

National Oilwell Varco, Inc.

Analyst Day 2014

The Value of Leadership

CLAY WILLIAMS

President, Chairman, and Chief Executive Officer

Clay previously served as President and Chief Operating Officer of NOV, as well as Executive Vice President and Chief Financial Officer. While Chief Financial Officer for Varco, Clay played an influential role in the merger with National Oilwell in 2005. He also held positions as Vice President of Corporate Development and Vice President of Pipeline Services for Varco and Tuboscope. Prior to working at Tuboscope and Varco, Clay held leadership roles within SCF Partners and Shell Oil Company.

It is great to be here. I really appreciate the opportunity to spend some time with you. Loren, many thanks to you and Lydia Brantley and the team that has organized this. This is our first Analyst Day, so, this is a big deal for National Oilwell Varco. In particular, I know that all of you here in attendance are very, very busy and taking two days out of your very busy schedules to spend with us is much appreciated.

Some of you may have had two of your portfolio companies, for instance, announce a merger earlier this week. I'm here to tell you on behalf of the management team, we understand you're making a big investment in time in understanding our story and the direction of our company, and I want you to know that we are absolutely going to make it worth your while. We have terrific stuff to share with you. This is a dynamic and growing company with great opportunities ahead and so over the next two days, you're going to learn a lot more about where we're going and how we're going to get there.

The agenda is in front of you there, but to give you a sense of the flow as we laid this out, I'm going to start with some sort of high-level perspectives about NOV over the next few minutes and then David Reid, our Chief Marketing Officer is going to lay out a long-term view of the market as we see it. We've taken some industry forecasts around production and converted those into hardware requirements: how many rigs do we need to build, how many production platforms do we need to build. This is a proprietary model where we're looking out very long-term into the needs of a planet that desperately needs energy to lift the standards of living of its inhabitants and so that's a pretty exciting glimpse to share with you.

That's going to be followed by Lydia Brantley, who many of you know. She works in our Investor Relations group and will give you her perspectives on joining NOV as a young employee and a little bit about our culture. Our Chief Technology Officer, Hege Kverneland, after Lydia, will present to you how we think about innovation, and how we commercialize technology. Finally, Tom McGee this afternoon is going to share with you how we think about acquisitions and our processes and financial disciplines around deploying capital through our acquisition program. That's today.

Tomorrow, we're going to drill into the shorter-term horizons. You're going to hear from our segment presidents, who are going to share with you their near-term perspectives on the marketplace and then share with you a five-year view of financial targets and expectations from each of their businesses and then Jeremy Thigpen will wrap that up with a consolidated overview of our expectations for NOV through the next five years. So, we're looking through some near-term weakness that we see here in oil prices and commodity prices to a longer-term view. Very exciting. We really again appreciate you being here and joining us and we have a great couple days planned for you. So, let's begin and make sure we're all on the same page.

Who is NOV? We're a global team; 61,000 dedicated employees; very passionate about our mission. We work in 69 countries through 900 facilities around the globe to deliver great products and services and technologies to the oilfield every day. In 2013, we generated \$19.1 billion in revenue.

A couple of points I want to make off of this slide: number one, we are organized around 15 very focused business units, each a market leader in their field and each run by a very entrepreneurial management team that has typically, in almost all instances, spent their entire



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career in the oilfield bringing those products or services to a customer base that they know very, very well. At NOV, in contrast to some other of our peers in the oilfield, we believe those management teams enjoy a lot of freedom, a lot of autonomy to make decisions about their business, and we fundamentally trust them to make decisions about their business. We think that's fair because we hold them accountable and responsible to deliver profitability from the capital that they manage on your behalf. That's a very important tenet to our organization: we trust people and we give them freedom to go out and pursue entrepreneurial opportunities in the marketplace.

The second point I want to make off of this slide is around our use of mergers and acquisitions as a tool to build value at National Oilwell Varco. If you go back over 20 years ago, both National Oilwell and Varco were both sponsored by private equity organizations that deployed capital using strategic transactions, and we very much have that sort of private equity way of looking at opportunities deeply embedded in our DNA. We have a lot of financial discipline that we apply, number one; number two, we have a lot of thoughtful processes around cultivating competitive advantage that come from that framework. The third point I want to make about this slide is that we have very, very deep roots that go back to the very earliest days of that oilfield. We're very close to our customers and what that gives us, in addition to financial insight and a very thoughtful way of approaching competitive advantage, is a way of developing industrial insight and an industrial vision around our application of capital.

