

National Oilwell Varco, Inc.

Second Quarter 2017 Earnings Conference Call Remarks

LOREN SINGLETARY

Vice President, Investor and Industry Relations

Welcome everyone to National Oilwell Varco's second quarter 2017 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 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, in the second quarter of 2017, NOV reported revenues of \$1.76B and a net loss of \$75MM or (\$0.20) 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.

CLAY WILLIAMS

Chairman, President, and Chief Executive Officer

Thank you, Loren. In the second quarter of 2017, NOV generated \$1.76B in revenue and \$142MM in EBITDA—a strong \$37MM sequential EBITDA improvement. Much of our business continued to rise with higher oilfield activity, particularly in North America, leading our land business 7% higher sequentially in the quarter. But this was largely offset by reductions offshore (and certain sluggish international markets like Asia and Africa) that pushed our consolidated offshore mix down to 39%, and our land mix up to 61%. So, NOV continues its pivot to where the action is.

Our business unit leaders executed superbly on cost reductions and efficiency improvements. Case in point, the Rig Systems segment posted lower revenues and EBITDA, but the team there, once again, managed costs remarkably well, as sequential decremental EBITDA margins came in at only 15%. The rest of our segments all posted improved revenues and EBITDA and margins for the second quarter. Rig Aftermarket grew revenues meaningfully, with whopping 60% incrementals driving a 220 bps sequential improvement in margin. Solid second quarter top-line growth marked the first real sign we've seen through the downturn that many of our customers have depleted their spare parts inventories, which points to stability and future growth for Rig Aftermarket.

Our Wellbore Technologies segment revenues improved by over 10% sequentially, with nearly 50% EBITDA incrementals driving a 390 bps sequential improvement in EBITDA margins. Longer, more challenging laterals drove rising demand for NOV's sophisticated technologies. Our Completion & Production Solutions segment also achieved strong incrementals on 1% revenue growth, as cost reductions, better-than-expected performance on offshore projects, and solid execution across the board drove EBITDA margins up 310 bps sequentially. Overall, during the second quarter we were very pleased to see strong execution by operations, as well as



solid progress on our many strategic initiatives, new products and technologies we are innovating, and five acquisitions closed during the second quarter. NOV continues to enhance the solutions our customers need to navigate a low-commodity price world.

One such solution is solids control and waste management. We're a leading provider in this area, having steadily built our position over 20+ years through a combination of acquisitions and investments in organic growth. Now, Wellbore Technologies derives roughly a fifth of its revenues from this business. Frankly, today, when it comes to solids control, we're it.

If you're wondering what solids control is, let me take a minute to explain. On a drilling rig, mud pumps push drilling fluid (or mud) down the drillstring to the drill bit, where it exits the bit and mixes with the solid drill cuttings to form a slurry. This slurry is then pumped back up the outside of the drill pipe to the surface. There, NOV's specialized solids control technologies separate solid drill cuttings from the slurry, so that clean mud is recycled and recirculated back down the drillstring over and over as drilling progresses, and the separated drill solids can be disposed of safely.

This is a critical process. Accumulated drill solids in mud reduce rates of penetration and cause issues like excessive torque, drag, and abrasion; packoffs and stuck pipe; and potentially lost circulation and/or lost production, all of which are expensive and most of which are very, very, expensive. This makes the solids control processes employed in drilling operations very, very, critical. Being the global leader in this technology means that NOV is the go-to name in the oilfield to manage these challenges.

Most of you are probably familiar with the industry's recent gains in reducing the days required to drill wells. What this means is that the more-capable, higher-tech rigs we've provided are manufacturing more borehole per rig-day than ever before. In fact, the "super-spec" land rigs in highest demand today boast a third mud pump to push more drilling fluid downhole to drill larger diameter, longer laterals, all of which combine to create more borehole volume created per rig day.

More footage and larger diameter boreholes drilled each rig-day means more drill cuttings volume that must be separated and managed every day on every drilling rig. NOV's Wellbore Technologies segment is generally driven by footage drilled, as opposed to rig count, and our solids control business is the perfect example of this.

