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CONFERENCE CALL

Dril-Quip (DRQ) Q3 Fireside Chat Webcast

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Operator: Good morning, ladies and gentlemen and welcome to the Dril-Quip Fireside Chat Webcast. At this time all participants have been placed on listen only modes. It is now my pleasure to turn the floor over to your hosts George O'Leary and Taylor Zurcher. The floor is yours, gentlemen.

George: Good morning, and thank you for joining us today for our fireside web chat. It comes on the heels of Dril-Quip reporting their Q3 20 earnings results. I'll purposefully keep this intro brief so we can press on to the more interesting portion of today's discussion. On the Tudor Pickering Holt and Company side of the table we have Taylor Zurcher, a director of Oil Services Research and myself, George O'Leary, managing director of Oil Services Research. With us today and kind of the main event, we're incredibly grateful and happy to have Dril-Quip's Chief Executive Officer, Blake DeBerry, and the company's Chief Financial Officer, Raj Kumar, on the phone. Blake and Raj, thank you both very much for joining us.

Blake DeBerry: Oh thank you George for having us.

Raj Kumar: Thanks all the same, George.

George: Happy to do it, and with that brief intro I'll toss the mic over to my colleague Taylor to kick off the question and answer session.

Taylor Zurcher: All right, thanks George, and thanks Blake and Raj, for joining us this morning. We're hoping to cover a lot of ground today. But maybe a good place to start is on the Q3 results themselves. It looks like both EBITDA and top-line came in a bit better than what we and the rest of the street was expecting. And it's further evidence that you're making really good progress on the cost out program you initiated earlier this year. So maybe give you a minute to share any other high level takeaways as it relates to the Q3 numbers themselves. And then any sort of initial outlook you could provide for Q4 of 2020 would be helpful as well.

Blake DeBerry: Sure, Taylor, just first off, I say this market was challenging pretty early on in the year and continues to be challenging. We've had some customer delays and a lot of push out requests as our customers move their operation programs out. But I'm extremely pleased with the results we were able to print today, and I couldn't be more proud of the team quite honestly. With respect to specific color, really Raj is just more in the details as CFO, and so I'm going to hand it over to him to let him share those details with you.

Raj Kumar: Thanks, Blake. So guys, I mean it was a good quarter. We saw the impact of the cost out taking shape nicely in Q3. And in this market, you know, to Blake's point right if you look at bookings right, our bookings number was $50 million, last quarter was $40 million. But in this market right now one booking slip could means a $10 million move up or down. So we could plan anywhere between $40 to $60 million. So if you look at that, that has a bearing on our revenue. So this quarter very similar in revenue from last quarter. The upside that we saw was, you know, as I mentioned the cost data, we also had some favorable mix that helped us this quarter. You mentioned talking about next quarter, I would say that we think we're going to be flat next quarter. Given where we are right now, and having said that I want to signal that with bookings moving up or down, you know, it could be anywhere, right?

It could be anywhere in the $10 million range up or down. So we just need to be in a position where we understand that it's quite a binary environment that we are in. But we do know that the cost stakeouts taking shape, we will see leverage going into Q4, that's cost leverage that's going to further help us given if revenue is flat we should see a better performance in EBITDA all things being equal.

Taylor Zurcher: OK, and you noted a bit better mix on the product side in Q3. It looks like you booked and turned some subsea trees in Asia Pac in the last quarter. Are we reading that right, and are you seeing any other signs of incremental book and turn short cycle work that might come back to the market here in the near term?

Blake DeBerry: So you're right, we did book some subsea trees both in Europe and Asia Pacific. It was a bit of a bright spot. We booked five trees actually in the quarter. So that was a good win for our sales group. And one of the interesting things that we've seen is those trees were booked because we had inventory, or we had trees partially in inventory, or through the manufacturing sitting in WIP. Or we had bits that we could put together and make a quick delivery. And that's really kind of what we're seeing in the market with some of the smaller players that we deal with typically in Asia Pacific. The speed is very important to them. And that's part of the strategy we have, you know, just looking at our inventory, you know, what minimum level of inventory can we hold a product at to give us signs of improved chance of bookings in that short cycle market?

