

NOV, Inc.

First Quarter 2022 Earnings Conference Call Remarks

BLAKE MCCARTHY
Vice President, Corporate Development & Investor Relations

Welcome everyone to NOV's first quarter 2022 earnings conference call. With me today are Clay Williams, our Chairman, President, and CEO, and Jose Bayardo, our Senior Vice President and CFO.

Before we begin, I would like to remind you that some of today's comments are forward-looking statements, within the meaning of the federal securities laws. They involve risks and uncertainty, and actual results may differ materially. No one should assume these forward-looking statements remain valid later in the quarter, or later in the year. For a more detailed discussion of the major risk factors affecting our business, please refer to our latest Forms 10-K and 10-Q filed with the Securities and Exchange Commission. Our comments also include non-GAAP measures. Reconciliations to the nearest corresponding GAAP measures are in our earnings release available on our website.

On a U.S. GAAP basis for the first quarter of 2022, NOV reported revenues of \$1.55 billion and a net loss of \$50 million. 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, Blake.

For the first quarter 2022, NOV's revenue of \$1,548MM grew 2% sequentially, and EBITDA increased \$34MM to \$103MM or 6.7% of revenue. YOY, revenues were up 24% at 34% leverage, reflecting positive impacts of aggressive cost reductions and some recent pricing recovery, offset by continued inflation and supply chain disruptions. Helped by continued high demand for offshore wind renewables, along with rising oil and gas demand, orders were strong across the board, as we put up a consolidated book-to-bill of 115% in Q1.

The organization's execution against shifting challenges in supply chain, freight, and labor improved during the first quarter, in part by broadening our base of suppliers as well as recovering escalating costs through higher pricing. While our costs for certain raw materials, like resins, appear to be easing, unfortunately our costs for a lot of components got



worse during the quarter- steel forgings, polymers, fiberglass, electronics, stainless steel, and switchgear most notably. Freight challenges intensified in the Eastern Hemisphere owing to the conflict in Ukraine and continued COVID impacts in the quarter. Recent standard cost rolls on many of our products moved up materially, reflecting the higher costs we face. Thus, considering all these extraordinary challenges, we were pleased to see improved execution and better financial results for the quarter.

While results are still below acceptable levels, our outlook is constructive given the steady tightening of oilfield services capacity that is driving accelerating demand for NOV's core oilfield products. This uplift is giving us improved line of sight towards healthier returns for our shareholders. For reasons I'll go into in just a moment, I believe this upcycle will last a while. First, however, I'd like to take a minute and speak to some oilfield fundamentals.

Constructing an oil or gas well takes much more than good reservoir rocks and a drilling rig. Oil and gas companies rely on highly specialized geotechnical talent to identify and delineate drilling locations, and on petroleum and processing engineers to design wells, production systems, and processing and transportation facilities. The business requires investments in expensive leaseholds, wells, and the fabrication of platforms, processing plants, gathering systems and refineries that make oil and gas production one of the most capital-intensive industrial undertakings.

The actual well construction is performed by oilfield service companies that, in turn, operate very expensive, highly engineered, fit-for-purpose equipment fleets, which probably make it the second most capital-intensive industrial undertaking around. All this plant, equipment, and well construction process utilizes a lot of steel, as well as exotic metallurgies, polymers, resins, computer chips, electric motors, and electronics.

The work is performed by hard-scrabble men and women, from roughnecks to drillers to truck drivers, working long hours in remote locations for, usually, above-average pay, in tandem with talented geoscientists and engineers supporting these complex operations.

