NOV, Inc.
First Quarter 2024 Earnings
Conference Call Remarks

AMIE D'AMBROSIO
Director, Investor Relations

Welcome everyone to NOV's first quarter 2024 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 first quarter of 2024, NOV reported revenues of $2.16 billion and a net income of $119 million or $0.30 per fully diluted 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.

CLAY WILLIAMS
Chairman, President, and Chief Executive Officer

Thank you, Amie.

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For the first quarter of 2024, NOV generated revenue of $2.16 billion, an increase of 10% compared to the first quarter of 2023. The company generated fully diluted earnings of $0.30 per share for the first quarter, down $0.02 compared to the prior year first quarter. Pre-tax profit increased 14% year-over-year, but a higher effective tax rate and lower income from our Voestalpine joint venture in the first quarter led to lower earnings per share year-over-year. Adjusted EBITDA was $241 million or 11.2% of revenue, a $46 million increase from the first quarter of 2023, representing 24% leverage year-over-year.

NOV's first quarter EBITDA and EBITDA margin were its highest in nine years, and overall, it was a solid start to 2024. We began the year with several new business leaders across our organization and began operating under two new segments: Energy Products & Services; and Energy Equipment.

Revenue from Energy Products & Services grew 8% compared to the pro forma first quarter of 2023, despite a lower global rig count year-over-year. The segment continued to realize good adoption of its portfolio of technologies and rising demand for the tools and consumables it manufactures, particularly in the international and offshore markets. Year-over-year top line growth was broad based, as all but one of its businesses posted increased sales, with completion tools, drillpipe and rig instrumentation in particular posting strong double-digit gains.

Our new Energy Equipment segment revenues grew even more, up 12% year-over-year on a pro forma basis. Rising offshore activity fueled demand for equipment tied to deepwater developments, FPSO's and drilling rig reactivations and recertifications, which enabled the segment to overcome lower sales of pressure pumping equipment to North America year-over-year.

As part of our new structure, we are reporting a March 31, 2024 backlog for the Energy Equipment segment of $3.96 billion, which is comprised of NOV's contracted longer-cycle manufacturing and project work. Backlog declined 5% through the quarter, as bookings of $390 million represented a book-to-bill of 77%. We nevertheless see strong demand and have started the second quarter off with some big wins. While we won a $250 million-plus order for Energy Equipment for offshore work in

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Latin America during the first quarter, a required technical clarification delayed signing of the contract until April.

Capital equipment orders are typically lumpy, but we feel confident in the outlook and the strength of the market. Solid and stable commodity prices and exploration successes in new basins provide a foundation for growing offshore activity, a foundation which is expected to drive offshore FID's of over $100 billion per year for the next few years, and a 50%-plus uplift in FPSO's ordered in the next five years compared to the previous five, in spite of Saudi Arabia trimming or postponing its maximum sustainable capacity ambitions in the offshore.

We are also optimistic about onshore international developments, particularly in the Middle East, where dozens of rigs are being tendered and a couple of National Oil Companies are pursuing unconventional developments in earnest.

Our optimism and confidence continue to grow. That's why last night we announced a significant expansion of our return of capital program, including our plan to increase our base dividend by 50%, and a $1 billion share repurchase authorization. Jose will go into more details of the program in a few minutes.

Our investments over the past several years in new digital edge compute; optimization fueled by artificial intelligence; mechanization and automation; software control systems and remote monitoring; equipment electrification; emission reductions; drill cuttings processing; artificial lift; and downhole drilling technologies are leading to new, promising customer conversations and a growing number of users of these new products. Together with the recovery of oilfield activity in key offshore and international markets, new NOV products and businesses underpin our buoyant outlook for the next decade, and our plan to substantially ramp our return of capital to our shareholders.

After a challenging few years, we expect to continue to improve our profitability to drive EBITDA margins into the 14% to 15% range as we exit 2024, and to generate more cash as working capital moves past first quarter seasonality and normalizes through the remainder of the year.

