National Oilwell Varco, Inc.
Third Quarter 2016 Earnings
Conference Call Remarks

LOREN SINGLETARY
Vice President, Investor and Industry Relations

Thank you, and welcome, everyone, to the National Oilwell Varco Third Quarter 2016 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 third quarter ended on September 30, 2016, 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 filed 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.

Please be aware that our use of the term EBITDA throughout the call this morning will correspond with the term "Adjusted EBITDA" as defined in our press release. We also use other non-GAAP measures as described in our press release.

CLAY WILLIAMS
Chairman, President, and Chief Executive Officer

Thank you, Loren. During the third quarter National Oilwell Varco began to see some improved demand in certain of our businesses, mostly in NAM, where the rig count grew 28% sequentially. For the first time since the downturn began we posted top line growth in our Wellbore Technologies and Completion & Production Solutions Segments. We also saw our cost reductions begin to outpace the steep declines in revenues we've seen through the past seven quarters as three of our four Segments posted higher margins due to aggressive cost reductions.

Since the downturn began in late 2014, our revenues have declined 71%, reflecting the severe stress the oil & gas industry has been under. Our customers have slashed spending to the lowest levels possible, and the oil and gas industry has delayed or cancelled future projects totaling over 7 MBOPD. 2015 saw the lowest level of new reserve discoveries globally since 1947, only about 10% of the average annual discovery volumes through the past 50 years, according to Wood Mackenzie, and in 2016 the US is forecast to see the lowest number of wells drilled since 1933. The 2.2 MBOPD decline in non-OPEC production since 2014 has been fully offset by rising OPEC production, which achieved record levels this summer, along with Russian production which achieved record levels in September. Overall, we believe OPEC to be producing at near maximum levels, with little remaining excess capacity cushion, which has delayed the inevitable rebalancing of the world oil markets. Nevertheless, time is on our side, as OPEC faces rising challenges to grow production further, and as dwindling oilfield expenditures accelerate production declines through the rest of the world.

Faced with extraordinary revenue declines and significant price discounting in all areas of our business, we have aggressively reduced costs and improved efficiency, enabling NOV to manage EBITDA decremental leverage to only 28% since the end of 2014. We are on track to obtain $3.1B in annual structural contractor and workforce cost reductions by year end, thanks to the hard work of the experienced, capable management team that Jose, Loren and I are honored to serve with. This downturn has been extraordinarily painful on them and our entire organization. They have worked hard to insource wherever possible, and to keep our plants loaded to maximize absorption, but we have nevertheless been forced to reduce our workforce 43% from peak levels, and have closed or are closing 286 facilities globally. For the seventh quarter in a row we have made significant reductions in our costs to match available demand, while also continuing to invest in the emerging opportunities we see, such as the pending acquisition of Fjords Processing from Akastor we highlighted in our press release last night.

Fjords Processing is a global leader in providing processing technology, systems and services to the upstream oil and gas industry. Fjords's technology solutions include sulfate removal, oil and produced water treatment, and hydrate inhibition that efficiently address critical needs for both onshore and offshore operators.

The acquisition provides complementary technology for our Completions & Production Solutions Segment. We expect that our combined operations will leverage the collective organizations' global infrastructure to reduce costs and achieve broader channels to market for the valves, pumps, and composite tubulars that NOV already produces.

Additionally, we believe the capabilities obtained through the transaction will be leveraged by other business units and will benefit certain initiatives that are ongoing within NOV. We are excited about the capabilities Fjords Processing brings to our platform and we are eager to welcome the talented employees of Fjords to NOV when the transaction closes, which we expect to occur before year-end.

As we've highlighted on prior calls NOV's strategy is centered on the most promising areas for future production- NAM shale technologies, international markets like the Middle East and Russia, and deepwater improvements. We have used this downturn thus far to position the Company for the inevitable upturn, closing 4 small acquisitions in the third quarter, bringing our total to 9 YTD. We foresee significant opportunities in the upturn- precise geosteering; directional drilling to produce longer horizontal laterals; closed-loop drilling automation and optimization; completion tools, hydraulic fracture stimulation techniques; new subsea production technologies; and condition-based equipment monitoring will be the big winners in the next upcycle. NOV is at the forefront in each area, and our R&D investments and acquisitions are tightly focused on these promising trends.

At this point I'll ask Jose to review our financial results with you.

JOSE BAYARDO
Senior Vice President and Chief Financial Officer

Thank you, Clay, and good morning everyone.

For the third quarter of 2016, National Oilwell Varco reported a net loss of $1.36B or $3.62 per fully diluted share on a US GAAP basis. Excluding other items, totaling $1.09B, net loss for the quarter was $128 million, or $0.34 per share.