Taylor Zurcher: Got it, that's a good segue into my next question, which is on inventory. In the release you talked about operators or customers continuing to delay and defer current projects into 2021 or at least pushing to the right for some period of time. And you quantified a $10 to $15 million number that represents a negative cash flow impact on a quarterly basis. Can you give us any more color as to how you get to that number, and what the uncertainty in the market might be persistent here for at least the near term future. Is that negative cash flow impact likely to materialize in Q4 and the early part of Q1 as well of 2021?

Blake DeBerry: So Raj, you want to take that question?

Raj Kumar: Yeah, Blake, I'll take that question. So Taylor, these are related to specific customers delaying shipment, right? So it's not that the demand is not there. The demand is there. It's just that they have pushed out their drilling campaign. And when that happens, they come back to us and say hey, we don't need it at a certain date. We need it at a different date, and that just drives everything through scheduling and everything else. So to Blake's point, we'll increase our WIP and it has all of those headwinds. But I want to point out the good news here. The good news here is to Blake's point we do have stocking inventory that we opportunistically can take advantage of in the market, right? I'll give you another example, we talked about the trees. On the downhole tool side we have a thoughtful stocking program for our downhole tools that is going to turn very quickly because the demand is there. And all of this, you know, made it a timing issue in terms of the inventory build this quarter.

Looking out into let's say Q4, again it depends on how our customers start scheduling their work. And it all depends on that. We are going to do our best to be as close to our customer as possible to manage the inventory as we can do. But we are also going to be, you know, we are also going to be commercially astute and take some bets on stocking programs, which have given us the results that we have been looking for.

Taylor Zurcher: That makes a lot of sense. And the final question we had around the Q3 numbers was on free cash flow. You generated roughly $12 million of free cash flow last quarter. You're still guiding to positive free cash flow for the full year, 2020, which would imply somewhere in the neighborhood of or at least at a minimum $15 million of free cash flow next quarter. The only area where it looks like you're tempering expectations a tiny bit would be on the previous cashflow neutrality target for 2020. Relative to where we sit today it feels like you might not get all the way back there, but maybe pretty close. Are we reading that comment correctly in the press release? Is there any timeline you could give us of when you do expect to get back to that $400 million number? Maybe in first half of '21 perhaps?

Raj Kumar: Yeah, Blake, I'll take that. So yeah, cash neutrality, you know, we entered the year to your point at $400 million. I think it's reasonable, you know, the expectations that you have right now. We are going to be close. We are not going to be there, but we are going to be close. What's happened is, you know, if you recall back in 2019, we went through a company-wide transformation. And that allowed us to reduce our roofline by about 30 percent. And we set a path to go out and monetize this excess roofline, and earlier part of the year we were quite encouraged. But then when COVID hit all things started to delay. And we've not made as much progress in terms of monetizing the roofline. Now that's the headwind that we're seeing in terms of the cash neutrality. But I'm very confident that as we enter 2021, we're going to see significant progress being made in term of monetizing this access roofline, real estate sales, etc. That's going to help buffer us in terms of getting back to cash neutrality. So a slight delay here, but guys in this environment $385 to $400, you know, if we get to $385 versus $400 that's a good outcome for us.

Taylor Zurcher: Yeah, no doubt. I mean it's a bulletproof balance sheet to begin with, but continuing to shore up that cash war chest is something that investors I'm sure would like to see. And would be an impressive feat given the current macro backdrop. So maybe shifting gears just a little bit. You know, COVID-19 remains an issue and seems to be flaring back up on a global basis. Today we're seeing issues both in the US and abroad. But you guys have had time to put plans in place to try to mitigate those impacts. Now that we're seeing kind of a flaring back up is that impacting business, manufacturing, any of that good stuff in any way. Have you had to put certain measures back in place that you were able to take off once upon a time? Just how is COVID impacting the business today?