Good solids control begins with high-tech shale shakers, vibrating devices that separate large drill cuttings by passing the drilling mud through a filter called a shaker screen. Twenty years ago, rigs had two shale shakers, each equipped with four shaker screens, usually vibrating linearly. Today we're adding a third (and, in some cases, even a fourth) shale shaker to land rigs, that vibrate elliptically with patented processes to control G-force that automatically adjust to the mass of cuttings received in real time. Our new shakers have increased from four to six screens on each shaker, meaning we've doubled and tripled the actual number of shaker screens on each rig—from eight to as many as 24. Shaker screens encapsulate a tremendous amount of technology and IP to handle higher drill cuttings volumes, but they're consumed quickly and must be replaced nearly every week. NOV leads in this area, offering three of the five primary high-end shale shaker products that most in the oilfield turn to for solids separation. NOV is also a leading provider of other sophisticated solids control technologies like gas busters that separate entrained gas from the mud and hydrocyclones and high-speed centrifuges that are used to remove microscopic, high-density solids from drilling muds, to improve their performance downhole.

Lately, deeper wells and longer laterals mean higher borehole and drilling fluid temperatures, sometimes in excess of 300 degrees Fahrenheit. Excessive heat can damage drilling motors, rotary steerable systems, and downhole electronic components. NOV's WellSite Services business unit helps drillers manage this by cooling drilling fluids before they are circulated back downhole to improve drilling performance and extend downhole tool life. We developed a fully automated land mud chiller that's essentially an on-site refrigeration system to cool drilling fluids by as much as 25%.

Drill cuttings usually comprise the biggest waste stream coming from drilling a well. Frequently, drill cuttings must be treated to remove residual oil mud before they can be disposed of, so we pioneered several technologies to accomplish this, including using heat to cook out the residual oil, which we condense and recycle. Our thermal desorption units operate in 12 fixed facilities around the globe that process drill cuttings down to negligible levels of residual oil, making the cuttings environmentally acceptable for disposal. In many areas, we apply our technology to grind and reinject these cuttings back down the wellbore.

Failure to remove drilled solids from drilling mud can bring a rig to its knees. We have the technologies, experience, and knowledge to deal with our customers' most challenging applications. And, through dozens of acquisitions, experience on thousands of wells, and scores of patents and unique technologies, over the past two decades we have built sustainable competitive advantage in solids control. It's what we do.



Let me give you another example within our Completion & Production Solutions segment.

The oil and gas business uses a lot of pipe—steel pipe—to case wells, to gather oil and gas, and to inject CO₂ and water. But steel pipes do not mix well with the corrosive oilfield fluids that pass through them, like sour oil and gas and produced water with high chlorides, CO₂, or H₂S. Untreated steel flowlines in certain fields may corrode through and begin to leak within a few months. Corrosion is one of the industry's biggest production challenges.

NOV's Fiber Glass Systems business unit, which comprises about 15% of our Completion & Production Solutions segment, provides the solution: composite pipe that is impervious to corrosion. In fact, we are the leading global manufacturer of composite pipe for the oilfield and a major provider of composite pipe for marine/offshore and chemical/industrial markets.

Nearly 50 years ago oilfield innovators began to use fiberglass and composite pipes to handle produced water, to avoid having to frequently replace corroded steel flowlines. Some of our earliest installations of fiberglass pipe are still in operation, because they are so durable. Since then NOV has continued to innovate, and as pressure and temperature ratings have risen and our size range expanded, NOV's composite piping systems have steadily won share in the oilfield's most corrosive environments. Decades ago, NOV was the first supplier to win API certification and today we are the leader, having installed enough fiberglass pipe in oil and gas applications to go around the world twice. And this area continues to offer great growth prospects.

Fiberglass pipe, though more expensive than steel pipe, has lower installation costs because it can be assembled by hand, whereas steel pipe must be welded. And by pioneering flexible composite pipe that can be wound on a reel, our Fiberspar™ spoolable pipe enhanced this installation cost advantage, because reeled pipe in 9,000-ft lengths can literally be plowed into the ground at a rate of many miles per day—far, far more than a pipe welding crew can accomplish in the same period. Once in, fiberglass is a long-term solution to corrosion, whereas steel typically must be replaced or continuously treated with expensive inhibitors throughout its life. Fiberglass is also more resistant to paraffin and scale buildup, which can slowly choke off steel flowlines. In addition to flowlines, NOV also manufactures fiberglass tubing and casing for production, injection, and observation wells for certain fields, and a spoolable variation is used to deploy ESPs with imbedded cabling in certain applications.