One way to think about our industry is as a finely tuned and optimized machine into which goes capital (a lot of capital); highly skilled engineering talent; hard work by experienced oilfield hands; fertile acreage identified by geoscientists that holds the promise of profitable production; and a lot of highly spec'd pipe, plastics, engines, resins and computer chips. Out of this oil and gas machine comes your high standard of living- the high standard of living that your family and my family and millions of others enjoy, along with the hope of a better standard of living for literally billions of people in lesser developed economies around the world. Out of this machine comes the food that we eat (and the fertilizer made from natural gas that the farmer uses to achieve amazing agricultural productivity from fields plowed and harvested using diesel powered equipment); all air travel; most transportation-on-demand, plus all ocean-going freight and rail that brings food and products into our lives; the plastics that doctors use to deliver our medical care; and a thousand

other things that make our lives better. From construction to transportation to petrochemicals to pharmaceuticals to consumer goods to you-name-it, the oil and gas industry connects with and supports a hundred industries that form the foundation of our modern lives.

This leads me to our current predicament.

Two years ago, remarkably, we faced negative oil prices; today the world is confronting triple-digit crude prices and all-time high global natural gas prices. While this rapid shift is jarring and damaging to global economies, frankly, it should not have been entirely unexpected.

For the past few years, governments and capital allocators have been playing a dangerous game with respect to energy and the global economy. While the transition to lower-carbon, renewable sources of energy for the world is required for the long-term good of the planet, it seems we've gotten ahead of ourselves as we've attempted to pivot away from fossil fuels, which are inherently reliable and energy-dense sources of power, to lower density forms of energy with intermittency issues and inferior economic profiles.

Prior pivots to new sources of energy were accomplished over decades – think about the shift from firewood to coal through the 18th and 19th centuries; the shift from coal to oil through the 20th century; the emerging shift to natural gas over the past 25 years. These were driven by economics – superior energy density and value for lower cost – to supply rising per-capita energy demand.

Unfortunately, the lower-carbon energy transition today lacks a robust economic engine driving it forward. While LCOE's have fallen for solar, wind, and other forms of renewable energy, and I believe LCOE's will continue to fall through technical advancements that NOV and others are making, renewables are still expensive and suffer from intermittency challenges that require storage solutions that add to their all-in costs frequently not accounted for in LCOE calculations.

To accelerate this transition in the absence of a compelling economic driver, governments, regulatory agencies, and media decided it would be a good idea to demonize the oil and gas industry. And let's be honest – you know what I'm talking about. I think the motives behind this are pretty evident– to bring about the acceleration of a desired energy transition outcome; namely, a more rapid pivot to renewables. Specifically, the oil and gas industry has been under attack by political, bureaucratic, and media leadership that have been very effective in choking off the inputs into the oil and gas machine I described earlier.

Now, let's turn back to those, starting with capital. Unrealistic near-term peak oil-demand narratives, built on the promise of rapid substitution of renewable energy, have significantly dampened equity investor interest in oil and gas

stocks, both in public markets (where the energy weighting of the S&P 500 bottomed recently at less than 2%, compared to 14% in 2008 and 20%+ in the 1970's) and in private equity. With little or no terminal value expectation due to a broadly accepted narrative that oil and gas goes away soon, it's easy to understand why equity investors have been reticent to invest here, and, with the relentlessly negative PR the industry receives, we understand why it has been fashionable for college endowments and other institutions to trumpet their divestitures out of the space. Meanwhile, commercial banks are being pressured by both their shareholders and regulators to trim lending to the sector. In short, capital in all forms has become way more expensive to oil and gas.

Next, the industry needs of engineering talent. Again, unrealistic peak demand scenarios and negative PR have frustrated efforts by the oil and gas industry to recruit young, talented engineers who worry about investing their careers in a sunset industry. And this recruiting effort is becoming more urgent as the industry needs to replace its experienced but aging baby-boomer workforce soon (referred to by industry insiders as "the Great Crew Change").

