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

LOREN SINGLETARY
Vice President, Investor and Industry Relations

Thank you, and welcome, everyone, to the National Oilwell Varco First Quarter 2016 Earnings Conference Call. With me today is Clay Williams, President, CEO and Chairman of National Oilwell Varco and Jose Bayardo, Senior Vice President and Chief Financial Officer.

Before we begin this discussion of National Oilwell Varco's financial results for its first quarter ended March 31, 2016, please note that some of the statements we make during this call may contain forecasts, projections and estimates, including but not limited to comments about our outlook for the Company's business. These are forward looking statements within the meaning of the federal securities laws, based on limited information as of today, which is subject to change. They are subject to risks and uncertainties, and actual results may differ materially. No one should assume that these forward-looking statements remain valid later in the quarter or later in the year. I refer you to the latest Forms 10-K and 10-Q National Oilwell Varco has on file with the Securities and Exchange Commission for a more detailed discussion of the major risk factors affecting our business. Further information regarding these as well as supplemental financial and operating information may be found within our press release, on our website at www.nov.com or in our filings with the SEC.

Additionally, you likely noticed that we made a few changes in the presentation of our results which were published this morning, including the incorporation of "Adjusted EBITDA". Please be aware that our use of the term EBITDA throughout the call this morning will correspond with the term "Adjusted EBITDA" as defined in our press release.

Now, let me turn the call over to Clay.

CLAY WILLIAMS
Chairman, President, and Chief Executive Officer

Thank you, Loren. National Oilwell Varco's first quarter 2016 financial results reflect the painful financial stress that our oil and gas customers are operating under. As WTI prices marched steadily downward to bottom at $26/bbl in mid-February, customers simply stopped spending, and oilfield activity plummeted further. Consequently, our Q1 revenues fell 20% sequentially to $2.2B, and are down 62% from Q4 2014, when the current downcycle started. The Company posted a 6 cent-per-fully-diluted-share loss for the first quarter of 2016, excluding severance, restructuring and other items totaling 26 cents-per-fully-diluted-share. EBITDA was $127MM for the quarter, or 5.8% of revenues, and Operating Loss was $48MM or negative 2.2% of revenue, excluding restructuring and other items from both. Sequential EBITDA decremental leverage was 37% on the 20% revenue decline, and YOY EBITDA decremental leverage was 29% on the 55% revenue decline, excluding restructuring and other items from all quarters. In a moment Jose will take you through a more detailed discussion of operating results.

Our restructuring efforts accelerated during the quarter as we continued to aggressively manage costs downward. We have closed or are closing 200 facilities since the downturn began, and we reduced our workforce by nearly 6,000 employees during the first quarter of 2016. SG&A declined $31MM in the quarter and is down 34% from late 2014.

Importantly while we downsize we are also maintaining our investment in our future, including $110MM invested in the first quarter on engineering, research and development into emerging technologies and products which will further reduce production costs, increase access to reserves, improve safety, and reduce the impact on the environment for our customers. We closed four small acquisitions in the quarter which collectively bring new technology to our portfolio; specifically, surface rig instrumentation, downhole measurement while drilling technologies, and drillpipe asset tracking utilizing RFID chip technology. Each of these acquisitions complement our own internal organic investments that advance our long term strategic plans. I'd like to take a moment this morning and share with you just how we see our future unfolding, and how these investments in our long term strategic plan articulate with that future.

First, horizontal drilling and geosteering are key enabling technologies of the shale revolution. 90% of the US land rigs drilling today are drilling horizontally or at least directionally, a share which has increased from 79% since the downturn began in Q4 2014. Horizontal drilling, which opens up much more of the reservoir to the wellbore, will expand globally and be applied more widely in the inevitable upturn. Therefore, NOV has developed a new low-cost rotary steerable tool, which will be run commercially in our customer's hole for the first time next week. This new product complements our comprehensive bottom-hole-assembly or BHA offering to the directional drilling industry. Our Tektonic™ family of abrasion-resistant fixed cutter bits are gaining market share, as is our new ERT downhole drilling motor, and we added new MWD products through an acquisition in the first quarter as well. These tools work with our jars, shock subs, drill collars, and premium drillpipe engineered to withstand the considerable rigors of horizontal drilling. Our long term strategic plan in this area is built on our view that the next upcycle will see even greater demand for drilling tools for horizontal drilling, which will be provided by a directional drilling service industry that NOV will continue to equip.