Our leadership position is built on technology and cost advantages. Our proprietary methods of winding pipe enable us to achieve higher pressure ratings (up to 3,500 psi) and our epoxy technologies enable us to achieve high temperature ratings (exceeding 200 degrees Fahrenheit). In addition to flowline products for gas and oil we also manufacture piping systems for gasoline stations, for refineries and petrochemical plants, for municipal applications, and for firewater and ballast saltwater systems in marine vessels. Through our recent acquisition of Pipex, NOV entered into the composite structures market—think platforms, tanks, and handrails—which enhances NOV's offerings in offshore rigs, FPSOs, and other marine vessels due to the ability of composites to reduce weight and corrosion susceptibility in marine environments. For example, we recently executed a North Sea platform project where we ended up reducing the platform's weight by almost 700 metric tons. In the mining market, we embed structurally reinforced epoxy resin pipe with high alumina ceramic to create a product that's both durable and corrosion-proof, even in abrasive slurries like mine tailings. Our enhanced manufacturing and design technology combined with our global presence and raw material advantages again equal: competitive advantage.

Amid challenging offshore drilling conditions, NOV is pivoting to new markets and new opportunities. I offer these examples to illuminate the robust portfolio of technologies NOV will bring to the next oilfield upturn. Last quarter I talked about our Downhole Tools and Process & Flow Technologies businesses, and today NOV WellSite Services and Fiber Glass Systems. In these, and in all of our business units, we've steadily and smartly applied capital, both organically and through M&A, to build global, leading franchises that are capable of generating strong through-cycle returns. It's what we do. NOV remains exceptionally well-positioned for the inevitable upturn.

Finally, before I hand it over to Jose to review the operating results for our second quarter, I want to take a moment to convey our thanks to our terrific employees. Your performance has been amazing, and I am proud of the great job you continue to do. Thank you.

Jose?



JOSE BAYARDO
Senior Vice President and Chief Financial Officer

Thanks, Clay.

To recap our second quarter results, NOV consolidated revenues increased by \$18MM from the first quarter of 2017 to \$1.76B. Continued growth in the U.S. and stabilizing international markets were partially offset by the seasonal Canadian spring break-up and the ongoing challenges in the offshore market.

As Clay mentioned, the organization executed extremely well, delivering a \$37MM sequential EBITDA improvement to \$142MM.

Looking at select line items of the P&L, SG&A decreased \$13MM sequentially as we realized meaningful cost savings from ongoing efficiency improvement initiatives.

Interest and financial costs increased by \$1MM due to the release of the remaining unamortized debt issuance costs, a non-cash item, associated with the termination of our prior credit facility. Under our new five-year credit facility, future amortization costs and unused commitment fees will actually decrease by \$620k per quarter. So, going forward we expect interest and financial costs to return to the \$24 to 25MM/quarter range.

Our GAAP tax rate was 15.9%; excluding other items, the tax rate would have been 8.6%. As we have previously noted, while we operate at near break-even income levels, relatively small changes in income by jurisdiction or discrete items can result in significant changes in our effective tax rates. This volatility presents challenges in forecasting rates, but at this time our best estimate for the effective tax rate for the remainder of the year is 10%. Our longer-term expected tax rate remains in the 30% range.

In the second quarter, cash flow from operations was \$168MM, and after deducting \$43MM in capital expenditures we netted \$125MM in free cash flow. We believe our capital-light business model and strong execution will continue to drive free cash flow margins in the top quartile of the oilfield services and equipment sector.

We also invested \$76MM on five technology acquisitions that were mostly focused on rounding out our emerging directional drilling and completion tools product offerings.

Our cash balance increased \$51MM to \$1.53B and total debt remained at \$3.2B with nothing outstanding on our credit facility.

Rig Systems

During the second quarter, our Rig Systems segment generated \$346MM in revenue, down \$47MM, or 12%, sequentially. Revenue from backlog dropped to \$224MM, \$61MM lower than the previous quarter and \$36MM below our prior guidance, as certain capital equipment deliveries slipped into the third quarter.

EBITDA was within guidance at \$26MM, as strong execution by our team limited decrements to 15%. As we downsize our Rig Systems operations, our team continues to seize every opportunity to high-grade capabilities, improve efficiencies, and lower costs.

A recent facility consolidation required relocating our large rig gear cutting and grinding operation. The move would have required shipping 14 very large, old machines. Instead, we purchased and installed two cutting-edge technology machines for a capital investment that was roughly equal to the cost of moving the old machines to the new facility. The new, more nimble, equipment achieves the same throughput as the 14 old machines with significantly reduced cycle times, maintenance costs, and roofline requirements.

