Welcome everyone to National Oilwell Varco’s second 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 second quarter of 2018, NOV reported revenues of $2.1 billion and a net income of $24 million or $0.06 per share.

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.

This morning I am pleased to report that National Oilwell Varco posted solid results in the second quarter of 2018, with revenues increasing 17% sequentially to $2.1B. EBITDA was $226MM, representing 21% incremental leverage to our first quarter 2018 results.

On the whole, we continue our steady march out of the worst oilfield downturn of a generation, and I am very proud of the fight that our employees have demonstrated as we’ve navigated this ordeal. NOV has emerged with a great team focused on producing great results for our customers and our shareholders alike.

All three business segments performed well during the second quarter. In fact, all three posted double-digit revenue growth sequentially, with each segment benefitting from stronger second quarter demand in most major international markets. Canada was the exception, declining 16% on a consolidated basis due to its seasonal breakup and road travel bans, which occur every year during the spring thaw. All three segments also posted solid sequential topline growth in
the United States, with the Company continuing to gain share in key products and services in the most active unconventional shale basins.

Specifically, Wellbore Technologies posted brisk growth in bits, MWD tools, downhole drilling tools, and solids control technologies which we’ve invested in and introduced through the downturn. Drillpipe sales increases were helped by our new Delta premium connection, and we expect to Delta drillpipe sales to double this year. Completion & Production Solutions achieved higher pressure pumping and wireline equipment sales, both here and abroad, along with higher sales of fiberglass tubulars and process and flow equipment. Rig Technologies finalized the creation of our joint venture with Saudi Aramco during the quarter, which brought in an order for fifty land rigs for the Kingdom. This was the largest land rig order ever placed. The Rig Technologies segment also sold three drilling rigs into the Vaca Muerta unconventional shale play in Argentina. After steadily declining throughout 2015, 2016 and 2017, we are pleased to see Rig Technologies backlog being replenished, back to $3.5B, its highest level since the fourth quarter of 2015.

During the second quarter of 2018 we saw inflationary headwinds building, particularly in the U.S. Labor costs are rising in many markets, not just Midland, TX, due to very low unemployment levels across the country. We are managing higher steel costs arising from tariffs as best we can, with most, but not all, business units reporting that they are able to pass at least a portion of higher costs on to our customers. Other commodities we buy are also seeing cost increases. Resin for our fiberglass pipe products, for instance, has risen 61% since the beginning of the year. All these factors can take a toll on our incrementals and our margins; however, our ability to recapture cost increases through pricing appears to be improving, as oil prices remain high, and as macro-driven winds continue to shift slowly to our backs.

We believe that three and a half years of E&P underinvestment; depletion-driven well declines; strengthening, synchronized global economic growth; and geopolitical flashbang events are all conspiring to drive the world-wide excess production capacity cushion down, and oil prices up. Our oilfield service customers who comprise about 70% of our revenue base are very good at postponing maintenance and cannibalizing equipment and keeping it all together with duct tape and bailing wire, through at least the first part of a downturn. But, as we’ve said since the beginning, they can only do that for so long. So we are not surprised to see higher demand for spare parts for rigs; to see more orders for conductor pipe connections; to see higher demand for tubular coating and inspection services; to see more offshore special-purpose surveys (or SPS’s). Imbedded in this demand mosaic are indications - many increasingly clearer - that the E&P industry is getting back to playing offense in a $70/bbl world. The growth we are seeing in international markets points to E&P’s around the world stretching and warming up and readying themselves to get back in this game.

This includes the offshore. Strong second-quarter demand for conductor pipe connections for the offshore, for instance, is a good leading indicator of more offshore wells to be drilled in future quarters. Although still mostly focused on smaller tie-back opportunities and brown field developments, our rising levels of quotation and tendering activities for flexible pipe, processing skids and FPSO equipment are beginning to address more medium and large-scale opportunities, consistent with industry forecasts for more offshore FID’s in 2018. We are excited about the prospect of bringing new and better ways of producing oil and gas from deepwater basins to the next upturn - technologies that we continued to hone and develop throughout the downturn, that will further reduce our customer’s cost-per-barrel.

