

# ***DRIL-QUIP***

## THIRD QUARTER 2020 SUPPLEMENTAL EARNINGS INFORMATION

# CAUTIONARY STATEMENT

## Forward-Looking Statements

The information furnished in this presentation contains “forward-looking statements” within the meaning of the federal securities laws. Forward-looking statements include the effects of the COVID-19 pandemic, and the effects of actions taken by third parties including, but not limited to, governmental authorities, customers, contractors and suppliers, in response to the COVID-19 pandemic, goals, projections, estimates, expectations, market outlook, forecasts, plans and objectives, including revenue and new product revenue, capital expenditures and other projections, project bookings, bidding and service activity, acquisition opportunities, forecasted supply and demand, forecasted drilling activity and subsea investment, liquidity, cost savings, and share repurchases and are based on assumptions, estimates and risk analysis made by management of Dril-Quip, Inc. (“Dril-Quip”) in light of its experience and perception of historical trends, current conditions, expected future developments and other factors. No assurance can be given that actual future results will not differ materially from those contained in the forward-looking statements in this presentation.

Although Dril-Quip believes that all such statements contained in this presentation are based on reasonable assumptions, there are numerous variables of an unpredictable nature or outside of Dril-Quip’s control that could affect Dril-Quip’s future results and the value of its shares. Each investor must assess and bear the risk of uncertainty inherent in the forward-looking statements contained in this presentation.

Please refer to Dril-Quip’s filings with the Securities and Exchange Commission (“SEC”) for additional discussion of risks and uncertainties that may affect Dril-Quip’s actual future results. Dril-Quip undertakes no obligation to update the forward-looking statements contained herein.

## Use of Non-GAAP Financial Measures

Adjusted Net Income, Adjusted Diluted EPS, Adjusted EBITDA and Free Cash Flow are non-GAAP measures. Adjusted Net Income and Adjusted Diluted EPS are defined as net income (loss) and earnings per share, respectively, excluding the impact of foreign currency gains or losses as well as other significant non-cash items and certain charges and credits. Adjusted EBITDA is defined as net income excluding income taxes, interest income and expense, depreciation and amortization expense, non-cash gains or losses from foreign currency exchange rate changes as well as other significant non-cash items and items that can be considered non-recurring. Free Cash Flow is defined as net cash provided by operating activities less net cash used in the purchase of property, plant and equipment. We believe that these non-GAAP measures enable us to evaluate and compare more effectively the results of our operations period over period and identify operating trends by removing the effect of our capital structure from our operating structure and certain other items including those that affect the comparability of operating results. In addition, we believe that these measures are supplemental measurement tools used by analysts and investors to help evaluate overall operating performance, ability to pursue and service possible debt opportunities and make future capital expenditures. These measures do not represent funds available for our discretionary use and are not intended to represent or to be used as a substitute for net income or net cash provided by operating activities, as measured under U.S. generally accepted accounting principles (“GAAP”). Non-GAAP financial information supplements should be read together with, and is not an alternative or substitute for, our financial results reported in accordance with GAAP. Because non-GAAP financial information is not standardized, it may not be possible to compare these financial measures with other companies’ non-GAAP financial measures. Reconciliations of these non-GAAP measures to the most directly comparable GAAP measure can be found in the appendix.

## Use of Website

Investors should note that Dril-Quip announces material financial information in SEC filings, press releases and public conference calls. Dril-Quip may use the Investors section of its website ([www.dril-quip.com](http://www.dril-quip.com)) to communicate with investors. It is possible that the financial and other information posted there could be deemed to be material information. Information on Dril-Quip’s website is not part of this presentation.