Blake DeBerry: Well from an operating standpoint, you know, we've really been able to manage pretty well since about the middle of the second quarter. There definitely were some challenges as we started up, and those challenges were varied and different all over the world. Every place was a little bit different in having its challenges. But now, you know, we put some protocols in place to better manage how we deal with the reality of this virus in our lives. And in actual fact in Houston we're actually beginning to bring people back on campus starting next month in November a couple of days a week. Just getting back into the rhythm, you know, but quite honestly the biggest impact from COVID at this point is really the impact on demand and the resulting commodity price declines that are just leading to lower, you know, lower bookings and a more challenging environment for our customers, and them pushing out their deliveries.

Taylor Zurcher: We talked earlier about some of the subsea trees and the bookings for Q3. One area we don't get good insight into, at least relative to the way you report the numbers, is the mix of bookings. And specifically as it relates to connectors, which is a product you obviously have a rich history in, are you seeing an uptick in bookings for connectors? And the reason I ask is in the past you've framed that as being somewhat of a leading indicator as it relates to the offshore order and the reorder cycle for you guys. And so just curious if that's an increasing component of the bookings you've had over the past couple of quarters?

Blake DeBerry: So we're now seeing orders bookings kind of come in, in that $40 to $50 million range is what we had pretty much been forecasting, projecting all year. So we believe we're near the trough. But as Raj had said earlier, you know, one single order moving from booking, you know, at the end of September and moves to the 1st of October can make an impact on the quarterly bookings. So with respect to pipe and connectors honestly, it's just remained fairly steady, no material uptick. So that would just simply suggest we're just operating at the trough, and we're not seeing that recovery. As we said before, you know, we've got three really kind of positive highlights in the bookings quarter. First being the trees, you know, we did book five trees in the quarter, which was a big win for us. The second and probably a little less obvious is really our downhole tools business, which has been much more resilient in a bit of a shorter cycle nature.

We often deliver liner hangers, you know, in about a 12 week time period. And it's probably a part that's a little underappreciated and less thought about piece of our business. And to be honest looking forward in 2021 it's an area that we think we can actually expand. And then the last is I just don't think we're going to have much customer property overhang or customer inventory as we did coming out of 2014 and into '15. So I think that just is going to give us a little bit better recovery profile when things do start to recover I think we're going to ramp up pretty quickly, you know, because there is going to be some pressure on supply chain. And that inventory is going to burn pretty quick.

Taylor Zurcher: Very helpful Blake, thank you for that, and then forming new customer relationships and broadening existing customer share of wallet if you will seem to be keys to Dril-Quips growth story as you guys look to reload that backlog hopper when kind of times get better and that activity kind of picks up a little bit. What have been the keys to success? It's clear from your investor presentations that you guys have picked up new customers in various markets, expanded share wallet, start selling guys things that you didn't sell them before. How do you convince a new customer to start using Dril-Quip, or an existing well head customer to start buying trees from you? What's that process like and how does it differ between getting a new customer versus expanding that share wallet with pre-existing customers?

Blake DeBerry: Well first and foremost our philosophy, which we've stated multiple times is technology always wins at the end of the day. A better mouse trap that performs better is more cost effective, is going to win in the marketplace. And with the recent products we've released we've been able to gain an audience with a lot of customers, and probably even more so in this environment because the cost savings are much more meaningful to them. And given that the technology just really adds value, and reduces cost and time, you know. Just as an example if a customer were to drill a development well using our entire E-series of products we've estimated that saves about $5 million of cost per well, and reduces five days of rig time, and eliminates about 40 tons of steel. So for those that are, you know, sensitive to the ESG side that's a meaningful amount of CO_2 that's removed from the atmosphere of just not having to manufacture the steel, which it's kind of a two for one. To get a ton of steel you put two tons of carbon dioxide into the environment. So that's a positive on that side and probably a bit of an unexpected positive but a good one because that is a sensitive point in the current environment.

Really our approach has been with these new products is to just develop wells that structurally change the way our customers drill wells to give them permanent cost savings. You know, when the downturn happened in 2015, you know, the traditional response is, and it's totally understandable, is hey supply chain is going to jump in here and we're going to get some cost out and reduce pricing. But really there has been no uplift in pricing since that time period. So there is really not much more that can be squeezed out from the supply chain perspective. And given that, you know, people are really starting to focus on technology and how that can benefit their programs. And we're seeing our R&D efforts really pay off in a meaningful in interest from our customers, and we think that's going to translate into some significant bookings in the years to come.