A lot of organizations talk about leadership and a lot of organizations pursue leadership as a point of pride; we're no different. In addition to being competitive and really wanting to be a leader in everything that we do, leadership really is fundamental to our strategic direction and our strategic vision. We believe in oilfield services, a market-leading position carries with it a directly competitive advantage. Let me explain a little bit: our customers, the oil and gas companies, are engaged in very technically challenging endeavors in the oilfield. If you take a drill bit on the end of drill pipe and you inserted three or four or six or eight miles into the earth, that's a very technically challenging endeavor and things don't always go as you expect them. It's a fundamentally and operationally risky undertaking.

In addition to that, our oil company customers and drilling contractor customers rely on lots of subcontractors to round out a very specialized supply chain with experts in the field providing different technologies and products and services. It's a very rational response if you spend time in the oil and gas business to try to manage the overall success of those projects by managing the risk embedded in the supply chain, and what we find is the selection of the market leader is the lowest-risk selection for our customers. That's very rational because the market leader has more experience in delivering products and services than everybody else in the supply chain. It's been said often and then nobody got fired for buying from IBM and that's really true in the oilfield. So it's a low-risk selection and it's a way for them to manage that inherently challenging undertaking and the risk across that.

Market leadership carries advantages for our customers and we've become the easiest vendor to select if you are a market leader. From our perspective, it actually drives a lot of efficiency in our business. We gain economies of scale, for instance. We're able to better balance our load across our manufacturing infrastructure. We're able to leverage our research and development investments across a larger organization. When we introduce new products, we can put them through the industry's most robust channels to market. We are able to capture first-mover advantages in many of our product lines. Over the next two days, we're going to spend a lot of time talking specifically about competitive advantage of what that means for our business.

The result of the pursuit of market leadership is distinctly a competitive advantage, and what we've become is a dependable partner for our customers who benefit from having a well-capitalized very intensive service provider or equipment provider that fundamentally understands their business that makes their lives and their jobs easier. For investors, this results in sustainable competitive advantage. It results in the largest installed base of equipment, for instance, across multiple categories of equipment, which opens up tremendous OEM aftermarket support opportunities for further investment, strong cash flows and earnings and, into these, attractive reinvestment opportunities in the business. These can take the form of building out infrastructure to take care of the largest installed base. It can take the form of building out new plants to expand manufacturing capacity, or it can take the form of reinvesting and enhancing our franchises through acquisitions, or it can take the form of investing in new technology, and we apply capital to all three of these mechanisms to build and enhance our standing in the oilfield.

The oilfield really came out of entrepreneurial thinking and innovation. When entrepreneurs in the 19th century came together and they formed a company called the Seneca Rock Oil Company, and they hired a retired railroad engineer named Edwin Drake, the first thing that Colonel Drake did is hook up a steam engine to a cable tool rig and create the world's first power drilling rig to drill the world's first oil-well to a depth of 69 feet. Our company was formed less than three years later just a few miles down the road in Oil City, Pennsylvania, so we date back to the very earliest days in the oilfield. National Supply showed up in 1893 and Varco was actually founded in 1908. From the very earliest days, National Oilwell Varco has been here helping our customers renew better ways of drilling and producing oil wells. We were there to witness firsthand the migration from steam-powered cable tool rigs to steam-powered rotary rigs. We were there firsthand to see the industry move offshore with the Kerr-McGee Rig 16 in 1947 to convert to diesel-powered mechanical torque-converted rigs in the 1950s.



In the 1960s and '70s, we introduced DC-powered electric rigs that further transformed the industry. We've been through multiple ways of successively improving great technology and NOV has been there to help the industry to press into new frontiers.

In '80s and '90s, we pioneered deepwater drilling ways that are working together with TLPs like Shell's Auger platform here that opened up the deepwater. Within the last decade, NOV technology has been at the forefront of cultivating the shale revolution, which is transforming the energy landscape. As we look forward into the 21st century, we see lots of opportunities. As we look backwards over a 155-year history with NOV engaged over the last 152 years, what you see here is a growth industry-where, year-by-year, oil production has gone up and an industry that has successively pressed into new frontiers like the shelf and, here more recently, like the deepwater.