# DRIL-QUIP INVESTMENT HIGHLIGHTS



Leading Manufacturer of Highly Engineered Drilling & Production Equipment



Technically Innovative Products & First-class Service



Strong Financial Position



Historically Superior Margins to Peers



Results Driven Management Team

# PRODUCTS & SERVICES

SUBSEA EQUIPMENT

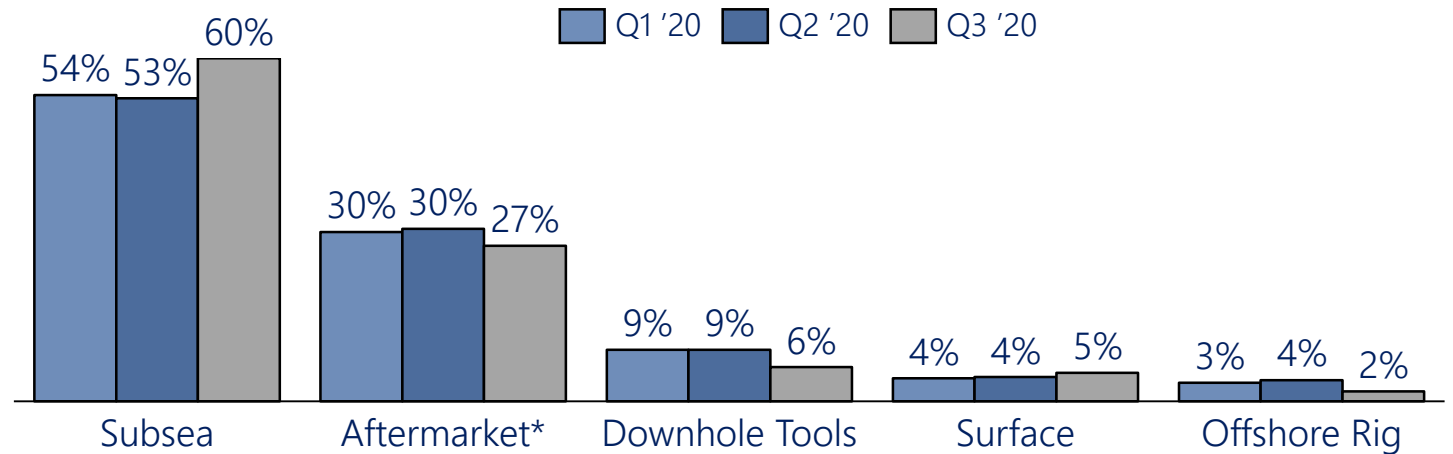