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Continued cost reductions are an important part of our plan, too, and our new segment structure is facilitating additional efficiency improvements as we consolidate more manufacturing locations; centralize certain supply chain functions; engage engineering talent more collaboratively; and benefit from greater marketing coordination across business units and segments. We expect the $75 million cost reduction initiative we announced last July to continue to roll out through the remainder of the year, having achieved about 30% so far and expecting it to accelerate during the second quarter.

Strategically, through the last decade NOV has reinvented itself with the new products and technologies that I mentioned earlier, recognizing that organic innovation, occasionally supplemented by a targeted acquisition here or there, was the most capital-efficient way to reposition our franchise to meet the evolving needs of the oilfield. The two acquisitions we closed during the first quarter are good examples of this approach. Notably, these acquisitions were made at multiples well below the multiple of our second quarter sale of our pole products business, and below multiples where NOV trades, in effect reallocating capital across our portfolio to improve profitability and returns.

During the first quarter we acquired Hellenes, which brings us the technology underlying our iNOVaTHERM™ cuttings processing unit. This technology works in concert with driers and centrifuge technologies we've developed internally to process drill cuttings for safe environmental disposal. We've deployed edge compute and condition-based monitoring to optimize this onsite process, which dramatically lowers GHG emissions for offshore operators, who are expressing high demand. We expect our fleet of units on rent to grow from four in Q1 to seven by the end of Q2.

Our acquisition of the Extract electric submersible pump business brings an opportunity to deploy our organically developed MAX Edge computing platform to artificial lift and production optimization. As operators extend their well profiles from two-mile laterals to three-mile laterals, their initial gross volumes produced through each individual wellhead will increase significantly, too- a market trend that we expect to provide additional tailwinds to ESP demand. It also complements our existing artificial lift, choke, separation, pumping and processing products, and we believe we can leverage NOV's scale and footprint to grow this business.

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We are delighted that these two strong businesses are now part of the NOV family, and should benefit from complementary technologies developed organically within NOV. The MAX Edge platform also provides the foundation for other new products as well, like MAX Completions™, which has been adopted by dozens of companies and thousands of individual users. In fact, revenues from the MAX family of products increased 35% sequentially and two-and-a-half fold from the first quarter of last year.

Other new technology developments range from new products like our PosiTrack™ torsional vibrational mitigation tool, our Atom™ RTX rig robotics system, and our Downhole Broadband Solutions, to our investment in startups like Keystone Tower Systems where we aim to revolutionize onshore wind tower construction.

Innovation takes time and, frankly, startup costs, which vary across these initiatives. Nevertheless, our successes in innovation are what will continue to differentiate our business and drive improved profitability over the next several years.

We expect improving margins in our backlog to contribute to higher profitability as well, particularly in 2025 and beyond as lower-margin frame agreements signed during the pandemic lows expire. For instance, one of our Energy Equipment business units foresees a roughly 800 basis point improvement in margins from 2024 to 2025, due to its steady high-grading of contracts with improved inflation risk protection. We have been systematically working towards higher-margin, lower risk contracts, walking away from opportunities where we see insufficient margins or too much risk.

The key to success for NOV is to demonstrate value, as it always has been. Our new technologies do that, and our customers' programs and developments are evolving to benefit even more from this value- that's what's changing. International and offshore operators are going back to work and they want operational efficiencies obtainable with new NOV technologies. They want to reduce their environmental impact. They want to drive better safety. We can help. Consolidation in North America is being led by operators who value technology and are focused on continuous improvement. Again,

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we can help. Competitive pricing dynamics and inflation continue to be a headwind for margin improvement, but as our technologies roll out, day-by-day, customer-by-customer, our value proposition becomes clearer and that's a great place to reset pricing discussions.

Before I hand it over to Jose, I want to say thank you to all our employees listening today. NOV continues to transform this industry in so many ways and that is directly due to your ingenuity and your hard work. We appreciate you.

Jose?

JOSE BAYARDO
Senior Vice President and Chief Financial Officer

Thank you, Clay.

NOV's EBITDA increased 24 percent year-over-year to $241 million with margins improving 131 basis points to 11.2% of sales.