And one of the things that you're probably not aware of is we're also a bit of a value-added reseller to some non-traditional customers that are not necessarily end users of the products. But they do use our products in conjunction with their own in certain areas of the world.

Taylor Zurcher: Well one of the more recent and certainly value-added technologies that you're in the process of introducing to the market would be the VXTe System. So I was hoping you could just rehash for us what the primary differentiators for that piece of technology are relative to what's out there in the market today. And then secondarily as we think about the potential paths forward for monetization of that product, what are those paths, what do they look like today, and what sort of commercial models do you think you might look to pursue as you look to commercialize that product moving forward?

Blake DeBerry: Sure, look, VXTe you know, in my view is probably for me personally one of the most disruptive technologies I've seen in our sector of the industry in my career. We've been getting an incredible amount of interest on this technology from current and prospective customers. And what it really does, the short answer is, in the traditional development well scenario you would drill the well and then stop at some point and install a horizontal tree, or install a tubing spool. And then come back rerun the BOP stack, and then drill out or run the completion. And what we've done with VXTe, we allow the operator to drill the well to completion and land the tubing hanger in the well head without regard for orientation. And then land the tree, which can be done from a wire from a work boat at any orientation they want. And the technology is all the self-orientation that comes up in there.

And it gives them all the same functionality that they've had in the past, but again eliminates a lot of operations in the field, eliminates a lot of hardware. And so like I said that has garnered a lot of interest from customers and some non-traditional customers that maybe we haven't been calling on before. And from some customers that were buying well heads but now they want to talk to us about trees. So we're pretty excited about that. Just to be total transparent you've probably seen a competitor has brought an action against us with respect to the VXTe. We began developing this technology several years ago, and we obviously plan to defend our position vigorously as we prepare for a trial, which is scheduled in early February. But it is important to note that we are not prevented from continuing to market, sell, or manufacturing this technology. With respect to the monetization, it includes everything from going direct to the end users, but also, you know, could include collaborating with the value-added reseller, as a value reseller with one of our peers. We could license the technology, that's probably a less favorable option for us.

Simply because what is required if you license the technology is somebody has got to do all the engineering work, do all the design qualification testing, and you're really a couple years down the road before that product gets to market. And our view is if we do a more business to business supplier model it's a win-win-win. It's a win for us, we're manufacturing the technology components of VXTe. It's a win for the supplier to the end user, because they get that technology without having to spend a bunch of money and capital in R&D. And the end user gets the benefit of the savings, so we believe we can sell the complete kit or portions of the kit. And also it gives us an opportunity to pull some of our other products in that E-series, you know, such as well heads, and expandable liner hangers, and conductor connectors. So we view that as probably the best option to get this product to market quickly.

Taylor Zurcher: Yeah, that was a very helpful overview of a very intriguing technology. Nice to hear from someone who actually comes from the engineering side as well. That was a good explanation that even a dumb finance guy can understand. Shifting gears to the competitive landscape, you know, clearly the market turmoil we've seen, which we were talking about before this call, Blake. Since 2014, you know, alongside we'll call it a recent head fake in offshore activity, those two items have kind of coalesced to kind of change the competitive landscape a bit. Do you view the subsea equipment market as taking on more of an integrated approach over time? Or do customers still kind of want that a la carte option that they have historically wanted?

Blake DeBerry: So our experience in talking with customers, there are some customers that like that model and they're exclusively going down the path of that model. There are some that say it applies here but it doesn't apply here, and I use it sometimes. And then there are some that say I don't like that model, and I'm going to continue in my existing structure that I've been doing. So it is a mixed bag. But again, you know, I just repeat that our view is that the technology always wins. So if you just look at the broader market, you know, we're selling liner hangers to one of our peers down in South America. And they're putting it as part of an integrated package for them. So this is not uncommon for something that we've done. So our view is we're willing to work and open up, and expand the relationship with these customers, and there is just, that's really how we view that we can be a bit agnostic to whether a customer likes the integration model or not.

We think if they don't like the integrated model then we'll sell direct. If they do like the integrated model then we can partner up with somebody that can offer that particular structure for them.