Total company revenues for the third quarter of 2016 were $1.65 billion, down 5% from the second quarter of 2016 and down 50% from the third quarter of 2015. EBITDA was $68MM, an improvement of $43MM from the second quarter, as our efforts to reduce costs and optimize our operations outpaced the decline in revenues.

Our Completion & Production Solutions Segment generated revenues of $543MM during the third quarter of 2016, up $5MM sequentially and down $255MM compared to the third quarter of 2015. Revenues increased on incremental sales of coiled tubing and completion related equipment, partially offset by fewer sales of primarily offshore oriented production equipment, including offshore conductor pipe connectors and flexible pipe.

EBITDA for the Segment was $43MM or 7.9% of sales, a decrease of $14MM from the previous quarter, and an $82MM decline from the prior year. The decrease in sequential EBITDA was primarily attributable to changes in revenue mix and certain inventory and receivable charges.

In the third quarter, we recognized $319MM in revenue from backlog, down $14MM from the second quarter of 2016. New orders were $184MM, down $85MM or 32% sequentially, resulting in a book-to-bill equal to 58% and a quarter ending backlog of $812MM.

Our Wellbore Technologies Segment generated $526MM in revenue during the third quarter, up 3% sequentially from $511MM and down 37% from the third quarter of 2015.

As mentioned in our press release, we are very encouraged by the performance of our short cycle businesses within the Segment as they posted sequential revenue growth of approximately 15% within the North American marketplace.

EBITDA for the Segment was $26MM, up $25MM from the previous quarter and down $100MM from the prior year. The strong sequential improvement in EBITDA was the result of achieving targeted cost reductions and our successful implementation of numerous process and efficiency improvement initiatives across the Segment.

Our Rig Aftermarket Segment generated $322MM of revenue during the third quarter of 2016, down 12% from $364MM in the second quarter of 2016 and down 44% from $570MM in the third quarter of 2015.

Third quarter 2016 EBITDA for the Segment was $81MM, up $8MM, or 11%, sequentially. EBITDA margins increased 510 basis points to 25.2% of sales.

Spare part sales, service and repairs all experienced revenue declines during the third quarter; however, sales of spare parts declined more modestly than service and repairs from Q2 to Q3. The more favorable mix along with our cost reduction efforts drove the increase in EBITDA on lower revenue.

Our Rig Systems Segment generated revenues of $470MM during the third quarter of 2016, down 17% sequentially from $564MM and down 69% from the $1.5B posted in the third quarter of 2015. The revenue decline was in-line with expectations as we continue to work through our backlog and bring projects to completion.

Third quarter EBITDA for the Rig Systems Segment was $50MM, an increase of $1MM from the second quarter of 2016. EBITDA margins increased 190 basis points to 10.6% of sales.

As we described in a fair amount of detail last quarter, we have been extremely focused on standardizing processes, optimizing structures and eliminating redundancies in our global operations. These structural changes reduced our costs and improved our efficiencies during the quarter enabling us to slightly increase EBITDA on a 17% decrease in revenue.

During the quarter, we recognized $363MM in revenue from backlog, down 18% from the $441MM in the prior quarter as the Segment continued to work down its backlog and slow the pace of deliveries in the face of low order volumes and project delays. New orders improved by $119MM sequentially, or 180%, to $185MM in the third quarter. Book-to-bill was 51% marking the highest level achieved since the third quarter of 2014.

Included in the quarter's bookings were two land rigs, one of which is a highly-specialized, harsh environment, extended-reach rig destined for Alaska's North Slope. The two rig sales represent the first orders for new rigs since this time last year. Other bookings during the quarter included several top drives, pedestal cranes for FPSOs and pressure control equipment. Quarter ending backlog was $2.76B.

We are encouraged by the two rig orders and are optimistic regarding near-term growth opportunities in land markets. In North America, smaller contractors are looking to add more modern rigs to their fleets, and while most larger contractors do not expect a need for new build orders until the second half of 2017, they are expressing strong interest in improving the pressure and torque capabilities of their existing AC rig fleets through upgraded 7,500psi mud systems, new top drives and iron roughnecks. Customers in international land markets are also expressing interest in equipment upgrades as well as new-build programs, particularly in the Middle East, Russia and Latin America.

While the outlook for land markets around the world appear promising, in recognition of further deterioration in the outlook for the offshore new-build market, we took a $972MM non-cash goodwill impairment charge associated with our offshore rig systems business unit during the third quarter of 2016. The diminished outlook is based on the accelerating restructuring process in the offshore market which is reflected in early contract terminations by operators and in the stacking and scrapping of rigs by drilling contractors.

Looking at a few select line items in the P&L, interest and other financial costs decreased $5MM, primarily due to the reduction in commercial paper balances as well as certain charges that occurred in the second quarter and were not expected to repeat.