Oilfield work has provided high wages and high standards of living in small towns in remote areas for generations of blue-collar workers, but it's not for the faint of heart. Deep, deep cyclicalities requires painful, significant cuts during oilfield downturns, which can be brutal. As the U.S. rig count dropped to record low levels in the summer of 2020 following global government decisions to shut down economies, the oilfield did the difficult task that we are unfortunately called to do from time-to-time: we laid off a lot of good employees. This was very, very tough on many good people and families, and they remember it. When we fast-forward to today, when the broad economy is growing, unemployment is low, attractive job opportunities are available outside the oilpatch, and family balance sheets are in much better shape owing to pandemic stimulus checks, it is extremely difficult to attract direct labor back to the oilpatch, and, frankly, it requires much higher wages.

Oilfield services also cut investments in its hard assets. The downturn saw companies cannibalize unutilized equipment for spare parts rather than spend precious cash needed to survive on properly maintaining fleets required for more normal levels of activity. As industry activity ramps, OFS companies are swimming upstream against the congested supply chains as they scramble to put incremental equipment back in shape to work. The physical inputs required for these equipment overhauls – bearings and hoses, engines and transmissions, polymers and resins, chips and circuit boards– are incredibly tight. While the U.S. is back to growing production off 2020 lows by drawing down DUC inventories, we are the only such country that's growing. Global crude inventories are well below average and still trending the wrong direction because we are no longer the "just in time" industry we were in the prior decade.

The oil and gas machine needs promising acreage as well. Our E&P customers tell us that the current regulatory environment continues to get more expensive and challenging, orchestrated, in their view, by agencies that are all trying to affect a more rapid energy transition, while in other developed countries they face outright bans on oilfield activity.

(BTW, geoscientists need years to find and delineate fertile acreage through exploration. Unfortunately, global exploration was severely cut following the downturn of 2015, meaning the pipeline of prospects to develop is very limited now after 7 years of underexploring.)

To summarize: when we survey the inputs required to construct oil and gas wells, from capital to labor to workable regulations to prospect development pipelines to engineering talent to consumables and equipment, all face significant hurdles put in place by politicians, regulators, and media.

My question is this: has this been a good idea? Has it been good policy to demonize the industry that quite literally powers all other industries? Political leaders across the globe have not been honest with voters and consumers about the cost, feasibility, difficulty, inconvenience, and time required to fully pivot to renewable sources of energy, in my view. I am not questioning the need to make the pivot but rather the plan to get there. The de facto policy of choking off the inputs of a critical industry not just years but *decades* before we have a good alternative is very bad policy. Many will suffer as a result.

To make matters worse, enormous economic stimulus that accompanied the forced shutdown of the global economy during the pandemic massively increased money supply across developed economies, as governments printed money at a breathtaking rate. The U.S. M2 money supply is up over 40%, for example. Historically, inflation rolls directly into commodity markets like oil and gas; this time, I believe it will be amplified by the input constraints I catalogued earlier. Add to this productivity gains from workforce demographics and globalization that offset money supply growth in prior generations, that today are going the other direction, and it's no surprise that dollar inflation is at 40-year highs and rising.

In summary, I could not have scripted a more compelling setup for an energy crisis. While this points to rising demand for the equipment and services NOV brings to the oilpatch over the coming quarters and years, it also points to a pretty dark view of economic challenges we face as we undo the mess created.

The world now finds itself in critical need of an industry that it had written off as a sunset industry. And reconstructing this industry will not be easy. Seven years of E&P under-investment, of OFS effectively dismantling much of its capacity and drastically shrinking its workforce in order to survive, together with the additional hurdles created by the vilification of oil and gas, make what is required of us a very heavy lift. According to a recent research report, the industry halved its resource life since 2014, and fewer FID's in recent years will potentially lead to approximately 10 million barrels of lost production by 2024. The prospect pipeline continues to shrink, while ESG measures drive operating and financing costs higher, skilled labor markets are tightening, and inflation and supply chain disruptions are pushing large-project

cost curves significantly above the levels seen in the prior decade. And accelerating global decline rates adds further risk of global production shortfalls.

In order for the world to avoid an energy crisis the likes of which we haven't seen since the 1970's, we need a synchronized global oil & gas super-cycle of some duration, and it needs to start yesterday. We need, and thankfully we are starting to see, both short-cycle shale oil and longer-cycle offshore development of petroleum resources.