SURFACE EQUIPMENT

DOWNHOLE TOOLS

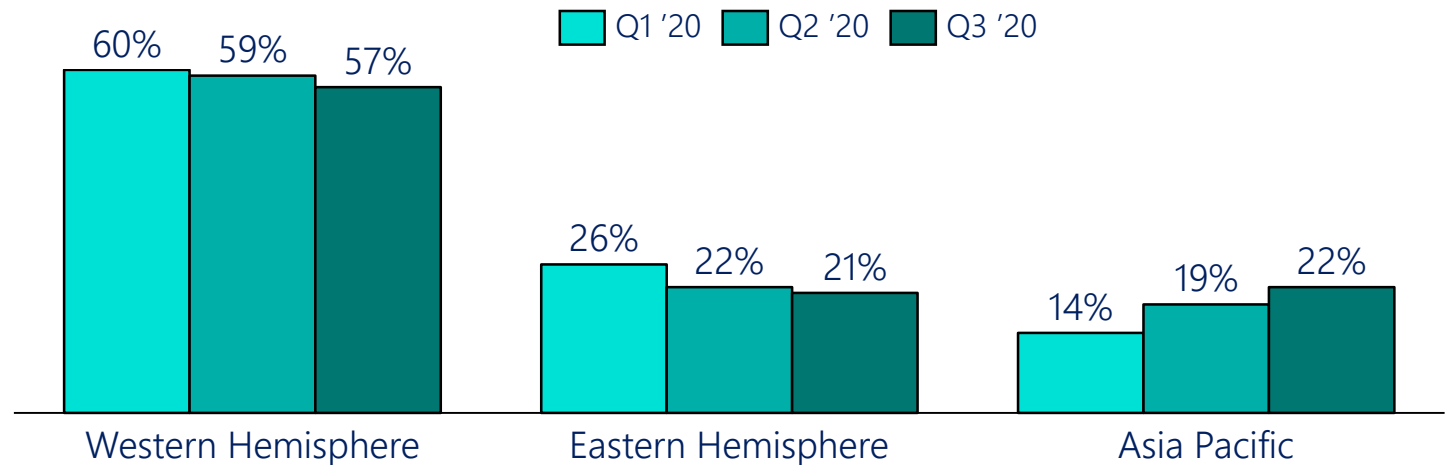
OFFSHORE RIG EQUIPMENT

AFTERMARKET SERVICES

Product & Service Revenue Segments\*

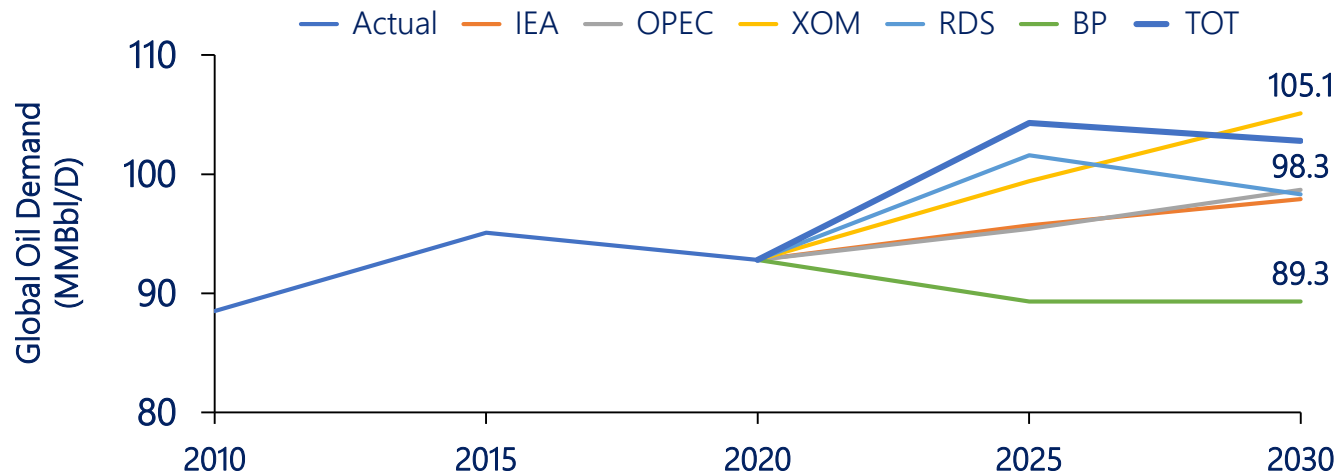


Geographic Revenue Segments

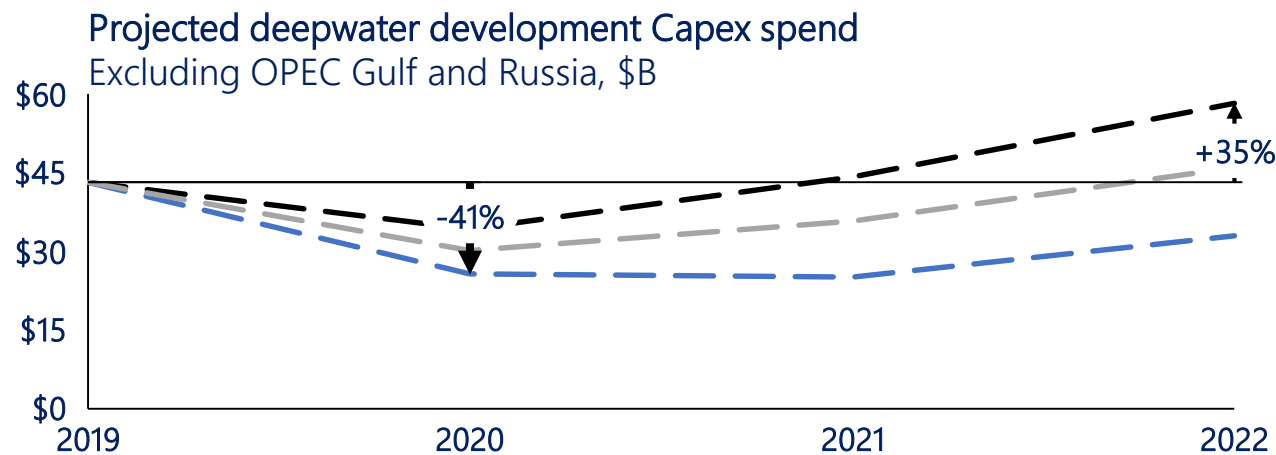


\*Aftermarket revenue includes both Services and Leasing revenue