Second, NAM shale plays endured lengthy gestation periods before they evolved to profitability, as the E&P's experimented with drilling techniques to arrive at the most cost-effective methods to drive marginal cost per barrel sufficiently low to be financially attractive investments. In the next upcycle NOV can help short-circuit that empirical technique, using our closed-loop automated drilling service, which has proven it can materially reduce drilling costs by making micro-second level adjustments to the drilling rig through our proprietary rig control system and software. We are bidding or executing over a dozen closed-loop automated drilling projects currently, utilizing our proprietary IntelliServ™ wired drillpipe. We are also seeing more interest from drilling contractors wishing to differentiate their rigs by outfitting them with IntellServ™ pipe. In fact, we know of an idled rig that was recently put to back to work solely because it was outfitted with IntelliServ™ pipe - a big win for its owner. Our long term strategic plan is built on the view that E&P companies will prospect new shale plays globally using rigs capable of closed-loop automated drilling - Tier 1 AC rigs, wired IntelliServ™ drillpipe, BHA components and NOVOS software, which NOV can provide today.

During the first quarter NOV was awarded a major five-year project in North Africa for a real time technology center to track drilling rig operations, and we are currently bidding other, similar projects. NOV has provided real-time remote monitoring of equipment for many years. A few weeks ago we announced the industry's first predictive capabilities for monitoring BOP components through our RigSentry ™ remote condition-based monitoring services. We believe that condition-based, remote monitoring of oilfield equipment, and predictive data analytics, will grow in importance through the next upturn, as the industry increasingly employs more sophisticated equipment in more demanding environments. The Internet of Things is coming to the oilfield and NOV will continue to lead the way, and will benefit from the largest installed base of drilling equipment and drilling control systems in the world.

Hydraulic fracture stimulation is another enabling technology with proven value to the industry. We are investing in new technologies which we believe can reduce the capital equipment onsite, the number of truckloads required, the power requirements and the operating costs of conventional frac fleets. Our long term strategic plan has us investing in better ways to hydraulically stimulate reservoirs; again, the next upturn will see more wide-spread application of fracture stimulation and we plan to provide the next generation of tools.

The oil and gas industry has invested billions in deepwater exploration, chalking up 400 undeveloped discoveries, and our strategic plan targets improving floating production technologies to lower the development costs of these reserves. We are targeting new fully-costed production solutions to offer to owners of marginal deepwater fields by early 2017. Preliminary discussions with IOC's around our new, innovative concepts have been met with high levels of enthusiasm. Specifically, these are smaller, standardized units which can operate efficiently across a broad range of production, which utilize standardized disconnectable turrets to increase asset utilization and efficiency. On the seafloor we are expanding our offering in flexible pipe, connectors and other hardware, along with seawater treatment technologies for subsea seawater injection, which increases the ultimate recovery from reservoirs through pressure maintenance, ultimately lowering costs per barrel.

We are continuing to expand our offering of composite materials into both offshore and land markets, partly through an acquisition we closed in the fourth quarter. Composite materials offer superior corrosion resistance in the flowlines we supply, and lighter weights which drive down offshore vessel construction costs. Our long term plan continues to advance these technologies which will see increased uptake in a recovery. As the largest provider of fiberglass and composite tubulars to the oilfield in the world, NOV is well-positioned to continue to drive corrosion-resistant solutions.

Onshore we are focused on other technologies which help our customers reduce their cost of production. The US is really a 60 MM barrel-per-day water industry that produces 9 MM barrels-per-day of oil as a by-product. Our Water Wolf technology offers superior oil/water separation, and complements our proprietary sand separation technology and extensive production pump business.

Our long term plan also invests strategically in key productive regions like Saudi Arabia and Russia, where we began fabricating our first land rig and downhole tools at a new plant we opened in the first quarter.

NOV is an innovative, entrepreneurial organization resolutely focused on improving the cost-per-barrel position of our customers, through technology, improved supply chains, standardization, and industrialization. Our experience is that business models such as these, built on sound fundamentals that focus on our customer's needs, are long-term winners. They are in contrast to new business models, which seem to arise during downturns, which focus on either providing our customers with increasingly valuable capital they cannot access elsewhere, or business models wherein we shoulder more of our customer's risk. Prior cycles have demonstrated that these models frequently do not turn out so well.