The low rates charged by oilfield services participants over the past several years did not reflect the physical consumption of capital equipment used in operations, much less earn a decent return for OFS shareholders. However, that overhang is diminishing rapidly and has been replaced with tightening schedules and lean, if not bare, shelves. Pricing is beginning to move across the oilfield after years of the services industry subsidizing its customers by cannibalizing its own capital base. While the moves thus far have been small and mainly to keep pace with inflation, our OFS customers report net pricing momentum is beginning to grow.

Nevertheless, while all the forgoing is worrisome for the global economy, I am confident our company, our industry and the producers we serve are up to the extraordinary task of growing production to provide energy security and better standards of living for humanity, just as we have done for 163 years. The oilfield is nothing if not resourceful and resilient.

Since 2014, our organization has shrunk dramatically to make it to the other side of this 7 year down-cycle, but we never took our eye off the ball in our technology development initiatives. NOV continues to invest in and lead in both oil and gas technologies, along with the emerging renewable energy technologies that we've spoken of throughout the downturn.

While an energy transition to a lower carbon future is required, the world is finally waking up to the fact that oil and gas are still absolutely essential to our modern way of life, and the oil and gas industry is quickly becoming aware that it can't continue to meet the world's demand for its products without significant further investment. NOV is the enabler of what is still the most important industry in the world, and we stand ready to meet the challenges of the coming up-cycle.

To the employees of NOV who are listening today, thank you for all you've accomplished through this tough, historic downturn. Your hard work and perseverance got us here. But we have a lot more hard work ahead, and now it's showtime. The world will be counting on us.

With that, I will turn it over to Jose.

JOSE BAYARDO
Senior Vice President and Chief Financial Officer

Thank you, Clay.

NOV's consolidated revenue for the first quarter of 2022 was \$1.55 billion, a 2% sequential increase compared to the fourth quarter of 2021, and a 24% increase compared to the first quarter of 2021. Rapidly improving market fundamentals, growing global drilling activity, and actions taken to mitigate operational disruptions more than offset seasonal declines and continued extraordinary supply chain challenges. Adjusted EBITDA totaled \$103 million, or 6.7 percent of sales, a 220-basis point improvement in EBITDA margin compared to the fourth quarter and a 670-basis point improvement compared to the first quarter of 2021, representing 34% EBITDA flow-through.

Our GAAP results for the first quarter of 2022 included \$45 million of "Other Items," which were primarily due to the partial impairment of assets and other charges associated with our operations in Russia, Belarus, and Ukraine.

Working capital increased \$163 million primarily due to a disproportionate number of shipments that occurred late in the quarter and intentional inventory builds to mitigate operational disruptions. Working capital was also affected by the normal increase in Q1 tax, employee benefit, and other payments, which further contributed to a \$103 million use of cash from operations. Capital expenditures totaled \$46 million for the quarter.

While we have become more adept at navigating through the unprecedented number of ever-changing supply chain challenges, all our businesses remain constrained by raw material shortages with significantly protracted, and growing, lead times for sub-assemblies, castings, forgings, electronics, and motors. As a result, our throughput is constrained, and we are not fully keeping up with inflecting demand. During the second quarter, we plan to build additional inventory buffers to position the organization to meaningfully improve throughput, and operational results, in the second half of the year.

Moving on to segment results.

Wellbore Technologies

Our Wellbore Technologies segment generated \$608 million in revenue during the first quarter, an increase of \$32 million or 6% compared to the fourth quarter and 47% compared to the first quarter of 2021. Growing global activity, led by North America and the Middle East, drove solid revenue growth across the segment's portfolio of businesses despite headwinds from supply chain disruptions. Pricing gains and an improved product mix offset inflationary pressures to drive incremental margins of 41%, resulting in a \$13 million sequential improvement in EBITDA to \$101 million, or 16.6% of sales. Compared to the first quarter of 2021, EBITDA improved \$67 million, representing 34% EBITDA flow-through.