In the offshore drilling rig space we are quoting pipe handling, hookload and motion compensation upgrades to enable rigs to stand out in a crowded field of competitors. Rising SPS project volumes indicate contractors are gearing up for more bidding activity (although we had an urgent phone call to come fix equipment following a failed Do-It-Yourself project by a customer attempting to perform their own overhaul. Since you are not the OEM please do not try this at home). Predictive analytics and new total cost of ownership aftermarket models represent new and growing opportunities for NOV that we are pioneering with our customers.

We are in the process of installing NOVOS, our exciting, new drilling rig operating system, on the first offshore rig, with several more installations planned for customers in queue. With over 40 land and offshore rigs either installed or slated to be installed. Interest in this technology is keen. Several third parties including major oil companies are developing apps to drive rig efficiency through this transformative, open-platform NOV operating system, which will add to an already robust and growing app library. The apps permitted by NOVOS, together with multi-machine control, will
continue to transform the job of the driller from “rig-driver” to process manager. This will unleash the individual driller’s experience and judgment on more important big-picture rig processes than the tedious manipulation of tools and tongs. NOVOS is empowering drillers to do their very best work.

Technology and best practices never cease evolving in the E&P jungle. The current downturn is demonstrating that low oil prices merely prompt brilliant minds in this industry to think harder, and these brilliant E&P minds have steadily lowered the marginal cost to develop and produce oil and gas from conventional basins, unconventional basins, and offshore basins. NOV has been a leader in all these basins, as we have designed, built, tested and iterated new technologies to help drive this evolution. We are well positioned for the upturn, which creeps a little closer every day.

The Middle East continues to be an area of great interest for us. NOV will bring key technologies needed to efficiently exploit the vast resources of this region. NOC’s there remain keenly focused on the potential of shale technologies developed in North America, specifically extended reach drilling of long horizontal laterals and multi-stage hydraulic fracture stimulation and completion, to drive better efficiency and productivity. The region is in need of upgrading its rig fleet and pressure pumping capabilities to achieve these results, which can be further enhanced with new capabilities like higher levels of automation enabled by our NOVOS control system. Likewise, the Vaca Muerta in Argentina will also benefit from better drilling and completion equipment and technologies. Long, precisely-placed horizontal laterals, and hydraulic fracture stimulations, will continue to be employed globally and will continue to transform the oil and gas industry for decades to come.

To our employees who are listening, I want to offer my thanks and congratulations on the outstanding work that you do every day to take care of our customers. Loren, Jose, and I appreciate everything that you do.

I’ll now turn it over to Jose to provide more operational color.

Jose?

JOSE BAYARDO
Senior Vice President and Chief Financial Officer

Thank you, Clay.

To recap the quarter, NOV consolidated revenue was $2.11B, an increase of 17% or $311MM sequentially. EBITDA improved $66MM to $226MM, or 10.7% of sales. Operating profit was $52MM, or 2.5% of sales and we posted net income of $24MM or $0.06/share.

Looking at a couple notable items on the P&L, SG&A increased $15MM sequentially, primarily due to higher incentive compensation and labor costs. Other Expense fell $44MM, due to the losses associated with FX and certain assets in Q1 that did not repeat in the second quarter. Cash flow from operations was $239MM and capital expenditures totaled $63MM.

Last quarter we mentioned that we felt the M&A environment remained constructive and we were optimistic about closing several acquisitions. During the second quarter we completed four strategic transactions for total consideration of $244MM. While our M&A pipeline is not as robust today as it was last quarter, we continue to see interesting possibilities in the M&A market and we remain well positioned to opportunistically pursue compelling transactions.

Turning to results of our operations.
Wellbore Technologies

Our Wellbore Technologies segment generated $793MM in revenue in the second quarter of 2018, an increase of $82MM or 11.5%. The segment delivered 37% incremental margins, resulting in a $30MM increase in EBITDA to $133MM, or 16.8% of sales.

Each business unit within the segment experienced robust growth. Demand for our technologies that help customers more efficiently and precisely drill wells meaningfully outpaced growth in activity levels in the U.S., and the Eastern Hemisphere shook off its lethargic start to the year. Our U.S. operational results were partially offset by the Canadian spring break-up, resulting in a 7% sequential revenue improvement in the Western Hemisphere. Significantly improved demand from the Middle East and Asia led to a 13% sequential improvement in our Eastern Hemisphere revenues.