Our effective tax rate excluding other items was 16.7%. As a reminder, in the current environment, relatively small changes in discrete items or the split between domestic and international results can have a disproportionate impact on our tax rates. In the fourth quarter we expect the tax rate to be approximately 30%.

Turning to the balance sheet, during the quarter, we paid off our full commercial paper balance of $110MM, leaving us with $4.5B of availability.

At September 30, 2016 our cash balance was $1.5B, total debt was $3.2B and our debt-to-capitalization was 17.8%

In summary, I think this quarter's financial results reflect the tremendous job the team at NOV has done to resize the business, cut costs and optimize our operations. While certain elements of our business are showing signs of improvement, the organization remains focused on fine-tuning our operations, developing and delivering valuable solutions for our customers and preparing to capitalize on a market recovery.

With that I'll turn the call back over to Clay.

CLAY WILLIAMS

Thanks, Jose.

I'll offer some color and guidance for each of our Segments, beginning with Completion & Production Solutions, which saw its book-to-bill fall to 58%, due to sharply lower orders for conductor pipe connections and subsea flexible pipe. This was partly offset by higher demand for fiberglass pipe (up 39%) and completion equipment (up 47% sequentially). International demand picked up nicely for fracture stimulation equipment and wireline units, but NAM demand generally remains low, outside of some budgetary equipment quotes and some rising demand for aftermarket spares for well stimulation equipment. We noted in the press release our record 2-5/8 inch coiled tubing string manufactured in Q3, and we are seeing increasing interest in larger diameter coiled tubing units and strings that can traverse longer laterals in NAM. We also believe that international markets are keenly focused on hydraulic fracture techniques pioneered in NAM, so the stage is set for the more widespread application of these enabling technologies overseas in 2017.

Within our fiberglass pipe unit we saw rising demand for flowlines in NAM offsetting lower marine offshore pipe demand in Asia. Our fiberglass flowlines offer corrosion-proof solutions for well tie-backs, and the rising level of drilling activity in West Texas, as well as continued large sales into

Saudi Arabia, lifted this group's backlog 14% sequentially. The new completion tools business we acquired in July is off to a great start with wins in Canada and Russia, where we secured a pilot project for our Bulldog Frac™ annulus system to be run this quarter. And we believe our cemented sliding sleeve technology and burst port system offer a superior solution for multistage horizontal wells. We are also advancing new ideas in completions technologies that we look forward to sharing with you on future calls. Revenues for Process and Flow Technologies improved slightly during the third quarter, with further improvements expected for Q4, as we benefit from higher demand for artificial lift products, process equipment and production chokes.

Our offshore products within Completion & Production Solutions continue to face challenging market prospects due to the very low level of offshore projects globally, a situation that we believe may improve in the second half of 2017. While Brazil demand for subsea flexible pipe has remained comparatively strong through the downturn, orders for Brazil dipped sharply during the third quarter. Elsewhere around the globe, our flexible subsea pipe business has seen several quarters of very low demand, driving intense pricing pressures and reducing average margins within our flexible pipe backlog. Nevertheless, we continue to win smaller tie-back jobs and we expect Brazil orders to rebound this quarter, leading to modest sequential revenue gains. We are also continuing to engineer unique floating production unit topside modules within our cooperative agreement with GE Oil & Gas, including our unique small-field Honeybee and Minibee FPSO designs, which we will complete by early 2017. During the quarter we had a customer engage us in a paid study to apply these to their field development plan in the Barents Sea.

So overall, we see some greenshoots emerging for many of our products, but others continuing to slide, a theme that we see across other Segments as well. Looking into Q4 we expect the Completion & Production Solutions Segment to improve in the mid-single-digit-percent range, at solid incrementals due to additional cost reductions.

Wellbore Technologies benefitted from shorter-cycle products and services in Q3, which comprised about 80% of this Segment's revenue, with drillpipe sales making up most of the balance. Rig reactivations in NAM drove higher demand for our shorter-cycle businesses like downhole drilling tools, including new bits and new drilling motors we've introduced through the downturn, as more than 90% of the US fleet is drilling directionally or horizontally today. Our Wellsite Services solids control business posted excellent sequential growth and margin improvements, too, on rising demand in West Texas, where we are beginning to claw back certain pricing concessions by charging more for items like freight and mobilization.