Taylor Zurcher: OK, and shifting gears a bit to 2021 as a whole. We've had one of our peers come out and frame the market in 2021 in terms of subsidy inbound as likely being flat-ish on a year over year basis. And I know this isn't a market that lends itself well to predicting things accurately over the next 12 months. But as we sit here today could you at least give us some qualitative color on how you see orders progressing over the course of 2021 relative to 2020?

Blake DeBerry: Sure, for 2021 I think we're not really expecting a big increase in orders. You know, the best-case scenario, we see some commodity price stabilization at a higher level that piques the interest of our customer base, that we might get some order pickup in the second half of '21. We would expect Europe to be one of the brighter spots, and Brazil will be better positioned. US Market, I think Gulf of Mexico is still going to be a little bit tough. But we're still optimistic that we'll have some first half '21 tree orders. And then get some new installations done there as well. Specifically in Europe, Norway remains a bright spot. There are some regulatory incentives that got put in place in Norway to help stimulate that market, and things are quite active there. West Africa, could see some increased activity in '21. Asia Pacific has slowed significantly, but NOCs are still remaining active there and so that's really where we focus a lot in the Asia Pacific market. And finally really Middle East, that jack up market is beginning to trend up. And we recently have qualified some of our mud-line suspension products for out there.

And we're already have a pretty good downhole tools presence there, so we're feeling pretty good about getting a little bit of uptick in the Middle East from that market.

Taylor Zurcher: That's good to hear with respect to the Middle East. I know this last quarter was a relatively painful quarter on the activity front. But they definitely want to keep their productive capacity up. So that's good to hear. Sticking with orders, you know, should order levels remain depressed, and then kind of rolling costs into the equation, Raj or Blake, is there more that you all can do on the cost side? You've done so much heavy lifting already, if so could you peel back the onion there a little bit and frame what buckets incremental costs could come from to the extent there is more to do on that front?

Blake DeBerry: So Raj has been instrumental in these efforts on our cost out program. So I think it's best to let him answer this one for you.

Raj Kumar: Thanks Blake, so guys, I mean first I want to thank you all for giving me the opportunity to address this. You know, our commitment to managing costs, right, especially in this environment. But before I get into this cost management topic, you know, it's important to recognize that these cost reductions have had, you know, have had some difficult, you know, it's been a difficult situation for some of our employees who are being impacted through redundancies and position eliminations. You know, these decisions were not taken lightly, but unfortunately were necessary given where the market was. You know, we have demonstrated our ability to manage costs and our commitment to run the business efficiently. And I would say that, you know, we rely heavily on, you know, I talked about the 2019 transformation. And that basically gave us the playbook on how to execute on cost rationalization.

And we view it not simply as just a straight out cost take out, but kind of a development of a platform. You know, we've implemented lean management techniques. This helps us leverage every dollar of cost. I'll give you examples, right? We've done consolidation of manufacturing into centers of excellence. This enables us to scale and reduce manufacturing complexity. We've created a supply chain capability, as well as we scaled SG&A through centralization of our business processes. So all of this, actually if you look at it, it's not just going in and doing a headcount reduction. It's a very thoughtful exercise that we go through. Getting to specifics right now, you know, I think you understand the sensitivity around this. But the market needs to understand that we are confident, and we have the toolkit in place that we are able to manage our costs. You'll note that in '19 we took out $50 million. This year we are on track to take out slightly over $20 million. We're way ahead of our plan, and that's part of the reason why we saw, you know, in Q3 I alluded to the fact that margins were helped because we had cost takeout that was accelerated in the Q3 timeframe.

Taylor Zurcher: We certainly agree there, and the numbers reflect great work on the cost out program. Shifting gears a bit, there has been a number of headlines made in recent months if not quarters as the energy transition starts to take hold from the IOCs. And most of them if not all of them are starting to certainly increase their exposure and their go forward investment to a lot of these new energy and non-traditional oil and gas type endeavors moving forward. And clearly the oil and gas piece of their business is going to have to finance this push into renewables moving forward. But I wonder if you could share your thoughts as you talk with your IOC customers as it relates to their commitment to ultra-deep water, maybe over a three to five year time horizon. And as we think cycle to cycle, I was hoping you could share your thoughts on where ultra-deep water sits in the supply stack moving forward.