Our Grant Prideco drill pipe business delivered a sharp sequential increase in revenue due to strong bookings in Q1. This increase was a welcome change after experiencing meaningful revenue declines over the past few quarters. More importantly, bookings remained strong in Q2 as they improved slightly from Q1. We are seeing more demand emerging from international markets, particularly the Middle East, an area in which we are realizing growing adoption of our Delta connections.

While drill pipe market conditions are rapidly improving, the business continues to face challenges associated with low volumes, customers who remain capital constrained, and inflationary pressures that have been further compounded by tariffs. Notwithstanding these challenges, we remain very encouraged about the potential for this business to deliver outsized growth and strong incremental margins in the mid-to-longer term as we continue to see customer inventory levels decline to extraordinarily low levels.

Our ReedHycalog business saw an 11% sequential improvement in revenue during the second quarter. Comparable growth was achieved by each of our three major product families in this business unit, which include our bits, borehole, and coring products, our downhole measurement tools, and our eVolve™ drilling automation and optimization services.

NOV’s bits, borehole, and coring product line realized particularly strong growth in the U.S. and in the MENA region. Our industry-leading ION™ shaped-cutter technologies combined with strong execution of repair and maintenance services are driving market share gains and commanding premium pricing.

We typically give our drill-bit technologies a disproportionate amount of well-deserved air time during these calls, but it is also worth highlighting that our coring and borehole enlargement offerings are well recognized by our customers for delivering compelling value to their operations. Our dogleg reamer has become a standard part of the bottomhole assembly for several customers in Kuwait, Oman, Qatar, and Egypt due to its ability to deliver more than 50% reductions in backreaming trip-out times. And, our coring business is gaining share in the Middle East where we recently received a four-year contract from a large customer covering all conventional and enhanced oil saturation coring product solutions.

In our downhole measurement tools operation, NOV’s Tolteq™ MWD products drove solid growth in the U.S., Russia, China, and Turkey, where we recently secured a large package order for our iSeries™ MWD products together with Vector™ drilling motors. NOV’s unique ability to independently provide these products supported our customer’s effort to establish a new directional drilling service operation in the country.

Our Downhole business unit realized a 9% sequential increase in revenue with strong EBITDA flow through. This improvement was led by 10% growth in the U.S. and a sharp rebound in fishing tool sales and motor rentals in the Middle East. We are also seeing greater adoption of our Agitator™ axial oscillation systems in the region due to their ability to meaningfully improve drilling efficiencies.

For example, NOV recently worked with a major service provider in the Middle East to improve performance while drilling an 8½-in. curve section. We recommended using NOV’s AgitatorHE PLUS with our HEMIDRIL™ motor, which improved the service provider’s ability to drill through the curve section and extend horizontal reach setting a new field record.
Our latest motor technologies and Agitator tools are also driving better performance for our customers in the U.S. Using NOV’s ERT™ power section and our Agitator product, a major operator in the Bakken averaged 286 ft/hr while drilling a well to a target depth of 20,960 ft. The 72.8-hr spud-to-TD time set a record for the company.

Outcomes like this create our reputation for industry-leading motor performance and longevity and help us drive market share gains. The results come from design teams that constantly challenge themselves to drive down the cost for our customers while delivering more torque and improved reliability; and from operational teams who leverage the latest manufacturing equipment and statistical process control techniques to ensure we deliver quality products to our customers.

Our WellSite Services business posted a 7% sequential increase in revenue led by growth from our solids control services in the U.S., Argentina, and Middle East. We are realizing market share gains in part due to our recently introduced SABRE™ shaker system, which has been proven to handle 1.5 to 2.0 times the amount of drilling fluids compared to other high-performance shakers. SABRE also reduces oil retention on cuttings by approximately 10%, decreasing haul-off and disposal costs. The business unit’s MD Totco operation notched key wins in West Texas and the Mid Continent, the most notable of which was a 20-rig data acquisition system conversion for a customer in West Texas.

Lastly, our Tuboscope business unit delivered a 6% sequential revenue increase. U.S. coating operations improved 12% from increasing demand for drill pipe coating services. Our coating operations in the Middle East also saw significant growth due to the delivery of a large order of our Thru-Kote™ connection sleeves. The delivery helped us set a record during the second quarter for our highest sales volume of this patented product, which protects internal pipe coatings during welding operations.