Our ReedHycalog drill bit business posted revenue growth in the upper single digits, driven by strong performance in the U.S. and Middle East. A less favorable mix limited sequential EBITDA flow-through. However, the business unit realized a

mid-40% incremental margin relative to the first quarter of 2021. Despite intense inflationary pressures on several key material inputs, the business has secured net pricing gains in most markets, and its leading-edge bit technologies position the business to continue its strong performance in the second half of the year.

Our Downhole business reported a low single digit percentage improvement in revenue as solid growth in North America was offset by large Q4 shipments into international markets that did not repeat. This business unit has been disproportionately impacted by supply chain challenges with difficulties in obtaining elastomers and special grades of steel used in our high-spec products, resulting in growing backlogs for our tools. In our primary North America manufacturing facility, backlog for our power sections increased 38% in Q1 due to stators awaiting re-lines. Despite, and in part due to, these difficulties, the business has been able to push pricing to partially offset the supply constraints and is executing on plans to significantly increase throughput during the second half of 2022.

Our Wellsite Services business posted mid-teens sequential revenue growth with strong incremental margins. The business realized a solid full quarter contribution from its recent managed pressure drilling acquisition and strong contributions from the unit's core solids control operations. As activity increases and more rigs are reactivated, this business is particularly well positioned as we expect drilling contractors will look to differentiate their rigs with the latest generation of solids control and MPD equipment.

Our MD Totco™ business posted low single digit sequential revenue growth with negative incremental margins due to the seasonal fall-off in capital equipment sales into international markets and a less favorable sales mix. Despite the soft quarter, the business unit achieved 41% revenue growth with incremental margins in the 70 percent range in comparison to the first quarter of 2021 and had several recent commercial successes, which should drive wider adoption of the unit's newer technology offerings. Working in tandem with our Rig business, the unit initiated a trial project with a key NOC in the Middle East utilizing our Kaizen™ Intelligent Drilling Optimizer running on our NOVOS™ platform. The project demonstrated notable drilling improvements, reducing average days to drill by 35% in comparison to offset wells. Additionally, MD Totco's eVolve™ broadband wired drill-pipe solution was commended by a key offshore customer for helping avoid a well control event. When the operator encountered an unexpected change in downhole conditions and a subsequent loss of well circulation, MD Totco's wired drill pipe and distributed along-string measurements continued to provide real-time annular pressure readings, which would not have been possible with mud-pulse telemetry. This allowed the operator to effectively manage the situation and backfill the annulus. The operator estimated that the solution helped avoid a lost-in-hole incident, if not a full blow-out. We expect adoption of MD Totco's technologies to accelerate among leading operators as we continue to demonstrate meaningful improvements in drilling efficiencies, well productivity and safety.

Our Tuboscope business delivered a sequential revenue increase in the mid-single digits driven primarily by improving demand in our U.S. inspection and Eastern Hemisphere coating businesses. Despite continued inflationary pressures on

raw materials and labor, incremental flowthrough for the business materially improved as demand is now driving opportunities to ratchet pricing at a rate that should outpace the combined effect of inflationary costs and operational disruptions.

Our Grant Prideco drill pipe business posted mid-single digit revenue growth with outsized incremental margins as the business realized a 15-percent increase in the mix of large-diameter premium pipe sales, which more than offset a dip in volume. While we expect supply chain disruptions, inflationary costs, and a slight deterioration in sales mix to result in softer Q2 results, new order outlook and pricing are growing increasingly favorable with tracked pipe inventories at near record lows.

For our Wellbore Technologies segment, we expect the continued improvements in global oilfield activity to drive revenue growth despite ongoing supply chain challenges, resulting in a sequential revenue improvement of 1 to 5 percent during the second quarter. While we expect pricing for many of Wellbore's businesses will gain momentum, inflationary pressures will limit incremental flow-through to the mid to upper teens. We believe the segment is on track to achieve EBITDA margins in the high teens by year end.