Blake DeBerry: So it's an interesting question, you know, we've seen a lot of announcements as you noted. Most recently kind of mid-October I had the pleasure to sit on a much delayed OTC panel on sustainable deep-water economics that had a fair number of our customers on there. In fact I think they were all customers, and this question came up. And both Chevron and BP representatives did provide some color on that, which I thought was quite interesting. And the summary of that color was that while they are all in different ways investing in that renewables area neither one of them noted any material reduction in capital going into that deep-water environment. You know, those plans were still ongoing. But their focus had shifted more to reducing their carbon footprint, which quite honestly that's one of the byproducts of our E-series products. So we're pretty lockstep with them in doing that.

You know, the reality is, you know, cheap affordable or affordable energy is required to bring people out of poverty. I'm proud to be part of this industry that's done that, and I think the oil and gas industry still has a lot of legs left in it. And I think we'll be drilling in deep water for years to come. So I think this will continue on.

Taylor Zurcher: Thank for that, Blake. And then, you know, Dril-Quip, you guys always do such a good job rolling out new equipment, products, technology offerings. And that kind of engineering and design really is in your DNA, but more recently M&A has also become a part of the discussion really across the space. But given your balance sheet for Dril-Quip in particular we certainly have discussions with clients about the potential for M&A involving Dril-Quip. How do you envision Dril-Quip playing offense and growing both the top-line and bottom-line going forward? And how do you balance those organic and inorganic opportunities?

Blake DeBerry: So you're right, you know, we're in a pretty good spot from a balance sheet perspective. Raj has been heavily involved in really the corporate development side of the business, and I think it's best that we hear from him in this regard.

Raj Kumar: And I think guys, I think we can all agree, this industry needs consolidation. Right? But we see the levels of debt out there with a lot of these companies and, you know, that's making it difficult for consolidation to happen. You know, we're very clear as Blake mentioned, we're going to maintain a very strong balance sheet. That is a key priority for us. Also, you know, we've looked at things, and we see bid-ask spreads that need to make sense. If I could describe it, I'll just say there needs to be a bit of self-actualization in this market. And I think it's taking some time to soak in. though, you know, we are very clear. We've got a framework in place, and when we look at acquisitions. We need it to be transformational in nature. As I mentioned it needs to emphasize consolidation, there needs to be scale. You know, we'll be reticent to assume any debt just to make the transaction happen, especially in this market.

Any opportunity will need to be, you know, as I mentioned have some meaningful market share. And it also has to deliver ROIC, return on invested capital, which just means that it has to be cash flow accretive across the cycle. That's not to say that we are not looking at smaller tuck in type acquisitions that will kind of advance us on our technology roadmap. As Blake mentioned, technology is a key priority, it's a focus area for us. It's for lack of a better word, our secret sauce, and we will look at these opportunities as they arise. We are confident, you know, that we'll be able to execute on an acquisition. We've developed the competency and the framework, you know, when we did the recent transformation it was basically us having to reintegrate Dril-Quip. And through that we developed a toolkit that's put us in a very good position for us to look at, you know, taking in another company and optimizing that operation within this industry.

But I want to leave the key message here, scale is the key to improving the business. You know, we're also looking at as Blake mentioned, you know, how do we expand into certain product lines. But it's critical how we go about it, doing it, very excited about deploying the VXTe technology. I think it's going to be critical for us in terms of capturing more market share. And we're collaborating with a lot of customers as well as other players, and we see them using this technology as they deploy their sub-sea production systems. So that's the view that we have right now in M&A.

Taylor Zurcher: Well thanks for that Raj, and you guys have certainly been very clear with respect to the framework and the approach you use to M&A moving forward. One kind of follow up question as it relates to M&A. When you think about potential target companies out there, or just M&A activity in general, are we talking mainly offshore oriented companies that you'd be most interested in? Or does adding some exposure to the onshore side of things make some sense for you guys moving forward?