A little later on, in fact next, our Chief Marketing Officer, David Reid is going to share with you what we foresee for the next 25 years on this curve. This really sets the stage. This growth that's pressing into new frontiers really creates opportunities for NOV. So how do we do it? We fundamentally transformed the drilling operation like you see here. On the left, you see state-of-the-art 1980s technology: a pipe being tripped on a DC-electric rig. But you still see roughnecks handling big heavy slips and tongs and chains. A derrickman working 90 feet in the air. On the right, you see new modern robotics technology controlled by electronics, which brings precision and repeatability and efficiency to that drilling operation. We're pulling these folks out of harm's way, making this rig fundamentally safer and more efficient. This is a great example of the mission that NOV executes every day.

How is it working? So far, so good. National Oilwell and Varco merged in 2005. It took us about a year to kind of put everything together. This graph actually starts post-merger, post-integration processes. What you see here is a 4.5 times growth in EBITDA since early 2006, 15% compound annual growth rate on earnings per share and total shareholder returns for NOV shareholders that have exceeded the S&P 500 by 460 basis points per year over this time period. This starts with the people that make it happen. We really pride ourselves on being a global family. One of the great things about the next two days is the opportunity to share with you and introduce to you many of our teammates that are here with us. I think we have about 35 members of management as Loren mentioned. All are passionate. Everybody across NOV is passionate about our mission; they understand our mission well. We have folks that are masters of their craft: we have the most innovative engineers, we have the most creative scientists, we have the most passionate manufacturing experts that are engaged in a critical mission. We work hard together. We treat each other respectfully, we tell each other the truth, we hold each other accountable, and we try to make NOV fun. This is really an outstanding -- this is the best oilfield service company in the world. Fundamentally we trust our folks to make the right decisions and manage our business well; this is really where our leadership begins.

I mentioned that oilfield began with innovation, attaching a steam engine to a cable tool rig and the oilfield has innovated continuously since then, and NOV has been a big, big part of that. We're all about purposeful innovation and a little later this afternoon, Hege Kverneland, our Chief Technology Officer, is going to share with you a little bit more about how we do that and how we commercialize ideas. Commercialization is important because it needs to be purposeful innovation. This isn't technology for technology's sake, but rather technology to solve a problem for a customer.

Finally, although across NOV, most of our business units and most of our operations are engaged in manufacturing, all of us, fundamentally are in the service business at our core. It's really the service around our technologies and our products and equipment that differentiate it, that really add value. So what does that mean? That means that we understand the needs of our customers. We listen very, very closely to their challenges, to their problems. It means that we don't walk past their problems, we help them solve their problems. It means that we act with urgency. The oilfield's always in a hurry. We understand it, we get it; and that's deeply embedded in our DNA.

We've talked a lot about four trends that we see in the marketplace that are going to create opportunities for NOV going forward. The unconventional shale revolution has been nothing short of remarkable. That's really transformed the energy landscape. We see an aging rig fleet that absolutely needs to be upgraded and replaced and renewed in order to be able to drill these new sources of oil and gas. We see the build-out of a deepwater rig fleet. Deepwater technology has really opened big swaths of the planet, and we need a new tool kit to be able to access that, and explore and produce what's out there. Finally, the development of floating production systems will be required as we help the industry build-out infrastructure to produce what's being found in the deepwater.

Let's look at these trends in a little more detail. Unconventional technologies are truly transformative. Unconventional shales have enabled the United States to reverse a 40-year slide in oil production; and it all starts with a Tier 1 AC-powered rig like you saw there, drilling with premium drill pipe, fixed cutter bits and a lot of bottom hole assembly technologies that NOV is a leader in the field in providing. We begin by drilling a horizontal well with a long lateral, using things like shock tools, like you see here, shock subs and non-magnetic drill collars.