Like us, our customers are seeking ways to improve the efficiencies of their operations, and we're here to help. For example, we recently introduced a new 1200-HP high-torque, induction-motor-powered top drive to deliver more torque and more power to drill extended lateral wells. And, for all our customers who already own our market-leading TDS-11SA top drive, we developed an upgrade kit to provide them with the same high-torque capabilities. Our upgrade goes beyond replacing the top drive motors and includes important modifications to the gearbox and other components to support the 50% horsepower increase.

We're also receiving increased inquiries for other products that improve our customers' key processes, including our Stand Transfer Vehicle (STVTM), which automates pipe handling operations, ensures consistent tripping speeds, and eliminates the most dangerous



job on the rig by removing the need for a man in the derrick. And offshore, we're seeing customers evaluate potential upgrades for future contracts, including improved lifting capacity, pipe handling systems, and BOPs.

We booked \$124MM in new orders in the second quarter, a slight improvement from last quarter. Land-related orders were \$75MM, or 60% of the total, and included one 1,500-HP AC Ideal™ Rig and a complete land rig equipment package that includes our NOVOS™ control system as we continue supporting private North American drilling contractors' efforts to upgrade their rig fleets.

We see opportunities for continued modest increases in bookings yet remain realistic on the impact lower commodity price can have on capital equipment orders. After rising approximately 15% off the bottom, gains in day rates for land rigs in North America have stalled at around \$20K/day, leading many drillers to defer newbuild capital commitments. OPEC cuts also appear to have delayed anticipated rig tenders in the Middle East.

Despite a slow, grinding recovery for the land drilling market, we've averaged close to \$120MM/quarter in Rig Systems orders over the past four quarters. This order rate, plus our current non-backlog revenue of another \$120MM/quarter, implies a recent run rate of about \$240MM/quarter, or close to \$1.0B per year for Rig Systems, which compares to annualized Q2 revenues of \$1.4B.

To be clear, I'm NOT guiding to \$1B in annual revenue for Rig Systems, but I AM pointing out that our numbers through the last four quarters would indicate a floor at about \$1B/year, IF there is no meaningful recovery in land equipment demand.

We don't think this is a realistic scenario. The success of the shale revolution was built on drilling challenging wells efficiently, which in turn was built on better rig technologies. The "have-nots" around the globe are almost certainly going to up their game with modern rig technology, which only continues to get better.

As a result, we can just as easily envision a scenario in which slightly higher commodity prices and activity levels will drive future bookings that more than offset the gradually falling contributions made each quarter by our existing \$2.2B in backlog, propelling annual revenues well beyond our current run rate.

Even though we expect modestly higher revenue in the third quarter, because of our stubbornly low book-to-bill—55% this quarter—we are not calling a bottom in Rig Systems yet. For the third quarter, we expect margins to tick down slightly due to a lower margin mix of projects that will be delivered in Q3.

Rig Aftermarket

During the second quarter, our Rig Aftermarket segment generated \$341MM in revenue, an increase of \$20MM, or 6%. Higher volumes of spare part sales and improving absorption of our service and repair facilities drove 60% EBITDA incrementals for a \$12MM increase in EBITDA to \$83MM or 24.3% of sales.

Q2 marked the second quarter in a row of increased spare parts revenue, primarily driven by increasing demand in North America. Service revenues also improved, with North American service utilization reaching the highest level in the past 18 months supported by land rig reactivations and installations of our NOVOS control system. Lastly, repair revenues increased sharply, supported by growth in SPS-related work in Norway, Brazil, and Africa. Across our Aftermarket business, we're seeing elevated interest for spares, service, and repair from customers nearly everywhere as drilling contractors look to reactivate, recertify, and ensure rigs are well positioned to compete for new contracts in today's competitive market.

As noted in the press release, we recently signed a 10-year service and support agreement with Transocean for 15 drilling rigs. The goal for both parties is to lower total cost of ownership and maximize equipment uptime by fully leveraging NOV's leading drilling technologies, global aftermarket service and repair capabilities, and data-driven solutions. Our condition-monitoring solutions will help reduce unnecessary maintenance, improve equipment reliability, and assist our efforts to provide more in-field certifications to eliminate downtime associated with trips to port.

Historically, the industry has maintained equipment using time-based triggers and has only recently begun migrating to more usage-based triggers, with the ultimate goal of achieving symptom or condition-based maintenance.