Blake DeBerry: So we continue to believe that offshore is the best place for us. That's where our DNA is, that's where we're focused. That said, you know, we would not exclude an acquisition that had some land component if it helped us along with our technology roadmap in that offshore space. You can kind of look at TIW as that. We've taken the expandable hanger from TIW and developed it into the X-Pak, which is really an offshore related product. But to be honest we're just really more focused on differentiated technology with high barriers to entry than is what you typically find, you know, with an onshore business.

Raj Kumar: Basically we are looking to leapfrog the technology value chain, Blake.

Blake DeBerry: Yeah, yeah, good way to say it.

Taylor Zurcher: That's helpful color, and the TIW balance sheet, that is a good blueprint. That's definitely helpful. You know, and we mentioned the balance sheet a few times, and it is a bulletproof balance sheet given the net cash position that you guys have. What level, and you've spoken to this before but just curious if there is any change, what level of net cash do you believe you need to maintain on the balance sheet given the current macro backdrop, given kind of the 2021, maybe even 2022 outlook. Cause I know you guys are more long term focused. And then given the free cash flow that you guys are generating now married up with the current stock price, you know, has a thought process around share buybacks changed at all?

Blake DeBerry: Raj you want, yeah, jump in here Raj.

Raj Kumar: Yeah, thanks, Blake. So cash on the balance sheet, there are a couple of things that, you know, I'd like to just go through here. You know, one thing we do use our cash for is to do, it sort of signals to our customers, and it gives our customers confidence, our ability to be there. As in we have assurance that we're not going anywhere, and we're going to be around to support them through their products. You know, as you know we have larger competitors in our space. It's important for our customers to know that we can weather this storm, and we're well positioned to do so because we've got, you know, what I call a fortress balance sheet. I've mentioned that we keep cash on hand for working capital needs, especially when an upturn happens. You know, we have a projects component in our business, which initially will consume some working capital, but as you go through the project it starts to return cash.

And if you look, you know, I mentioned that we are not looking to have debt on our balance sheets. So we do want to have some dry powder on hand. You know, that's to support some of the earlier comments I made on the tuck in type technology acquisitions. And, you know, and how that helps with our R&D roadmap. So these are the key areas, and then if you look on a yearly basis, I mean we have maintenance level capex that we need to meet, right? Anywhere from $10 to $15 million, so if you look at all of that, you talk about the upturn, you talk about having some dry powder, I think the levels that we are at right now are quite fair in terms of our cash balance.

Taylor Zurcher: Got it.

Raj Kumar: Now to address your point on the stock buyback. You know, our thinking has only changed in so far that we want to maintain some level of dry powder. And also maintain cash to provide a customer confidence I was addressing earlier.

Taylor Zurcher: OK, very helpful overview, Raj. With that we've really ticked through our list of questions. I just wanted to open the floor up to either or both of you for any concluding remarks that you might have, or anything that you want make sure to message to investors that we didn't touch upon, to the extent there is anything.

Blake DeBerry: Look just to close out, Taylor and George, number one I appreciate you guys taking the time to put us on. First off, I have to thank globally the employees of Dril-Quip for their resilience during this downturn. It has been an incredibly volatile year, a lot of challenges, particularly what we call our essential workers. You know, a large portion of our workforce has been coming in and working every day, those that work in our manufacturing organization, whether it's machining, welding, material handling, inspecting, all our aftermarket assembly people. And then our offshore service personnel that have been going offshore to rigs throughout the downturn, so they've done a fantastic job of just continuing on. I'm really proud of the efforts we've done in restructuring the company, and repositioning the company to be much more flexible. I think we're in a position that we can respond to the market whichever way it moves. Obviously, I hope it moves up, and I'm confident in the longer term it is going to move up.

But to put in short I just really like our position. I like where we are, I like the balance sheet we have, I like the structure we have, I think we've got a strong management team that is prepared to run this business. And I think brighter days are ahead for us.

Taylor Zurcher: Thank you, Raj, and thank you, Blake, both very much for your time. With that I will turn the call back over to Paul.

Raj Kumar: Thanks, George, Taylor, good talking to y'all.

Blake DeBerry: Yeah, thank you guys.

Operator: Thank you for your participation.