# GLOBAL MARKET ENVIRONMENT

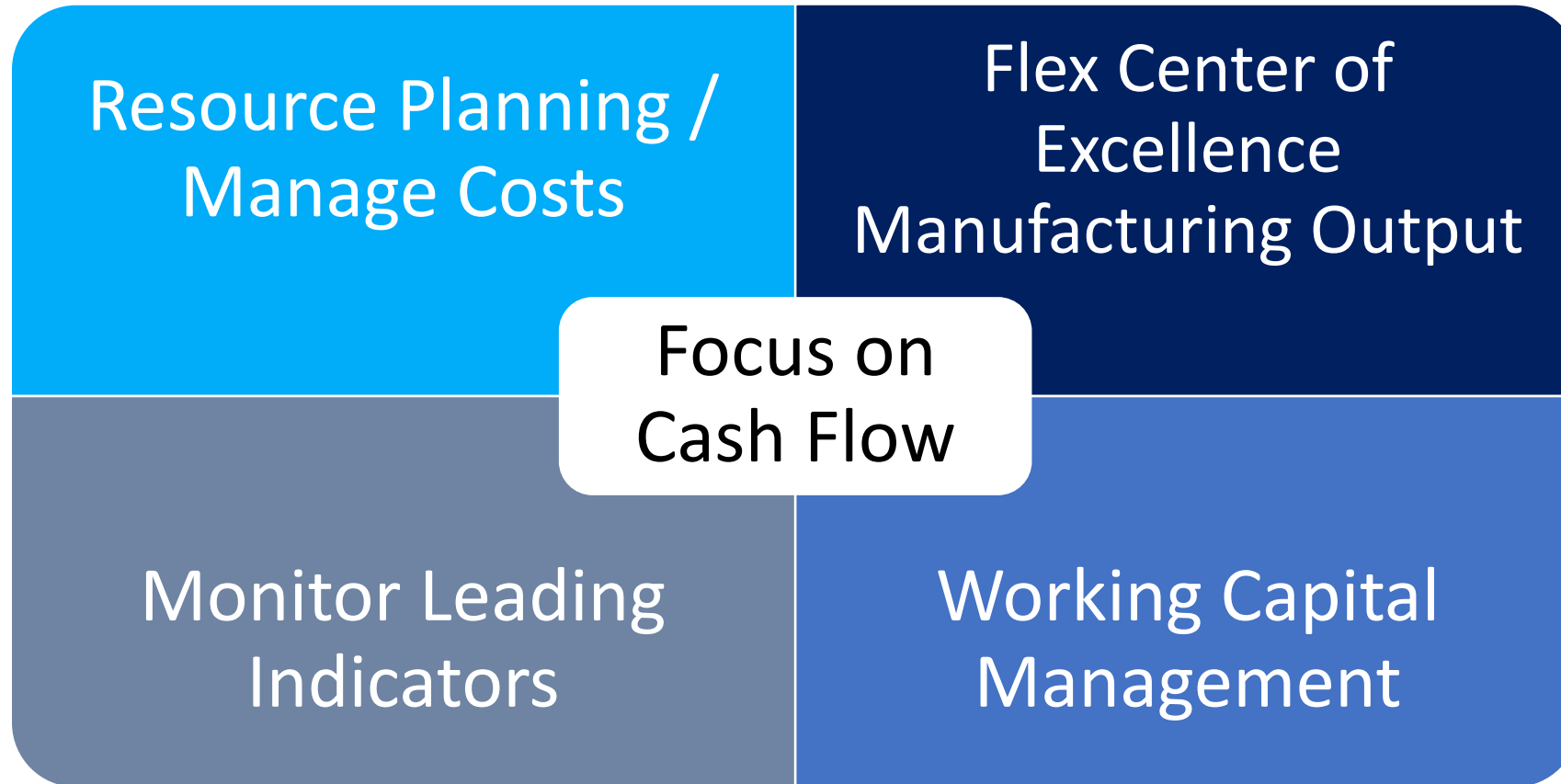


- Global oil demand not expected to return to 2019 levels of 100 million barrels per day (Bbl/d) for several years
- Recovery in capital spending dependent on supply / demand rebalancing post COVID-19 pandemic
- Europe, Africa and South America expected to drive growth through 2023