As we approach the bottom of this sharp downcycle our customers are struggling to make any money right now, and the OFS industry is being radically disassembled to cope with commodity prices far below levels required to return to production growth. This is not sustainable and will change. Investors are understandably focused on optionality of enterprises in an eventual recovery. The handful of strategic plans I just outlined rest on specific, promising technologies our customers can apply across the globe; they will continue to evolve the industry to higher levels of efficiency and safety, and lower costs of production. NOV is positioning itself to capitalize on the inevitable upturn, and I am excited about the optionality imbedded in our initiatives, and the creativity and ingenuity that our teammates here at NOV continue to apply to our customers' challenges.

While we are not planning for a recovery in 2016, we are encouraged by reports from some customers that they are beginning to think about a potential upturn in the second half of this year, as oil production has finally begun to roll over and demand continues to march upward. We will continue to manage costs to the reality of the marketplace in the short term, which is becoming more challenging as very low volumes present rising absorption challenges for us. Even with a rebound in oil prices, it will take time for our customers to repair balance sheets, complete their DUC wells, work down oil inventories, and access capital to resume drilling. But the industry will navigate these challenges and NOV will be here with an enhanced offering and greater levels of efficiency.

I am grateful to be a part of such an entrepreneurial, smart organization with deep financial resources and diverse business models and bright opportunities in our future. This has always been a deeply cycle industry, and our leaders have been through many downturns before, and they will again lead us through the present storm. Oilfield services is not much fun right now, and I want to let all of our employees know that Jose, Loren and I appreciate you suiting up every day and fighting the good fight. Hang in there. Better days lie ahead.

Jose?

JOSE BAYARDO
Senior Vice President and Chief Financial Officer

As Clay mentioned, NOV posted a $0.06 per share loss for the quarter, excluding severance, restructuring and other items which totaled $147MM pre-tax or $0.26 per share after tax.

Consolidated revenues were $2.2 billion for the first quarter of 2016, down 20% from the fourth quarter of 2015 and 55% year over year.

The sharp decline during the quarter was the result of significant E&P spending curtailments as oil prices reached new lows. The average US land rig count fell 27% sequentially, exiting the quarter at 450, the lowest count since the 1940's, and the average international rig count fell 8%, hitting a decade low at 985 rigs, with declines seen across all major regions of the globe. All of NOV's business units and global regions were negatively impacted, and all reporting segments saw revenue declines during the quarter.

EBITDA decreased to $127MM or 5.8% of sales resulting in sequential EBITDA decremental leverage of 37% and year over year decremental leverage of 29%. Operating loss, excluding other items was $48MM.

Looking at some of the other line items of the P&L, SG&A decreased by $31MM or 8% sequentially and by $138MM or 28% year over year as we continue to execute cost control measures necessary to size our business with the current market environment.

Interest and other financial costs decreased $2MM sequentially and $1MM year over year primarily due to lower banking fees associated with a reduction in letters of credit outstanding.

We reported a $3MM higher loss sequentially in unconsolidated affiliates, related to our Voest-Alpine joint venture, where demand for OCTG or Green Tubing remains exceedingly low given the dearth of drillpipe demand.

Other expense for the quarter increased $4MM sequentially driven primarily by a greater loss on disposals of fixed assets.

Our GAAP effective tax rate was 50% for the quarter. The unusually high rate was the result of combining losses in higher tax jurisdictions, namely the US, with income from lower-rate international jurisdictions. Additionally, we received a tax benefit associated with reversing reserves for tax audits which concluded with favorable outcomes.

With the relatively low levels of pretax income and losses that we are currently experiencing, relatively small changes in the split between domestic and international results can have a disproportionate impact on our effective tax rate. Notwithstanding this uncertainty and anticipated volatility, our current estimate for the effective tax rate is 35% for the remainder of the year.

Turning to the balance sheet and cash flow.

Working capital decreased $528MM from the fourth quarter of 2015 to $4.9 billion at March 31, 2016.

The decrease in working capital was primarily the result of a $714MM reduction in accounts receivable, a $144MM reduction in inventory levels, and an $84MM decrease in customer financing, (which is the net of prepayments and billings in excess of costs against costs-in-excess-of billings).

The reductions in working capital were partially offset by decreases in accrued liabilities and accounts payable.

Our focus on collections yielded strong results during the quarter although inventory is not liquidating as quickly as we would like, reflecting lower current levels of demand. We anticipate working capital will continue to be a source of cash as our revenues move lower, but we expect the pace of cash flow generation to slow relative to the past two quarters.