After we drill this well, NOV helps our customers complete the well using coiled tubing units, that can run out down those long laterals and actually be used to perforate that well to have it be set-up for hydraulic fracture stimulation. Once the well is perforated and plugs are set,



NOV is a leader in the provision of fracture stimulation equipment like you see here. So manifolds, frac trucks, blenders, mixtures on location... In almost every instance, all the equipment that you see here, NOV is a worldwide market leader in its provision.

The world's rig fleet really dates largely back to the 1970's. The slide I showed you earlier of the crew tripping pipe really is representative of the majority of rigs that are out there at work today. For instance, 270 out of the 492 jack-ups represent that old technology: they are more than 25 years old. We've seen the systematic upgrading and replacement of that fleet over the past few years and we expect that that will continue. Here you see NOV robotics technology at work on this newer, more capable, more modern rig. Likewise, the floater fleet, about 40% of that fleet is more than 25 years old. Out of a land rig fleet of over 7,000 units, less than 1,200 are the newer, modern AC Tier 1 type rigs. So, not just jack-ups but really across all rig types, we've seen this new technology being applied to upgrade and renew the rigs.

I mentioned earlier, deepwater technology has really opened up the deepwater, two-thirds of the planet, to profitable exploration and production. NOV has been at the fore building out a specialized fleet, a specialized tool kit that's capable of moving into the deepwater to explore and develop and produce oil. So, here we see NOV technology at work in a new, modern drillship running riser pipe, which is great big heavy pipe, or here picking up drill pipe. What you're seeing is robotics' technology take the place of human labor, pulling the roughnecks away from well center and pulling them out of harm's way. This makes this rig much more efficient and able to handle the heavy equipment that's in use today like this million pound BOP stack that will be run on the end of that riser pipe.

So a lot of building in this area, and, as you'll see in just a moment, we see more to come in the future generation with regards to building out a tool kit for the industry to press out into these deepwater frontiers.

Finally, as discoveries rack-up in the deepwater, the industry is going to need a lot more production infrastructure to actually produce out there; so when you're a long way from infrastructure and drill pipe, floating production systems like this floating production storage and offloading vessel. We've got a lot of new ideas that we're anxious to share with your tomorrow morning around how to industrialize the supply chain around this.

We've been investing capital in for this business opportunity for the past couple of years, and as such, we're one of three global providers of turret mooring systems and flexible pipe like you see here. We foresee a bright future. There's a lot of reserves, 154 discoveries in the past seven years that need a lot of this kind of NOV kit to go out and actually monetize those reserves and produce them.

Four big trends: 1) unconventional technologies-unconventional shale, and tight sands-we see spreading out of North America to other regions, 2) we see the replacement of an aging rig fleet, 3) the continuing to build out the deepwater fleet, and 4) the development of floating production systems. In just a moment, David Reid is going to share with you some insights that we've gleaned learned from examining ExxonMobil's long-term production analysis. They have a study called Outlook 2040 and what Exxon calls for over the next 25 years is continued growth of oil and gas: oil growth of 25% through their forecast period, driven mostly by commercial transportation demand, and gas growth of 65% over the next 25 years as gas becomes kind of the preferred fuel choice for future electricity generation.

Within those two categories, Exxon foresees deepwater production being one of the larger sources of incremental oil production, growing 150% over the next 25 plus years, and unconventional oil and liquids growing 160% over the next 25 plus years. Finally, gas from unconventional shales growing 230% through that forecast horizon. It really underscores the contribution of those two sources of oil and gas to future oil and gas needs. If you step back and look at the big picture of what's going on here, we see a pretty seismic shift going on in the energy landscape away from conventional sources of oil and gas towards these two new frontier areas: unconventional and deepwater. What's interesting to NOV as an equipment provider into those trends is that both require specialized tool-kits, and specialized rig fleets, that NOV is uniquely situated to provide.

In view of those opportunities, we reorganized this summer. The four reporting segments that we disclosed publicly, along with five years of historical data, starting with our NOV Rig Systems group, which manufacturers complete land rigs, land rig packages, packages for floaters and jack-ups along with discrete rig components, about \$8.5 billion in revenue in 2013. Very closely aligned with our NOV Rig Aftermarket business that provides spare parts, services, repair and training. We build the rig, and after we build the rig, we take care of the very large and growing installed base through our aftermarket business. As that rig is out working we help it drill more efficiently and drill safer, and drill with less environmental impact through our NOV Wellbore Technologies group, and you'll hear a lot more about what this group does tomorrow from Mike Matta. Finally, after that wellbore is drilled, NOV helps our customers complete and produce those well-bores through our NOV Completion and Production Solutions segment.

