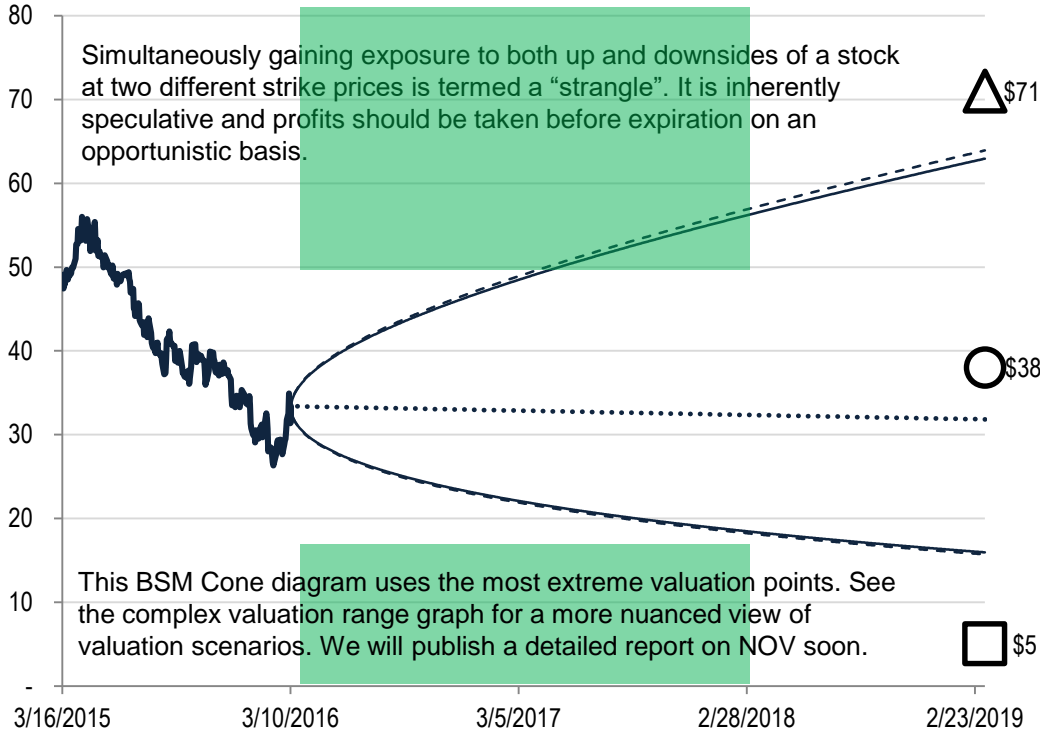


B / S	P / C / S	Strike	Exp.	Premium
Buy	Call	50.00	JAN '18	(\$1.71)
Buy	Put	17.50	JAN '18	(\$1.83)
Long Strangle			JAN '18	(\$3.54)



IOI Tear Sheet : Nat'l Oilwell Varco (NOV)

Speculative "Strangle" (Low Conviction)

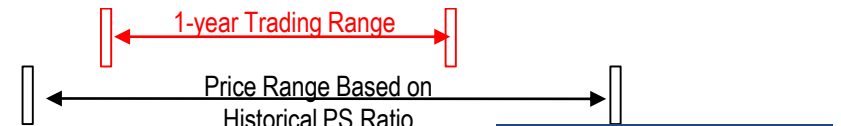
Date as of 13 March, 2016

IOI's Take

NOV has built the world's premier business for supplying equipment to offshore rigs. Too bad that the offshore market is dead to new drilling until expectations for oil prices are sustained at a much higher level. The company has been a vigorous acquirer, and there are efficiencies to be gained from consolidating these acquisitions, but if oil prices remain low, NOV's business will look very different in 5 years. Three segments' revenues follow rig count more closely, and there is some good news over the next two years re: bounceback demand. A large range of revenue, profitability, and medium growth mean that this is a highly uncertain valuation and a spec. investment.

Drivers

Revenues	"Best" revenue comes from building offshore rig equipment, a mkt that will be bad to terrible for two years at least.
Profitability	Low teens OCP margin in boom years. Close to zero now. Room for cost cutting acquisitions. High operating leverage.
Investment Level / Eff.	Grew by acquiring a lot of high-priced assets during the boom. Likely need to acquire more onshore, but are pressed for cash. Efficacy looks bad now, but prob. OK normalized.
Balance Sheet	Carbon regulation could kill terminal value of business. Political will re: Global warming is increasing.



Valuation & Return

Valuation Uncertainty: High

	Low	Likely	High
Stock Fair Value (\$)	5	38	71
Stock Return (%)	-85	14	113
Option Period Return (%)	453	-100	693
Option Annual Return (%)	97	-100	161

Historical Metrics

	Historical Median	
	5-year	10-year
Revenue Growth (%)	12	12
Profit Margin (%)	9	10
Med-term Growth	Neg.	High

Market Risk

NOV's exposure to oil prices is complex, but the market treats it as simple. R² of 82% and a "beta" to oil of around 1.3 (i.e., oil px inc of 1% implies NOV px. inc of 1.3%). PSR range represents 15th and 85th percentile hist PSR.

Probability / Materiality

