair work in the first quarter than the fourth; however, we anticipate a steeper-than-usual decline in Q1 reflecting current market conditions. Although reducing costs will be at the forefront of our response efforts, pricing pressure may push margins around 100 basis points lower in the first quarter.

Longer-term, we believe our Rig Aftermarket Segment will be a strong early-cycle beneficiary of the eventual recovery. We believe drillers will rush to return sub-optimally maintained, stacked and partially cannibalized rigs to proper operating condition once they gain confidence that the market has reached a bottom and they see early indications of a recovery.

For the fourth quarter of 2015, the Wellbore Technologies Segment generated revenues of $757MM, down 9% sequentially from $834MM and down 50% from a record $1.5B in the fourth quarter of 2014. Reduced drilling activity negatively impacted all our businesses within the Segment. Average rig counts declined 13% sequentially in the US, 9% in Canada and 2% internationally, and Segment revenue by geography closely mirrored this sequential fall in rig count. Pricing pressure continued into the fourth quarter across most all product lines.

For the fourth quarter of 2015 EBITDA was $68MM, or 9.0% of revenue down 530 basis points from last quarter and the segment posted an operating loss of $31MM.

For the full year 2015, Wellbore Technologies generated revenue of $3.7B, down 35% in comparison to 2014, consistent with the year-over-year average decline in global rig count. 2015 EBITDA for the Segment was $562MM or 15.1% of revenue, down from 26.0% in 2014, and operating profit was $162MM for 2015, or 4.4% of sales, as the speed of activity and revenue declines outpaced our cost reduction efforts.

Like our Rig Aftermarket business, we expect our Wellbore Technologies Segment to be an early-cycle beneficiary of the eventual recovery; however, near-term we have limited visibility and the activity-driven nature of the business contributes to variability. Just four weeks into 2016, U.S. rig count is down 18% from the average in Q4 2015, so we expect revenues to fall eight to ten percent with decremental margins in the 40% range.

We continue our efforts to optimize our Wellbore Technologies Segment, resizing our business to meet lower levels of demand, improving our manufacturing processes to become more efficient on a lower cost base, and shortening our commercialization processes to bring new value-adding technologies to market.

Our Completion & Production Solutions Segment generated revenues of $746MM for the fourth quarter of 2015, down 7% sequentially and 44% compared to the fourth quarter of 2014. Businesses related to onshore completion and production were some of the most negatively impacted with customers delaying receipt of finished orders as operator's inventory of drilled but uncompleted (DUC) wells rose in response to commodity price declines.

EBITDA for the Segment was $86MM, or 11.5% of sales and operating profit for the Segment was $34MM, resulting in operating margins of 4.6%, down 330 basis points sequentially and 1160 basis points year-over-year as a result of lower volumes and pricing pressure.

During the quarter, Completion & Production Solutions received orders of $272MM, down $194MM, or 42% sequentially, as a substantial flexible pipe order won in the third quarter did not repeat.

We recognized $460MM of revenue out of backlog resulting in a book-to-bill of 59%. The Segment ended the quarter with a backlog balance of $969MM, of which approximately 75% is offshore and 87% is destined for international markets.

For full year 2015, the Segment generated revenue of $3.4B, down 28% in comparison to 2014, as revenue out of backlog declined $501M or 20%, and non- backlog revenue decreased 37% from 2014 to $1.3B.

Full year, EBITDA was $507MM or 15.1% of revenue, down 480 basis points from 2014. Operating profit was $286MM or 8.5% of revenue, in comparison to $700MM and 15.1% in 2014, representing decremental leverage of 32.3%. Record or near-record margins in some of our offshore production-related businesses, including Flexibles and large diameter XL Systems conductor pipe connections, were overshadowed by lower year-over-year contributions from our higher-margin intervention and stimulation equipment business, given reduced demand for hydraulic stimulation, coiled tubing and wireline capital equipment, and consumables.

With oil prices at twelve year lows, orders for new capital equipment will remain challenged as we move we move into the first quarter of 2016. Opportunities that do emerge will face continued pricing pressure. As a result, we anticipate revenues will decrease by approximately 15%, and expect revenue out of backlog to fall to the $350MM - $370MM range. We anticipate decremental operating leverage in the 30 to 35% range.

Now, let's discuss some additional detail regarding our consolidated financial results.

Working down the Consolidated Statement of Income for the fourth quarter of 2015, gross margin declined 210 basis points to 19.1%. SG&A increased $25MM, or 7% sequentially due in large part to increases in bad debt and other year-end related items, which more than offset overhead reductions. Despite the slight sequential increase, we reduced SG&A 28% year-over-year, which translates into an annualized cost savings of approximately $600MM.

Other items for the quarter equaled $1.8B and resulted primarily from goodwill and indefinite lived intangible asset write-downs of $1.6B, and from restructuring and other charges of $139MM.

EBITDA was $308MM, or 11.3% of sales.

Net interest expense remained flat with the third quarter and equity income was a loss of $3MM as demand for OCTGs or Green Tubing associated with our Voest-Alpine joint venture remains muted given the low demand for new drillpipe.

Other expense for the quarter decreased $3MM sequentially to $17MM and the effective tax rate for the fourth quarter excluding the impact of other items was 18.7%, affected by a taxable loss in the US and taxable income in foreign jurisdictions, among other things. Net income excluding other items was $85 million, or $0.23 per fully diluted share.

Working capital, excluding cash and debt, totaled $5.5B at December 31, 2015, down $422MM from the prior quarter, and we generated a total of $614MM in cash flow from operations.

After dividend payments of $173MM, investments in our business of $136MM; and FX impact on our cash balances and other items totaling $18MM, we were able to decrease our net debt position by $287MM.

We ended the quarter with a cash balance of $2.1B, $4B in debt and our net-debt-to-capitalization was 11.2%. We also have $3.6B of undrawn capacity on our revolving credit facility.

Overall, 2015 was a challenging year under the backdrop of market uncertainty, falling energy prices, declining drilling activity, and reduced customer spending.

In spite of these conditions, NOV generated $1.3B in cash flow from operations, bought back $2.2B in NOV shares, paid out cash dividends of $710MM to our shareholders, invested over $450MM in organic growth opportunities, and completed seven acquisitions for approximately $85MM.

All while preserving a very strong balance sheet.

2016 will prove to be another challenging year; however, the actions we took during 2015 have us positioned well to weather the storm and capitalize on opportunities that we identify during this downcycle.