For the third quarter we expect our Wellbore Technologies segment to again outpace global activity, which should lead to mid-to-upper single digit percent top-line growth. Near-term, we expect the impact of improving absorption and pricing on margins to be tempered by inflationary forces resulting in Q3 incremental margins that are in line with Q2. Notwithstanding near-term inflationary pressures, we continue to see a multi-year time horizon in which this segment can deliver attractive top-line growth with strong incremental margins.

Completion & Production Solutions

Our Completion & Production Solutions segment generated $738MM in revenue in the second quarter, an increase of 10% or $68MM sequentially. Robust demand for capital equipment in North America and strong operational level execution more than offset the ongoing challenges affecting our offshore-focused businesses. Despite these challenges, the segment delivered 31% incremental margins, resulting in a $21MM increase in EBITDA to $94MM, or 12.7% of sales.

Shipments slightly exceeded our bookings of $398MM, providing us with a 95% book-to-bill. We also realized a $35MM FX reduction due to a 15% devaluation of the Brazilian real to the U.S. dollar. Total segment backlog at quarter end was $955MM.

Our Intervention and Stimulation Equipment business unit posted an 18% sequential improvement in revenue. This growth was the result of a significant increase in deliveries of pressure pumping equipment, improving demand for wireline equipment and coiled tubing, healthy contributions from the business’ new line of cementing equipment, and improving execution in our aftermarket operations.

Bookings for the business unit were in line with the first quarter, resulting in a 99% book-to-bill on substantially higher shipments. The pickup in demand for new coiled tubing equipment we saw in Q1 carried into Q2, and we also realized a sharp increase in demand for wireline equipment. While we are seeing some trepidation in the North American market for pressure pumping equipment, bookings for support equipment remain solid, and we continue to see opportunities for pump sales to customers who need to replace aging fleets, as well as steady demand for repair and refurbishment related work.
Industry conditions are improving and driving demand for new equipment, as are the technology innovations offered by NOV. Our latest data technologies, advanced designs, and industry-leading capabilities allow our service company customers to be more effective and more efficient in pushing the boundaries on complex extended-reach completions.

The market welcomed our recently introduced GoConnect™ technology for intervention and stimulation equipment. During the first 6 months of this year one major independent oil and gas operator has leveraged 248 days of our GoConnect Asset Link data to improve operations on their completion jobs. The data was streamed from seven different coiled tubing service companies. Recently, one of our coiled tubing service provider customers committed to equipping their entire fleet of coiled tubing units with our GoConnect data links.

Our latest asset designs are also realizing strong market adoption. We believe our new Genesis™ line of coiled tubing units is the industry’s most technologically advanced product offering. A number of innovative features enable the units to safely and efficiently use the largest tubing loads possible for a market that continues to demand longer lengths of larger-diameter tubing for extended-reach completion operations. Additionally, the units offer high-visibility control cabins—providing a panoramic view of the wellsite— as well as new, electric controls with customizable displays. Since we debuted the product at the ICoTA Coiled Tubing and Well Intervention Conference, we’ve received eight orders for the new Genesis product.

Our new DynaWinch iMaxx™ wireline truck is also seeing rapid uptake in the North American market. The unique design configuration offers the industry’s most expansive range of vision of the wellsite, providing wireline crews with significantly more visibility than any other wireline truck on the market. The design alleviates challenges associated with poor visibility, enabling crews to operate equipment faster without compromising safety. Despite an extremely short time on the market, we’ve already sold 14 units, and demand continues to increase.

Our Fiber Glass Systems business unit also realized an 18% sequential increase in revenue. Growing inflationary challenges stemming from increasing costs of raw materials, labor constraints, and other inflationary pressures partially restrained EBITDA and flow through; however, the operation executed well as it significantly increased deliveries in the U.S. and South America from its backlog.

After posting three quarters in a row of bookings over $100MM, orders decreased in the second quarter, but we expect bookings to return to the $100MM+ range in Q3. This improvement will be driven by more and more domestic and international customers recognizing the long-term cost advantage of corrosion-proof composite pipe in a wide array of applications.