Cash flow used by operations was $78 million during the first quarter, driven primarily by seasonal builds in working capital and annual payments made in the first quarter. Working capital increased $395 million sequentially, due primarily to the decrease in accrued liabilities associated with the annual payments made during the first quarter and the two acquisitions we completed, which accounted for $106 million of the $127 million increase in inventory. While operations consumed cash, the use was well below what we consumed in the first quarters of the last two years, which reflects the turn in our business that gives us confidence in our ability to generate a substantial amount of cash flow over the next several years.

We believe NOV is well positioned to deliver strong performance as the cycle matures from a nascent recovery and evolves into an environment where later cycle equipment and technology businesses will outperform. As Clay noted, an improved market environment, differentiated technologies that we've

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developed over the last several years, and our focus on operational efficiencies will continue to push margins and cash flow throughout 2024 and beyond.

Our base forecast contemplates a sustainable multi-year period with modestly improving industry activity, led by the international and offshore markets. We expect soft activity in the U.S. through 2024 but anticipate a recovery in 2025 aided by increasing gas exports; however, we expect improvements in oil directed activity in the U.S. to be modest with international and offshore activity providing most of the incremental supplies required to fuel the growth of the world's economies. As a result, we expect a little less volatility in NOC and IOC drilling activity over the next several years versus what we have seen from North American independents over the past decade. Against this backdrop, we anticipate generating high levels of free cash flow on an annual basis for each of the next several years.

I want to stress the word "annual" when I talk about free cash flow because of the seasonality we experience during each year and the fact that we view our capital allocation activities on an annual, multi-year basis.

Our priorities for capital allocation remain consistent:

1. Defend the balance sheet;
2. Maintain our asset base;
3. Invest in organic growth opportunities that drive superior risk adjusted returns;
4. Pursue M&A that accelerates strategic growth initiatives at attractive returns; and
5. Return capital to our shareholders

Our balance sheet is currently in solid shape, with Gross Debt to EBITDA below our target level of 2:1. We intend to continue to use a portion of our free cash flow to return our net debt to EBITDA ratio below 1x.

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We have appropriately invested in our assets and expect a base level of investment to maintain and modernize our existing asset base over time of between $200 and $250 million per year. Incremental to this base level of spend are attractive organic investment opportunities primarily related to the commercialization of many of the technologies we've deployed over the last several years, which could range from $50 to $150 million per year. All of this is consistent with our expected $330 million capital expenditure plan for 2024.

We will continue to look for compellingly-valued strategic acquisitions that can accelerate our growth initiatives. We anticipate we will complete occasional small bolt-on transactions, similar to what we've done over the last several years. While the likelihood of larger acquisitions remains low, we intend to maintain the flexibility to pursue such a transaction.

With a healthy balance sheet; well maintained asset base; the expectation of smaller, rifle-shot acquisitions; and a high level of confidence in our outlook where NOV's capital-light business model will generate substantial amounts of free cash flow, we are ready to increase the return of capital to our shareholders.

Last night, we announced a plan to return at least 50% of our Excess Free Cash Flow, defined as cash flow from operations less capital expenditures and other investments, to our shareholders going forward. To balance the interests of all NOV's stakeholders, our framework utilizes a steady base dividend, opportunistic stock buybacks, and a supplemental dividend to true up returns to our shareholders on an annual basis.

Specifically, we intend to return this capital through a combination of the following:

1. We expect to increase our quarterly dividend from $0.05 to $0.075 per share, a 50% increase, beginning in the second quarter of 2024, resulting in an annual dividend payment of roughly $118 million going forward. We believe base dividends provide an immediate direct benefit to all shareholders.

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2. We plan to opportunistically repurchase shares under our new, $1 billion, 36-month share repurchase authorization. With our share price trading below what we consider a fair value, we believe using some of our Excess Free Cash Flow to repurchase our shares will drive long-term value.

3. At the end of each year, we plan to utilize a supplemental dividend that would be declared in May, starting in 2025, to coincide with our annual shareholders meeting, to true up our total annual return of capital to at least 50 percent of our Excess Free Cash Flow generated during the preceding calendar year.

We believe this approach serves and balances the interests of all of our shareholders.