The reduction in working capital helped contribute to an exceptional quarter of cash flow generation relative to the current market environment. NOV generated $621MM in cash flow from operations during the first quarter.

After paying $173MM in dividends, $84MM for non-acquisition related capital expenditure investments and $21MM for acquisitions, and adding a foreign exchange benefit and other items totaling $20MM we netted $363MM in free cash flow.

Additionally, we successfully repatriated another $637MM in cash from overseas at a very low cost allowing us to reduce our commercial paper balances by $683MM, to a quarter end balance of $210MM.

This pay down of debt was partially offset by a capital lease associated with a large new facility which came onto our books during the quarter. This building will allow us to consolidate approximately 1,600 personnel from 12 existing NOV facilities, of which 10 will be fully vacated after we finish moving into this new facility.

At March 31, 2016, we had a cash balance of $1.8 billion, total debt of $3.4 billion and our debt to capitalization was 17.1%, down from 19.2% at December 31, 2015.

As Loren mentioned in his introductory remarks, we made a few changes to the presentation of certain information in our release this morning, which we hope will enhance a reader's ability to understanding NOV and its financial performance. One of the changes relates to the presentation of our segment results.

In order to provide a clearer measurement of our reporting segments, we are no longer allocating certain corporate overhead costs to our segment results and are now capturing these costs in the line item "Eliminations and corporate costs". We have revised prior period amounts to make the segment performance comparable and when we speak to segment results this morning, we will be referring to the reclassified results presented in our earnings release. In today's release we also provide the specific amounts now deemed corporate costs for each period presented; however, we do not anticipate breaking out these costs in the future.

NOV RIG SYSTEMS

Our Rig Systems segment generated first quarter revenue of $926MM, down 9% from the $1.0B earned last quarter. For Q1, the split between offshore and land-related revenue was 75% and 25%, respectively. New construction of offshore rigs accounted for $431MM in revenues, or 20% of NOV's consolidated revenues.

First quarter EBITDA for the Rig Systems segment was $137MM. After four quarters of exceptional decremental margin management our Rig Systems segment saw a significant decline in margins in the first quarter. Margins fell 630 basis points to 14.8% of sales representing 87% decrementals on 9% lower sequential revenues. Operating profit was $119MM or 12.8% of sales.

Lower margins arose from the much sharper than anticipated fall in spare part sales in our aftermarket business, meaningfully impacting absorption within the Rig Systems segment's facilities that manufacture those products. Additionally, while cost reductions are underway, their pace simply can't always keep up with sharp volume declines, particularly when you are trying to be thoughtful in your actions while treating people as well as you reasonably can during this difficult time. Bottom line is that the lower than anticipated margins were the result of lower throughput in our manufacturing facilities combined with a slowdown in cost reduction efforts relative to the fall-off in volumes.

On a year over year basis first quarter revenue was down 63% at only 25% decremental margins. The solid YOY decrementals in the face of a nearly two-thirds revenue decline have been accomplished by significant insourcing from our external supply chain, but these opportunities are diminishing.

New orders were $97MM in the first quarter, representing a book-to-bill of only 13% when compared to the $770MM shipped out of backlog. Q1 bookings were composed entirely of discrete capital equipment including cranes, pressure control, and jacking systems. For the second straight quarter, we received no new rig orders.

As we note in our press release, effective March 31, 2016, we have deducted the backlog we previously disclosed for rigs being constructed in Brazil, to reflect Sete's shareholder approval to file for bankruptcy protection last week, along with other orders for which we have not been paid in over a year, totaling approximately $2.1B. Although our contracts with three yards remain in place and are enforceable, work on all of these projects has been suspended pending payment and will remain so until customers make funds available to advance the projects, leading us to report backlog more conservatively. Therefore, ending backlog was $3.3B for Rig Systems, and we expect $1.2 to $1.3B of this backlog to be converted to revenue through the remainder of 2016 for a full-year revenue from backlog number of about $2.0 to $2.1B.

Looking at the second quarter, we anticipate a much sharper, up to 30%, fall-off in revenue as we continue to work off backlog on existing projects. We anticipate much improved decremental margins of approximately 30% as savings from our latest cost cutting efforts are fully realized but are more than offset by declining volumes.