Completion & Production Solutions

Our Completion and Production Solutions segment generated revenues of \$530 million in the first quarter of 2022, a decrease of 3 percent from the fourth quarter of 2021 but an increase of 21 percent compared to the first quarter of 2021. The sequential decline in revenue was driven by continued supply chain challenges along with typical seasonal declines. Despite the sequential decrease in revenue, adjusted EBITDA increased \$8 million, due to better execution against ongoing supply chain disruptions, improved product mix and better absorption in our manufacturing plants.

While orders declined sequentially, book to bill was 110%, the fifth straight quarter in which the segment has achieved a book-to-bill greater than one. Quarter ending backlog increased 6% sequentially to \$1.36 billion, which is up 68% from the first quarter of 2021 and reached its highest level in more than five years. Q1 bookings were solid, but a number of our offshore customers took a step back and deferred new orders while they work with suppliers to get their arms around the unprecedented disruptions, delays and rising costs in shipyards around the world. Despite this temporary pause, the outlook remains robust, as improved commodity prices have significantly enhanced project economics despite rising costs.

Our Process and Flow Technologies unit posted mid-double digit sequential revenue growth in the first quarter as progress improved on several projects that experienced COVID-related disruptions over the last few quarters. While profitability for the business improved, margins remain at unacceptable levels due to cost overruns caused by shutdowns and quarantine driven delays at shipyards and engineering cost overruns resulting from the inability to efficiently collaborate on complex projects while in remote work settings. We expect the magnitude of disruptions to decline, but the effects will continue to pressure results through the second half of the year.

Our Subsea flexible pipe business recorded a sequential revenue decline in the low single digits but was able to achieve a modest improvement in profitability through a higher margin sales mix and through herculean efforts to control costs throughout the quarter to make up for a three-week shutdown in one of our two manufacturing plants caused by a lack of raw materials. While the primary issue has been resolved, we expect profitability to remain challenged for this unit for at least the next quarter or two.

Our Intervention and Stimulation Equipment business experienced a low double-digit drop in sequential revenue, driven by strong Q4 coil tubing equipment sales and a late 2021 push to sell lower margin, prior generation capital equipment that did not repeat in Q1. Profitability improved due to a better product mix, higher pricing, and incremental cost savings achieved during the first quarter, which more than offset continued inflation and supply chain challenges. Bookings increased 44% sequentially and included strong orders for our Hydra Rig™ 6120 large diameter coiled tubing injector that provides 120k-lb of continuous lifting capacity and 60k-lb of continuous snubbing capacity. While we're not yet seeing demand for new units in North America, customers are realizing much improved pricing and are now upgrading existing units with better technology. This means aftermarket activity continues to drive our ISE business; however, during Q1, we saw a pickup in demand for wireline equipment in international markets and cementing equipment in the U.S., and we are also seeing U.S. pressure pumpers purchase additional pump units to supplement current fleets as horsepower demand per spread continues to increase. With our service company customers beginning to realize net pricing for the first time in several years and high-spec equipment nearing full utilization, we expect to see increasing sales of capital equipment moving forward.

Our Fiberglass Systems business posted a sequential revenue decline in the upper single digits due to seasonality in our Fuel Handling Systems operation and continued supply chain issues, which has made operations for this business particularly noisy. Many of our key inputs, such as glass, resin, and epoxy, were primarily sourced from Asia. With the dramatic increase in shipping costs and the inability to predict delivery times, the business has worked to diversify and reallocate its supply chain to better insulate it from disruptions. Despite the challenges faced by this business and the sequential revenue decline, the team was able to improve profitability in Q1 through a focus on cost control and pushing price to make up for the increased costs associated with raw materials and operational disruptions. After a difficult 2021, the business is now seeing its sales pipeline grow at a rapid pace, particularly in the Middle East, portending improved results for the business in the second half of the year.