We will not compromise the health of our balance sheet or our ability to invest in the business. Having experienced several routine industry cycles and one recent and very severe pandemic-induced cycle, we understand our business can change in a hurry. However, our capital return framework reflects our confidence in NOV's outlook and our commitment to delivering superior returns to our shareholders.

Finally, acknowledging that none of us can control or accurately predict the future, I want to try to frame what we think is possible over the next four years associated with our base industry outlook. Assuming continued operational and financial execution, what we believe is a reasonable EBITDA growth profile, and sticking to the minimum level of returns at 50% Excess Free Cash Flow, we estimate the aggregate capital to return shareholders through 2027 could be in the range of $1.5 billion. Under this scenario, approximately 30%, or $470 million, of shareholder return would be provided through our base dividend and the remaining $1.03 billion would be split between share buybacks and supplemental dividends.

I'll now move on to segment results.

Energy Products and Services

Our new Energy Products and Services segment generated revenue of $1.017 billion in the first quarter, an 8% increase compared to the first quarter of 2023. EBITDA increased $20 million to $174

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million, or 17.1 percent of sales, representing flow through of 26 percent compared to the first quarter of 2023.

Revenues for the segment are comprised of service and rentals, sales of consumable products, and sales from generally shorter-lived, or consumable, capital assets such as drill pipe, composite products, conductor pipe and solids control equipment that tend to see demand rise and fall more or less with activity. Sales mix for the segment during the first quarter was as follows: (1) service and rental, 49 percent; (2) product sales, 20 percent; and (3) capital equipment sales, 31 percent.

As noted, the largest share of our Energy Products and Services segment's revenues come from service and rentals, including rentals of our technologically advanced downhole tools and drill bits, coating and inspection services, solids control services, and drilling data acquisition, analytics and optimization services. With the exception of coating and inspections services, which tend to somewhat move with demand for drill pipe and other tubular goods, the remainder of our service and rental revenues tend to move in line with industry activity, plus or minus, usually plus, changes in market share. First quarter revenue for the segment's service and repair revenues increased in the low-to-mid single digits sequentially and year-over-year, with growing demand from offshore and international markets, particularly the Middle East, more than offsetting lower activity in North America.

Product sales are the segment's second category of revenues and are derived from sales of drill bits, completion tools, composite sleeves and liners, artificial lift products, shaker screens, and downhole tools, among others. Note that several of these products such as drill bits and downhole tools are also rental items, which I just covered. Product sales tend to be less volatile, less seasonal, and track activity a little more closely than revenue from capital equipment, although sales of products can also lag activity increases as our customers frequently stock inventories of these products.

While individual sales are typically small and frequent, each operation can have occasional, individually large, shipments that may be requested by certain large NOCs who sometimes take bulk shipments one or two times per year. The segment has steadily increased product sales every quarter over the

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last year, with the first quarter of 2024 up eight percent sequentially and 19 percent year-over-year. And, we expect product sales to increase in the mid-to-upper single digits again in the second quarter.

Looking at specific product lines, drill bits are capitalizing on increasing activity in the Middle East and offshore markets. Our completion tools business is also realizing solid levels of demand in the Middle East, more than offsetting softness in North America. Sales of our Tuboscope Thru-Kote™ sleeves, Zap-Lock™ connections and Tector™ thread protectors have remained solid and we expect to see a significant increase in the second quarter from shipments to customers in the Middle East, Western Africa and Latin America. Sales of our downhole tools decreased 20 percent sequentially after large shipments to Asia and Europe in the fourth quarter did not repeat.

Finally, sales of the segment's capital equipment offerings, which include drill pipe, conductor pipe, fiberglass products, managed pressure drilling equipment, shale shakers, and other equipment tend to be seasonal and volatile, often lagging activity a bit. In the first quarter of 2024, revenues from capital equipment in our Energy Products and Services segment increased eight percent year-over-year, but declined 23 percent sequentially due to the seasonal effect of customers making a big push to receive their equipment at year-end.

Our drill pipe business unit experienced a greater than average seasonal decline given outsized fourth quarter shipments to international markets, partially offset by increased U.S. land deliveries. New orders, however, had a more favorable international and offshore weighting and included an award for an offshore completion and workover riser destined for offshore Brazil.