At NOV, we are pioneering condition-based maintenance, using a combination of sensor data and advanced proprietary algorithms to inform users about the health of equipment, allowing them to reduce unnecessary maintenance and improve reliability. We can spot patterns that predict future conditions before they occur to identify looming performance issues – using data not to describe



things as they are today but to predict what they will be in the future to provide value-added, actionable feedback for our customers.

We believe we are able to develop superior predictive algorithms by merging the power of Big Data analytics with extensive data libraries and equipment expertise that is only available to us as the original equipment manufacturer.

Our Rigsenry™ condition-monitoring system is one of our solutions designed to help our customers operate and maintain their equipment more effectively, and we're building similar solutions in our other capital equipment businesses by leveraging our installed base of equipment, product experts, and Big Data technologies.

While the controls, sensors, and predictive algorithms we have today create tremendous value, ultimately, we intend to combine the many solutions for discrete pieces of capital equipment into one system that will help maintain, monitor, and automate entire processes, such as a complete drilling operation. Taking responsibility for the comprehensive set of equipment on our customers' rigs will provide us with the opportunity to accelerate the development of such a system.

Looking ahead to the third quarter, we expect Rig Aftermarket to continue its pace of slow, steady improvement with a couple hundred basis point increase in revenue and strong incrementals.

Wellbore Technologies

During the second quarter, our Wellbore Technologies segment generated \$614MM in revenue, an increase of \$59MM or 11%. Robust U.S. activity growth and modest improvements in many international markets, partially offset by the Canadian spring break-up, increased customer demand for Wellbore Technologies' products and services. The segment delivered 47% incremental margins, resulting in a \$28MM increase in EBITDA to \$66MM, or 10.7% of sales.

Robust improvements in U.S. land markets drove the segment's business in North America to 58% of total segment revenue and pushed revenue from land markets up to 82%. Many of our U.S. businesses and product lines grew well in excess of rig count and general activity improvements. Early in a recovery, our product-oriented businesses tend to lag rig count growth as customers work through oversupplied levels of readily available product inventories, but as we talked about last quarter, scarcity can and has returned quickly to the oilfield. Customers are scrambling to acquire the technologies NOV provides to help them drill farther and faster, and we're seeing demand inflect for many of our valuable differentiated technologies with nearly 30% growth in drill bits, motors, borehole enlargement equipment, agitators, and rig instrumentation.

Longer laterals demand more advanced technologies, and we continue to address our customers' primary needs through innovative solutions like our Tektonic™ drill bits, ION™ cutters, and our new Series 36i downhole drilling motor. The proprietary new motor provides low-amplitude oscillations that vary weight on bit by approximately 30%. The oscillations reduce friction and stick-slip to increase rate of penetration in extended reach drilling.

During the second quarter, we signed two new drilling motor rental supply agreements with customers operating in the Permian, Anadarko, and Eagle Ford Basins that total over 150 motor rentals per month.

Our downhole tools business is also seeing growing demand from the coiled tubing market, having recently secured an order for 60 TerraMax™ milling systems to mill out bridge plugs on long laterals. The order totals over 260 tools, including motors, agitators, circulation subs, and thru-tubing connectors, making it our largest thru-tubing tools order in North America since 2012.

As customers bring rigs back into service to drill increasingly complex wells, they are demanding better instrumentation and data acquisition equipment. We believe our MD Totco business has the most recognized name in the industry for top-tier instrumentation and data acquisition systems, and our customers seem to agree as growth in this business exceeded the sequential growth in rig count.

Elsewhere, our growing directional drilling tool business and our drilling optimization and automation products and services realized worldwide growth of almost 16% led by several key product sales from our directional drilling tool product line and continued market adoption of our eVolve™ closed-loop drilling automation and optimization services. The growing demand for our eVolve services drove another record quarter for our IntelliServ business unit, which provides wired drill pipe and related technologies that enable our automation projects by delivering real-time, broadband downhole data to our control systems.



Our drill-pipe business rebounded more sharply than anticipated on improving volumes, with second quarter bookings growing another 11% above first quarter levels for a book-to-bill of approximately 120% driven by demand for our recently introduced Delta™ drill-pipe connection. Year to date, we've sold over 500,000 ft of pipe with Delta connections. Four major operators are making substantial use of pipe with Delta connections, and they have validated the connection's enhanced mechanical performance and improved total cost of ownership. The technology has performed exceptionally well in North American land and offshore operations, and we anticipate Delta connections will be used internationally for the first time by the end of the third quarter.