While supply chain challenges and inflationary pressures will persist through the second quarter, execution from our Completion & Production businesses should continue to improve. As a result, we expect the Completion & Production Solutions segment to achieve a 10 to 15 percent increase in revenues with incremental EBITDA margins in the 15 to 20 percent range. We continue to believe the segment can achieve mid-to-upper single digit EBITDA margins by year-end.

Rig Technologies

Our Rig Technologies segment generated revenues of \$441 million in the first quarter, an increase of \$10 million or 2% sequentially. The modest topline growth was the result of rapidly improving market fundamentals, which are driving a growing backlog in both capital equipment and aftermarket offerings, mostly offset by seasonal declines and supply chain challenges that are restraining our ability to ramp production in lockstep with inflecting demand in our aftermarket business. Adjusted EBITDA improved \$15 million to \$36 million, or 8.2% of sales, due to a more favorable sales mix, improved pricing, and cost savings initiatives.

New orders totaled \$236 million, represented a book to bill of 124%. We also posted an additional \$80 million positive adjustment to our backlog, primarily related to an annual inflationary price index adjustment associated with our Saudi newbuild rig program. As a result, total backlog for the segment at quarter end was \$2.89 billion, the highest level the segment achieved since Q1 2020.

Demand for wind power installation vessel equipment remains robust, and we booked a large equipment package for a new wind power installation vessel during the first quarter. The award includes a jacking system, heavy-lift crane, and a special feeder barge handling system, which is designed to provide a cost-effective Jones Act compliant solution that can improve installation process efficiencies by up to 30% compared to conventional vessels.

The offshore wind power installation equipment market remains a compelling near-term opportunity, and we see the potential for five to six additional vessels reaching FID over the next twelve to eighteen months. We are equally excited about NOV's mid-to-longer term opportunities within the wind power space. We've previously discussed our "taller tower thesis," which continues to be the primary driver for improving economics in the wind power space and continues to drive our R&D efforts and the proprietary solutions we are developing for the market. We previously described a patented technology in which we've invested to spiral-weld tapered wind tower sections via an automated process allowing for in-field manufacturing, thereby eliminating the many logistical limitations of transporting the larger diameter sections necessary for tall tower developments. We are pleased to announce that production of the first commercial tower sections is now underway at our Pampa, TX facility.

While this system will address the logistical challenges, and costs, associated with delivering taller wind turbine towers to location, installing towers and nacelles with higher hub heights present other challenges, and opportunities. We are in the process of finalizing the design of a fit-for-purpose onshore mobile wind tower erection system, leveraging our core design and manufacturing competencies for large, industrial capital equipment, and experience developing complex control systems. This patent-pending system should significantly improve the safety, reliability, and efficiency of tall wind tower installations.

Longer-term, we see the emerging floating offshore wind market as a compelling opportunity for NOV. Floating wind turbines will be key to unlocking the massive renewable energy potential in many markets around the world that don't

have access to large areas of shallow coastal waters. Beyond our existing product portfolio, which includes cranes, winches, mooring systems, cable-lay systems, ballasting systems, and chain connectors and tensioners, we are leveraging our deep expertise in marine and offshore engineering, design, and manufacturing to actively develop new products and technologies to support this nascent opportunity. Our patent-pending Tri-Floater semi-submersible floating system has a cost-advantaged shallow draft design that reduces steel requirements, capital expenditures, and overall project execution risk. We are also designing several proprietary lifting and handling tools to streamline the installation and commissioning of offshore wind turbine components.

To date, we've completed several pre-FEED and FEED studies related to potential deep water wind development projects and were recently awarded a pre-FEED study for a project in South Korea. We are also working with partners on several other potential projects around the world, including opportunities within the prospective 25GW ScotWind development area where 17 seabed blocks covering 2,700 square miles were recently auctioned. Of the 17 blocks awarded, 11 will utilize floating wind systems, and NOV has been actively engaged in discussions with the winners of six of the eleven licensees. While there is no guaranty NOV will be selected to equip these developments, we are well positioned for this large, long-term opportunity, which could result in pre-FEED activities taking place over the next two years, full FEED studies during 2024 and 2025, and construction beginning in 2026, with first power by 2030.