If you look at our mix of business here, what it reflects is really kind of full cycle exposure to what goes on in the oilfield. We help create the rig, we help take care of the rig, we help the rig drill better and once the well is drilled we actually help the customers produce oil and gas



from hydraulic fracture stimulation and production of the well. I think NOV is probably best known as a rig maker, which is done in our NOV Rig Systems business, and so that only makes up 43% of our mix. In fact, if you zoom in on the portion of our revenues related to actual new rig construction in the third quarter, it was less than 33% of consolidated revenues. Two-thirds of what NOV does really is not related to new rig building.

This is the slide that you're going to see several times over the next two days: it is designed to illustrate a strategic framework that we apply when we think about building business franchises. As I mentioned, we have deep private equity roots and try to be very, very thoughtful about the deployment of capital and the building of competitive advantage. Frequently when you look at businesses and franchises across NOV, you've seen this pattern play out. What you're going to discover over the next two days is that we're at various stages of evolution across NOV. That's how this works.

Let me interpret it here for you. On the left, you see a handful of products or services that we see in the marketplace that we have an opportunity to access either through acquisition or basically a grassroots development. We look at the opportunity set out there through the lens of the customer and look for ways that we can combine those products in a way that brings more value to our customers' operations. We begin to assemble a package out of those products. We begin to invest in technology. We invest in manufacturing capacity and our capability to serve the marketplace and ultimately evolve that through a productive system through the sustained application of capital through M&A, through the build-out of production capabilities or investment in technology.

Along the way, market leadership emerges. As I mentioned earlier, market leadership is critical, to our goal where we want to end up. In so doing, we provide a higher value collection of products and services and equipment to our customers. The industry's largest installed base will emerge from that effort, because we're a market leader and what we find is a follow-on opportunity to invest in after-market support across really dozens of types of equipment that NOV has executed this strategy on. Over the next two days, we're going to tell you about specific examples of this. I think it will become clearer, but the idea is that we take an industrial view, we invest in it with a lot of capital discipline and financial discipline and cultivate market-leading franchises out of that.

This is where we end up, market leadership. We provide greater value to our customers through that market leadership. They end up with a global well-capitalized supplier that executes extraordinarily well, in effect, a dependable partner in a very high-risk high-cost world. That gives our customers their capability to standardize on a lot of their selection of kit for certain organizational efficiencies that emerge for them. For our employees, it creates terrific growth opportunities. For you, our investors, it creates terrific cash flow and returns on capital and opportunities to continue to re-invest and grow the business.

We're starting on a two-day journey right now and this is where we're going to end up. In 2013, we did \$19 billion in revenue. In 2019, we expect that to grow to be in excess of \$30 billion. We understand oil price is down 25%. We understand that deepwater rig rates are down and that orders are going to be a little slow. We've been through this before. The industry from time-to-time goes through cyclical downturns like we believe we're facing right now. We're lifting through this right now to where we want to be in five years and beyond, and, as we've always done, we are making long-term investments to get there.

This is a company in 2019 that's doing more than \$30 billion in revenue and is being more efficient in its use of capital and improving its margins, which is resulting in a doubling of net income. From \$2.2 billion in 2013 to, we believe, an excess of \$4 billion in 2019. There's a lot of assumptions there on the left hand side. We're going to be flushing those out tomorrow, but this is what we foresee.

I see everyone furiously writing, so I'll just leave it up there for a second. This is a great time for NOV. We have a lot of opportunities in front of us and we're anxious to share our strategies and our numbers in our financial projections and targets, but I'm actually more anxious to share with you our team and really look forward to you meeting members of our team over the next couple of days. This is really a special organization. It's an extraordinary organization that has done great things. I'm here to tell you that our best days are in front of us.

We have a lot of challenges ahead. The world needs more energy, the industry needs more kit to make that happen, and NOV is up to that challenge. I really appreciate you being here and spending two days with us and like I said, we're definitely going to make it worth your while. Thank you.

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