Our Process and Flow Technologies business unit realized a 10% sequential top-line improvement as demand for reciprocating pumps and progressive cavity pumps for the U.S. midstream market remains robust. The business unit also executed well against its Wellstream Processing backlog. While order intake for the land-oriented production and midstream portion of this operation is strong, bookings in its offshore oriented Wellstream Processing operation remain soft, although tendering activity for large projects is high.

Market fundamentals are improving, resulting in increasing tendering activity for all our offshore businesses; however, awards continue to be delayed, and most are not likely to be issued until late 2018 or early 2019. We expect our offshore businesses to find bottom in the second half of 2018 and believe current market dynamics are setting up an environment in which our well-positioned offshore business units will see substantial improvement in 2019.

Our Floating Production business continues to struggle with the challenging offshore market, as new orders have remained scarce, even though bidding activity is high.

Our Subsea Production Systems business unit saw a sequential improvement in revenue after the torsional stress related challenges faced in Q1 was resolved. Despite the higher revenue, EBITDA declined due to its mix of offshore projects, and orders remain slow.
However, supporting our optimism for an improving market outlook for the offshore is what we are seeing in our XL Systems conductor pipe connector business, which tends to be a leading indicator for offshore activity. Our backlog is building, and Q2 marked the fifth quarter in a row in which the business unit exceeded a 100% book-to-bill.

Looking at the third quarter, we expect to see an additional six to seven percent sequential improvement in segment revenue, with incremental margins ticking up to the mid-30% range as the rate of decline in our offshore businesses begins to moderate.

**Rig Technologies**

Our Rig Technologies segment generated $651MM in revenue, an increase of $168MM or 35%. Revenue out of backlog increased $123MM to $276MM, due primarily to much-improved progress on the construction of offshore newbuild drilling rigs and the delivery of two land rigs in the Middle East. Aftermarket revenues increased 14% sequentially, achieving their highest levels since the fourth quarter of 2015. EBITDA leverage was 23%, resulting in a $39MM increase in EBITDA to $84MM, or 12.9% of sales.

We posted our third quarter in a row of improving bookings. Excluding the $1.8B order associated with our Saudi JV, we realized a 12% sequential increase in orders. As noted in the press release, we recently agreed to terminate a long-dated drillship contract with a customer in exchange for commitments to continue forward with other projects and certain other consideration. After deducting this contract, we exited the quarter with $3.5B in backlog for the segment.

As Clay mentioned, in addition to the fifty rig JV commitment, we also booked three land rigs, all destined for Argentina. We see more opportunities emerging in the international markets and since quarter end we booked an additional rig sale for the Middle East.

In the U.S., at $25k/day, land rig day rates are at levels that can support super-spec newbuilds, and we are discussing opportunities with some smaller domestic drillers. Larger contractors are more focused on upgrading their existing equipment as opposed to building rigs. We are also seeing rising demand for higher-capability well servicing rigs emerging in the U.S.

Orders for offshore equipment improved 42% during the second quarter, primarily due to a large package of equipment for a mid-water semi, which included a subsea BOP stack and other equipment.

We continue to anticipate that demand for newbuild floaters will remain limited outside of a few potential rigs for niche markets; however, we remain encouraged regarding the opportunity NOV has to help the industry reactivate and upgrade the existing offshore fleet. Customer dialogue remains constructive, and we are seeing meaningful increases in projects related to reactivations and recertifications for assets preparing for future drilling campaigns.

Near-term, we anticipate volatility in our quarterly bookings to continue as the business hovers near cyclical lows. We also expect margins to be pressured from our recent focus on converting inventory that has been slow to move during this prolonged downturn into cash while rewarding first-mover customers. Specifically, for the third quarter we anticipate one to three percent top-line growth, with margins falling between 100 to 300 basis points.

We delivered solid results in all three segments during the second quarter due to strong execution by the many talented employees at NOV. While there are some near-term challenges associated with takeaway issues in West Texas, an offshore market that has not yet fully healed, and inflationary pressures in the U.S., we believe that a stronger global recovery is beginning to take hold and that NOV is exceptionally well positioned to capitalize on the market opportunities that will emerge.

With that, we’ll open it up for questions.