The improved activity in our drill-pipe business also helps boost our U.S. pipe-coating operations.

For the third quarter, we expect segment revenue will increase another 8 to 10%.

Increasing demand across the segment allows us to reactivate idle machinery and add second and third shifts, significantly improving absorption across many of our North American manufacturing and service facilities. While it's still early, we also see more meaningful opportunities for price improvements across the segment, giving us more confidence that we should be able to sustain strong incremental margins through the remainder of the year.

Completion & Production Solutions

During the second quarter, our Completion & Production Solutions segment generated \$652MM in revenue, a \$4MM sequential increase. Improvements in land-oriented operations were mostly offset by declines in offshore businesses.

EBITDA increased by \$21MM to \$98MM, or 15.0% of sales. Better-than-anticipated execution on offshore projects, FX benefits, and our cost-savings initiatives drove the outsized incrementals.

On the order front, nearly all of our business units secured orders well in excess of 100% book-to-bill. Total segment bookings were \$501MM for an overall book-to-bill of 127%.

The benefit NOV's completion offerings receive from the ongoing North American market recovery is amplified by favorable secular trends that drive higher capital and service intensity. The growth in enhanced completion techniques, for example, requires more pressure pumping equipment for the increasing number of higher volume stages, more coiled tubing equipment to mill out plugs used to separate frac zones, and more wireline equipment needed to perforate each stage.

For the second quarter in a row, our Intervention and Stimulation Equipment business unit achieved a book-to-bill of approximately 140%. Included in the order book was a total of 107,500 HP of pressure pumping equipment and orders for seven new coiled tubing units. Beyond new capital equipment, our Intervention and Stimulation Equipment business unit continues to see growing demand in North America for refurbishes and spare parts including valves, seats, and flow iron as increasing pressures and higher rates of abrasive proppants pumped downhole cause increased wear on even the most reliable equipment and consumables.

On the production side, our Process and Flow Technologies business unit achieved a book-to-bill above one based on rising demand for production chokes, LACT units, wellhead separators, and other processing equipment. Additionally, efficiency improvements resulting from the integration of our Fjords transaction contributed to 85% incremental EBITDA margins on a modest revenue increase.

Our Fiber Glass Systems business unit continues to realize solid bookings and revenue growth, supported by spoolable pipe demand in the Middle East and U.S., partially offset by declining demand from the more offshore-oriented Southeast Asia market.

As anticipated, we saw an aggregate net sequential decline in revenue from our three offshore-production-related businesses, which include our subsea flexible pipe, large-diameter conductor pipe connections, and floating production systems business units; however, all three operations achieved better-than-anticipated profitability on exceptional execution, cost savings, and foreign exchange benefits. All three business units also booked orders well in excess of 100% book-to-bill. We received an order for a subsea soft yoke system for a floating storage regassification unit in Brazil, our first significant order for our Floating Production Systems business unit in 18 months. Our XL Systems business unit also won a multi-million-dollar order for our fatigue-resistant Viper™ conductor casing, which is ideally suited for extreme service conductor and casing applications in deepwater operations.

Notwithstanding the quarter's strong bookings, the near-term outlook for our offshore-levered businesses remains challenged. While our recent offshore orders help partially replenish depleted backlogs, many are for long lead-time items with deliveries that



extend into 2018, limiting their impact on near-term revenues. As a result, we expect our offshore-production-oriented businesses to take another step down in the third quarter.

On land, strong activity levels and pent-up demand following two years of limited investment in capital equipment support the remaining business units within our Completion & Production Solutions segment; however, the recent dip in commodity price to the low \$40 level noticeably reduced customers' sense of urgency related to large capital equipment orders, creating uncertainty for the pace of future order intake.

In the third quarter, we anticipate a three to five hundred basis point improvement in revenue, with margins declining between one to two hundred basis points due to less favorable mix and FX benefits that we do not expect to repeat.

Wrap Up

For NOV, the second quarter was about exceptional execution and realizing efficiency improvements from investments we made in our operations over the past few years. While oil prices continue to linger under \$50/bbl causing a wary mindset among our customers, we remain extremely encouraged by the ongoing depletion of excess equipment in all markets around the world, pent-up demand for more efficient modern equipment in international markets, and the way our people have positioned this organization for the future.