Capital equipment sales for our solids control offerings were down in the mid twenty percent range sequentially due to the ordinary increase in year-end shipments. Revenues increased in the upper teens percent range year-over-year on growing adoption of our Alpha shaker and sales of other innovative drilling solutions such as our Tundra™ MAX mud chilling systems.

Our two most seasonally volatile capital equipment offerings are our conductor pipe and our managed pressure drilling equipment. After a strong fourth quarter for the two product lines, both realized

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substantial sequential revenue drops and yet both also have very strong outlooks resulting from the increase in offshore activity. Conductor pipe casing orders achieved a book to bill of over 200%, with solid demand coming from projects in the North Sea, West Africa, the Gulf of Mexico and South America, which will allow for a much improved second quarter. We are expecting revenues from both conductor pipe and MPD to more than double from the first quarter to the second quarter of 2024.

Our composite product offerings tend to be our least volatile capital equipment line in the segment, due in part to the diverse set of end markets served, which include midstream oil and gas, fuel handling, chemical, industrial, and marine. Demand for composite products is still seasonal, and sales declined in the low-single digit range sequentially but are up mid-single digits year-over-year. Outlook for all end markets remains solid, with particularly robust demand for oil and gas products in the Middle East and a recent pick up for orders for flexible pipe and composite tanks in the Permian.

For the second quarter, we expect revenues for our Energy Products and services segment to improve between one and five percent from the second quarter of 2023, with EBITDA in the range of $180 to $190 million.

Energy Equipment

Our Energy Equipment segment, which is comprised of our longer-cycle capital equipment-oriented businesses, generated revenue of $1.178 billion in the first quarter, a 12% increase compared to the first quarter of 2023. EBITDA was $119 million, or 10.1 percent of sales, up 27 percent compared to the first quarter of 2023. Clay covered our bookings for the quarter, but I want to emphasize that the capital equipment business is inherently more volatile than other businesses. In this case, despite orders that slipped from the first to the second quarter, we foresee a generally bright outlook and now expect an outsized order book in the second quarter.

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As a pure capital equipment business, our operations have two revenue streams, capital equipment sales and aftermarket sales and services. During the first quarter, equipment sales, which includes both revenue out of backlog as well as quicker turning equipment sales that do not meet our criteria to qualify as backlog, accounted for 52 percent of the segment's revenues. Aftermarket sales and service accounted for the remaining 48 percent. Similar to what we experience in our Energy Products and Services segment, sales and orders for capital equipment tend to be more volatile and are much more affected by seasonality than aftermarket sales. The segment's capital equipment sales were up seven percent year-over-year but had a seasonal decline from the fourth quarter of 16 percent, due to the typical year-end push by customers to take deliveries. Aftermarket revenues tend to have a little less seasonality and are much less volatile. Aftermarket revenue improved 18 percent since the first quarter of 2023 and was off approximately one percent from the fourth quarter. The vast majority of our aftermarket revenue comes from our drilling equipment and intervention and stimulation businesses.

Our Drilling Equipment business generates three quarters of its revenues from aftermarket sales and services, and in the first quarter its aftermarket revenues improved 27 percent year-over-year as the business continued to improve throughput and capitalize on a very healthy level of reactivation and recertification projects and spare part orders. Higher levels of activity around the world are increasing the number of NOV-equipped rigs turning to the right, requiring more demand for NOV's parts and services. Additionally, as we dig deeper into the stack for reactivations and the average age of the operating fleet increases, reactivations, recertifications, and upgrades become more complex. During the first quarter of 2024 we saw the total value of projects in execution (having a value of greater than $2 million) continue its steady rise, now up 175 percent from the first quarter of 2023 and reaching an average size of $20 million per project, up from a $9 million average in the first quarter of 2023. With robust offshore operator drilling plans and current dayrates allowing drilling contractors to generate significant cash but not high enough to justify newbuilds, contractors have incentive to keep their aging assets in good working condition. Being the OEM with the largest installed base, our Rig Technologies

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aftermarket business will continue to play a larger role for our customers, who rely on NOV to provide reliable service and quality for these critical assets.