NOV RIG AFTERMARKET

Our Rig Aftermarket segment generated $391MM of revenue during the first quarter of 2016, down 31% from $569MM in Q4 2015 and down 46% from the $719MM in Q1 2015. Revenue declines were anticipated in the first quarter due to deteriorating market conditions and the normal fall-off of year-end service and repair work; however, a sharper fall-off in activity levels versus expectations amplified the decline and further eroded demand for spare parts as our drilling contractor customers, offshore in particular, cut their expenditures on repairs, services and spare parts dramatically across the board.

EBITDA was $82MM down 43% sequentially and down 62% from the prior year. Decrementals were 35% driving EBITDA margins down to 21.0%. While a mix shift from spares to service and repair, and some pricing pressure, contributed to the profitability decline, the largest driver was reduced volumes, which resulted in lower absorption in our facilities and lower utilization of our service and repair personnel. Operating profit was $77MM, or 19.7% of sales.

Special Periodic Survey work continues, but we are seeing significant reductions in scope on these, and other long-planned SPS projects are being cancelled lately in view of grim prospects for these offshore rigs winning contracts anytime soon. Additionally, we are seeing pricing pressures continue to mount.

Looking forward, we expect revenues to come down in the mid-single digit percentage point range with sequential EBITDA decrementals in line with Q1's results. Thinking longer-term, we believe Rig Aftermarket will be an early beneficiary of activity recovery as we work with our customers to provide the necessary parts, service, repair and maintenance required to put their rigs back to work. Additionally, we believe new US offshore BOP regulations will drive additional demand for condition-based monitoring services, which we have been providing for over five years.

NOV WELLBORE TECHNOLOGIES
Our Wellbore Technologies segment generated revenues of $631MM during the first quarter of 2016, down 17% sequentially from $757MM and down 46% from the $1.2B posted in the first quarter of 2015. Revenue mix by destination was 46% North America and 54% international. 70% of the segments' decline came from international markets, which declined 22% sequentially, most acutely in Asia and Latin America. The US declined 16% sequentially, better than the 26% decline in the US rig count, indicating that, despite intense pricing pressures, the group's revenue-per-rig improved on market share gains.

EBITDA for the segment was $43MM or 6.8% of sales, down 44% from the previous quarter and 82% from the prior year. Sequentially, EBITDA decremental leverage was limited to 27% on the $126MM revenue decline, as the group experienced the full benefits of cost reductions made last quarter and continues to eliminate substantial portions of its cost structure, including the closure of more than 20 facilities during the first quarter of 2016. Operating loss for the segment was $53MM.

Quotation activity for downhole tools is increasing, and we believe that even a leveling of activity will bring more work as customers are depleting their stocks of equipment and tools coming in from jobs are not being repaired. We therefore expect repair work and motor relines to begin to rise through the year as customers run out of tools. We began manufacturing downhole tools in new plants in Saudi Arabia and Russia during the first quarter. Drillpipe demand remains very low, and we have mothballed much of our capacity as a result, but Q1 benefitted from a high mix of large diameter, premium thread drillpipe. Our Tuboscope unit saw pipe mill and processor activity fall owing to 12 months of OCTG inventory on the ground in NAM (five to six months is the normalized average); however, we are beginning to see some interest in completion and workover activity, which may drive demand for coating and inspection work in the back half of the year, along with higher demand for sucker rod services for artificial lift. Wellsite Services saw a significant decline in revenues tied to lower rig counts, but aggressive cost control enabled the group to post higher EBITDA sequentially.

We noted a number of wins in our press release and in Clay's remarks but I would like to further highlight some of the recent successes and market share gains, particularly related to our downhole tool and drilling and optimization businesses.

Our drill bit designs continue to set new performance records globally, most recently in Oman, where an operator set three new field records using our Tektonic™ bits to drill 8,000'+ in a single run. Since their introduction in October 2015, Tektonic™ bits have logged 22 field records in ten countries around the globe.

Additionally, our Dynamic Drilling Solutions business, continues to gain traction with its eVolve™ optimization and closed loop drilling automation services. In our release we highlighted the completion of an 18-month project in the Norwegian North Sea with a major integrated oil company developing a field that consists of an oil reservoir and several deeper, structurally complex, high-pressure gas and condensate reservoirs.