While there are about 10 months of OCTG inventory on the ground in the US, half of this is for the offshore, so our pipe mill and processor customers got busier in the third quarter working on casing sizes to fit shale drilling, driving better results for our Tuboscope™ pipe inspection services. Drillpipe margins improved significantly in the third quarter owing to a near record mix of premium, large diameter pipe. However, backlogs remain very low for this business and we expect Q4 to face significant headwinds on a poorer mix and lower volumes. 2017 looks better for drillpipe, as we start to see higher demand for 5-1/2 inch premium drillpipe to drill longer, larger diameter laterals. We will be enhancing our market-leading drillpipe technology with the launch of our new Delta premium connection technology in Q4, which offers much faster make-up times, higher torques, and much reduced risk of thread galling, improving drilling efficiencies and reducing total cost of ownership for our customers. And our new TracID™ product attaches RFID chips to the pipe, enabling contractors to automatically tally pipe on trips, and track pipe in inventory, including the specific history of each joint of drillpipe. We are also seeing higher demand for our IntelliServ™ wired drillpipe, owing to growing success in using its high-speed data link to downhole instruments to improve drilling efficiency and wellbore placement. While these advancements paint a bright future for drillpipe demand, given near-term mix and volume pressures in drillpipe, we remain cautious in our outlook for Q4.

While demand is growing in NAM, and we continue to see rising interest in our closed-loop drilling automation services, the Segment is seeing increasing price pressure in many of its traditional businesses in international markets. For Q4 we expect Wellbore Technologies revenues to decline slightly and we expect EBITDA to remain roughly flat, as continued cost reductions are offset by international pricing pressures and lower drillpipe sales.

Rig Aftermarket posted a 12% sequential decline in revenues in the third quarter, but saw improved EBITDA, up by $8MM. Parts, service and repair all declined in the quarter, partly due to the evaporation of SPS work on offshore vessels, but cost reductions and rig reactivations in West Texas, as well as a higher mix of spare parts, helped offset the impact from lower revenues. The group performed its first top drive rebuilds in our new facility in Russia during Q3. It is also aggressively pursuing condition-based-monitoring opportunities. Our predictive failure monitoring system on subsea BOP stacks has notified our customers of potential regulator valve wear on eleven separate occasions, which enabled them to avoid unplanned lost time in drilling operations. We are now working on similar pilot products for top drive and mud pump failures, and we believe there is a tremendous market for condition-based monitoring of equipment across the industry. Again, NOV is leading the way in bringing practical, Big-Data-driven enhancements to the operations of our customers. Nevertheless, the bulk of Rig Aftermarket's business is spare parts sales and service into our considerable installed base of equipment offshore. Given the financial stress the offshore drilling industry is enduring, Rig Aftermarket will continue to face near-term headwinds. We expect Q4 to see mid-single digits revenue declines for the Rig Aftermarket Segment, and margins to compress a few hundred basis points, owing to mix between spare parts sales and repair services.

Our Rig Systems Segment posted significantly higher sequential orders, owing to two land rigs booked in the quarter, but demand nevertheless remains very weak, with book-to-bill of only 51%. Orders for equipment for the land market significantly outpaced offshore equipment demand in the quarter reducing our offshore mix within the backlog to 81%. Revenue fell 17% sequentially but the Segment managed to hold EBITDA flat at $50MM or 10.6% of sales, due primarily to lower execution costs on offshore rig construction in Asia, and cost reductions elsewhere around the world. Major offshore newbuild rig construction project revenue totaled about $200MM in the quarter, about 12% of our consolidated revenue, and overall demand for offshore equipment remains very low, despite a few conversations about potential new platform rigs. Offshore drilling contractors continue to only order replacement equipment for unplanned outages or worn out equipment they can't cannibalize from stacked rigs or access elsewhere.

Our outlook for demand for land rigs is much brighter, as we have several inquiries for new rigs for NAM, and numerous tenders being let for rigs in international markets, for customers who have shrewdly observed that the upgraded rig fleet in NAM had much to do with the shale revolution of the prior peak. We believe 2017 will see a meaningful resumption in demand for land equipment. As Jose mentioned we are also quoting upgrade packages for 7500 psi mud systems, higher torque, and new NOVOS control systems, required to drill longer horizontal laterals. In fact, top drive sales into the land market picked up in the quarter due to the need for higher torque to execute longer laterals.

The financial stress offshore will continue to weigh heavily on the results for this Segment. We expect Q4 revenues to decline in the mid-single digit percent range, but margins to fall a few hundred basis points as we face a mix shift to lower margin land opportunities, lower priced and lower margin offshore orders in our backlog, and increasingly challenging absorption loads.

So to summarize, at or near the bottom of an extraordinary downcycle we see lots of cross-currents. After two years of brutal declines, growth in NAM land and the Middle East have been welcome relief, and we are optimistic about activity in Russia. On the other hand, our offshore customers remain very challenged, and many international markets continue to slow, exacerbating pricing pressures. Nonetheless, NOV's diverse portfolio of critical technologies and strong liquidity make it well-positioned to benefit from recovery in all corners of the oilfield.

Before we open the call to Q&A let me take a moment to thank the many hard-working employees of our organization. You have done a tremendous job fighting the fight, navigating exceptionally tough times and positioning the company for the recovery. Thank you.

Operator, let's open the call up to questions from our audience.