Our Intervention and Stimulation Equipment business unit's relatively stable aftermarket revenues reached 63 percent of the unit's mix in the first quarter of 2024. Despite a soft North American market, we expect our aftermarket operations to remain busy providing consumables and replacement components as well as upgrades and refurbishments of equipment, both domestically and overseas.

Moving to the capital equipment side of the business, our drilling equipment's capital sales improved in the mid-20 percent range year-over-year. Book-to-bill was well north of 100%, led by a 20K-psi BOP upgrade for a drillship in deepwater Gulf of Mexico. This will be the industry's fourth 20K-psi BOP, with NOV building all four systems and demonstrating our leadership in cutting-edge pressure control technology that allows our customers to reach previously inaccessible reservoirs. Utilization for offshore rigs remains high and increased towards the end of the first quarter. The news from the Saudis scaling back their offshore fleet will put some pressure on jackup utilization near-term, but we believe those rigs will eventually be absorbed by other projects around the world and will drive more activity into onshore unconventional gas fields. This will increase demand for our land rig equipment and aftermarket support, which we are very well positioned to provide in Saudi, as well as for our Intervention and Stimulation Equipment business, which has already seen an increase in orders for completion and intervention equipment as a result of rapidly improving activity in the Jafurah unconventional field.

Sticking with our Intervention and Stimulation Equipment business, capital equipment deliveries were down in the twenty percent range from the first quarter of 2023, due primarily to strong deliveries of eFrac and conventional pressure pumping equipment in early 2023 that did not repeat. Capital equipment orders declined due to lower demand for new pressure pumping kit, but the unit still posted a book to bill greater than one as a result of solid demand for equipment destined for international markets, including the order for Saudi that I just mentioned. While we anticipate bookings for new pressure pumping equipment will remain soft in the second quarter, there continues

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to be a high level of interest for alternative energy equipment, specifically eFrac and CNG units, and the business' backlog remains healthy with meaningful shipments of DGB and eFrac units slated for the second quarter. In international markets the business is seeing solid demand from Africa and Europe, in addition to strong demand from Middle East.

Our offshore wind and construction business achieved year-over-year revenue growth in the mid-20 percent range from strong execution on the business unit's backlog of offshore wind projects. Bookings included an inter-array cable lay vessel for a Japanese construction company which will be used to connect wind turbines within an offshore development. Outlook for the unit's core markets is positive with improving sentiment in the offshore wind space and the potential for a couple new wind installation orders later this year.

Wellstream Processing operations achieved solid year-over-year revenue growth from strong execution on the operation's backlog of processing equipment projects, which continues to grow with increasing opportunities to support new FPSOs. The operation also continues to realize more opportunities to leverage its gas and fluids processing expertise into large-scale energy transition projects and received an order for a hydrogen dehydration and deoxygenation package in Australia after having completed an engineering study for the customer over the last year.

Our Production and Midstream business saw an upper single digit decline in revenue compared to the first quarter of 2023. Challenging conditions in North American gas markets impacted demand for chokes and other equipment, but was partially offset by strong international activity, particularly in the Middle East. Bookings remained robust driven by choke orders in the Middle East, where demand over the last five months exceeded orders for the preceding 11 months. With the unit's quickly improving backlog and ramping deliveries, we expect solid growth from this operation in the second quarter.

Notwithstanding the low level of bookings in the first quarter, our Subsea flexible pipe business unit posted solid results and its mid-to-longer-term outlook is very strong. The unit posted mid-teens year-over-year revenue growth and, despite the large order slipping out of the quarter, the business

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secured a contract to deliver its first actively heated flexible pipe system for a deepwater gas field development in the Black Sea. The pipeline of future tenders for subsea flexible pipe is robust with considerably improved pricing. We expect lower-margin contracts to continue to be replaced by higher-margin projects, which will drive a significant improvement in margins during 2025.

For the second quarter, we expect revenues for our Energy Equipment segment to improve between one and five percent from the second quarter of 2023, with EBITDA in the range of $135 to $145 million.

With that, we'll now open the call to questions.

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