Wells drilled in this field have a narrow pressure window that requires a comprehensive understanding of the conditions in the formation and that leaves little room for error in order to optimize economics associated with the development of the field. Our suite of tools provided the customer with high-speed streaming of downhole data used to accurately analyze wellbore conditions, which enabled the customer to have the data required to justify extending laterals well beyond their originally planned design. By extending the wellbore, the customer significantly increased production from the wells drilled, therefore eliminating the need for the final well included in the original project plan. Given the cost of drilling in the North Sea, you can appreciate how our technologies reduced the customer's development costs substantially.

Additionally, we were recently awarded a contract for downhole drilling automation with an independent E&P customer in Western Canada, and, as Clay mentioned, we were awarded a five-year project by a national oil company in North Africa for real-time data acquisition, visualization and optimization. The traction we continue to gain with new technologies indicate our customers' persistent desire to seek new and better ways to drill, and we have positioned ourselves as the leading independent provider to help them achieve those goals.

Notwithstanding the many positive ongoing developments occurring within our Wellbore Technologies segment our business is primarily driven by drilling related activities. With Q2 global activity already sharply lower than the Q1 average, we anticipate second quarter revenues will be down approximately 15%. Additionally, while we continue to reduce our cost structure, we do not believe we will replicate the success we had in the first quarter managing our decremental margins and anticipate the segment to be at or near break-even EBITDA.

NOV COMPLETION & PRODUCTION SOLUTIONS

The Completion & Production Solutions segment generated revenues of $558MM for the first quarter of 2016, down 25% sequentially and 41% compared to the first quarter of 2015. While all businesses experienced fewer sales, revenue declines were sharpest within the offshore-production related groups, which were coming off record or near-record years in 2015. Revenue out of backlog was $330MM, down 28% sequentially.

EBITDA for the segment was $48MM, or 8.6% of sales, down from 11.9% in Q4 and 18.2% in Q1 2015. The segment was able to hold decremental EBITDA leverage to 22%, as cost savings realized from facility consolidations and headcount reductions, helped soften the impact of declining revenues. Operating loss for the segment was $4MM.

Revenues for intervention, stimulation and wireline equipment continued to decline, particularly across NAM, while the Middle East has remained comparatively strong. Aftermarket spares and services for stimulation equipment are facing considerable headwinds as customers aggressively cannibalize fleets, including acquiring auctioned spreads going for 20 cents on the dollar to part out. However, we are encouraged by a recent pickup in quotations for possible orders in the second half of 2016, when some customers believe completion activity will pick up, and by sequentially stronger order bookings.

Our floating production group posted lower revenues as well, but had excellent decrementals due to aggressive downsizing. We continue to advance a half dozen FEED studies for FPSO-related projects, but final investment decisions have been non-existent as customers recycle designs and concepts to reduce costs. Our flexible pipe business fell sharply as our plant in Brazil ran out of orders in December; however, the group landed significant orders that will lead to revenue growth in Q2 and should load the plant through the remainder of the year.

Our composite pipe business unit fell during the first quarter, but, again, aggressive cost control led to an improvement in EBITDA in Q1, and orders improved.

Process & Flow Technologies also posted higher EBITDA on flat revenues, owing to significant restructuring that went on last year, and favorable mix, as the group won record levels of orders for production chokes.

New orders were $328MM, up $56MM or 26% resulting in a 99% book-to-bill in the first quarter. The segment ended the quarter with a backlog balance of $994MM.

While we experienced a sharp quarterly decline and industry activity levels continue to fall, we believe achieving a book to bill approaching 100% is an indicator that the CAPS segment is rapidly approaching a bottom. But as those orders don't immediately convert to revenue, we expect segment revenue to decrease in the mid to upper single digit percentage range in Q2. Cost savings, which positively impacted Q1 results, are expected to continue but not to the same magnitude on decremental margins as we experienced in the first quarter, which should lead to decrementals in the mid 30% range.

Visibility on new order intake remains cloudy, particularly in the offshore space, as the industry continues its deepwater cost recalibration. That said, we optimistically anticipate new orders to see a slight uptick during the second quarter.

In summary, our first quarter results reflect the fact that we are in an extremely challenging market environment. Despite current conditions, we continue to generate substantial amounts of free cash flow even while we make meaningful investments in our ability to continue delivering better technologies and solutions for our customers in the oil and gas space.

We expect the near-term environment to remain difficult; however, we are growing more optimistic that we are nearing the bottom of this cycle and we are excited about the future value that the hard working and innovative people of NOV will deliver to our customers and our shareholders as the recovery takes hold.

With that, we'd like to open it up for questions.