We are enthusiastic about NOV's long-term prospects within the wind space but remain extremely focused on our current wind power construction vessel opportunities and on the growing demand from our conventional rig equipment business. While orders for rig capital equipment in Q1 2022 were up 83% over Q1 of 2021, they remain light by historical measures. However, we are seeing accelerating improvement in underlying fundamentals. In the U.S. land market, leading-edge day rates for top-tier rigs are up to \$30,000, up from the low 20,000's just a few quarters ago, and the active rig count continues to march higher. We expect to see similar day rate dynamics for top-end rigs in international markets with improving activity.

Leading edge offshore day rates have climbed into the 3-to-4-hundred-thousand-dollar range, levels that are encouraging reactivation and reinvestment activities to accelerate and generating orders for both our aftermarket and capital equipment businesses. During Q1, we were awarded multiple contracts to help customers ready equipment for upcoming drilling campaigns, including an agreement with an international drilling contractor to reactivate three jack-up rigs and recertify an additional eight.

We've seen a dramatic change in the sense of urgency among our customers. Last quarter, we described a rise in inquiries for top drives, high-torque handling equipment, and pressure control gear, which are now converting into orders. During most of 2021, customers wouldn't have had any qualms incurring downtime to recertify pressure control gear, but we are now seeing customers buy spare sets of blowout preventors to eliminate downtime during recertifications, avoiding the need to miss out on much improved day rates. While we welcome this new-found urgency and how it is creating

opportunities to strip away the last vestiges of price discounts we offered during the depths of the downturn, major supply chain bottlenecks have frustrated, and will continue to frustrate, our efforts to ramp our output in step with surging aftermarket demand for at least another quarter.

Supply chain constraints are impacting all our businesses but are most acute within our Rig Aftermarket operation. While aftermarket revenues improved roughly five percent sequentially and growing demand from recertification, reactivation and upgrade projects in North America and Europe allowed us to avoid the typical seasonal decline in service and repair work, revenues from spare part sales declined, but not due to a lack of demand. In fact, spare part bookings increased 16%, achieving its highest level since Q1 2020 and was 67% higher than the low we saw in Q4 of 2020. Unfortunately, supply chain constraints led to a decline in revenue from spare part sales and resulted in our backlog increasing 31% over Q4.

We expect throughput to remain constrained through at least the second quarter as the supply chain remains challenged and lead times continue to stretch. The supply chain bottlenecks are numerous and include difficulties procuring all sorts of raw materials, castings, forgings, electronic circuits, electric motors, gearboxes, and even large bearings. While most of the difficulties are due to lead-times from third-party providers blowing out, we also made some of our own missteps related to underestimating how rapidly demand would begin to inflect.

Over the past 18 months, we've been working to consolidate the operations of our large manufacturing facility in Orange, California, where we produced the bulk of our top drives, into other plants in Houston and Mexicali. While this was a high degree of difficulty endeavor, the consolidation will generate meaningful cost savings. Prior to the moves, we built buffers of finished goods that we expected to carry us through the consolidation, but the moves and associated manufacturing start-ups took longer than anticipated and occurred while demand was beginning to inflect. While we are now ramping production, the challenges we're facing with access to raw materials, castings, and forgings, along with our own manufacturing bottlenecks, will constrain our ability to keep up with demand through the second quarter.

As a result, we expect operational headwinds will keep financial results for our Rig Technologies Segment flat with those of the first quarter. However, we are growing increasingly confident in a much stronger second half of 2022 and in our belief that our Rig Technologies segment can achieve EBITDA margins of 10% by year-end.

With that, we will now open the call up to questions.