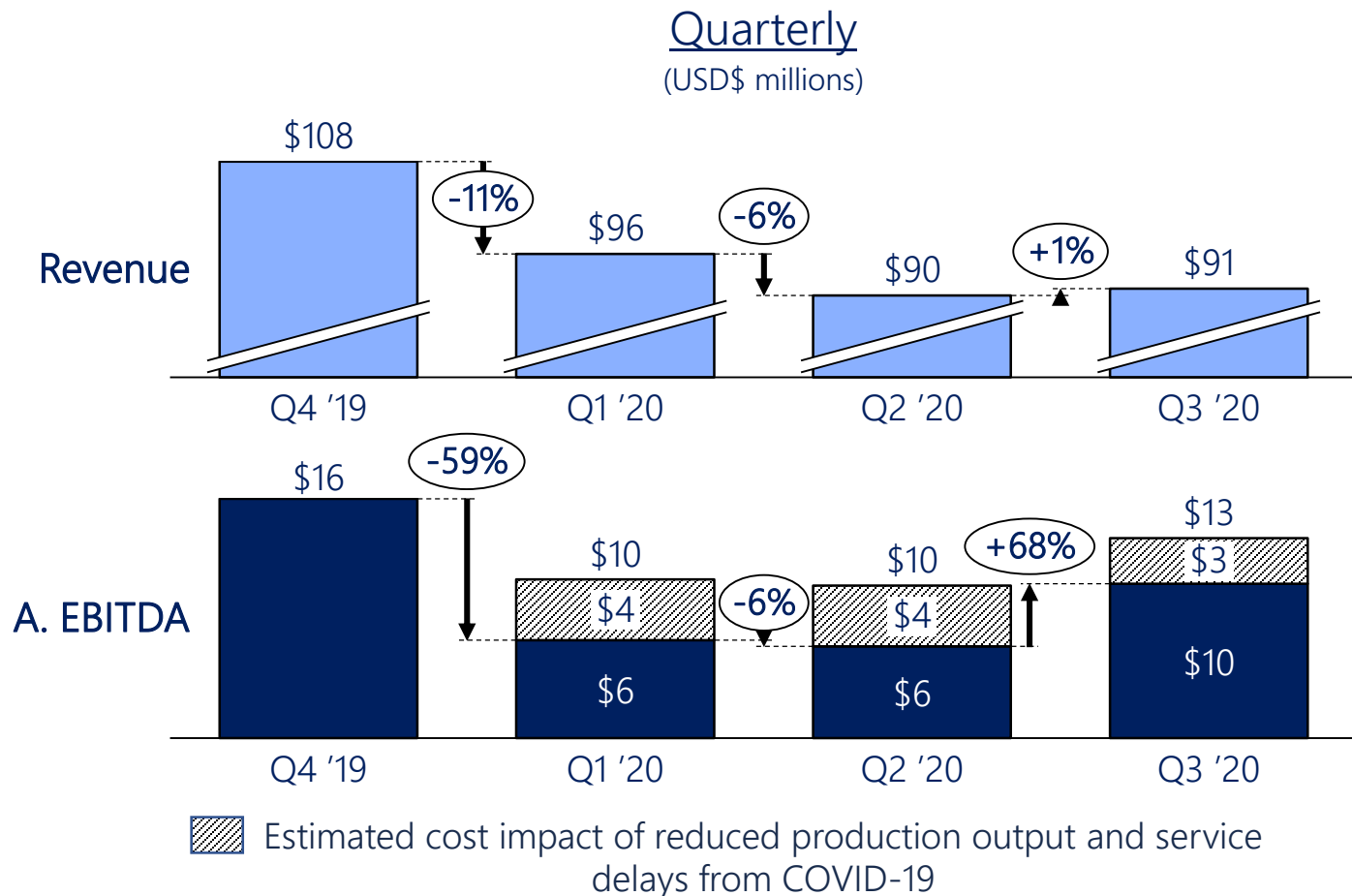
Broad Range of Outcomes Tied to Pandemic Recovery Timeline

# STRATEGY FOR MANAGING THE CURRENT ENVIRONMENT



Maintaining Strong Balance Sheet is a Key Priority

# FINANCIAL PERFORMANCE



- Revenue mostly flat sequentially driven by increase product volumes, partially offset by lower services
- Adjusted EBITDA margins increased ~\$4 million sequentially due to improved product mix and benefit of cost reduction actions
- Estimated ~\$7 million impact to revenue and ~\$3 million to adjusted EBITDA due to COVID-19 related reduced production output and service delays and, to a lesser extent, logistic disruptions

Product Mix and Cost Actions Driving Margin Improvement in Q3 2020

# Q3 2020 HIGHLIGHTS

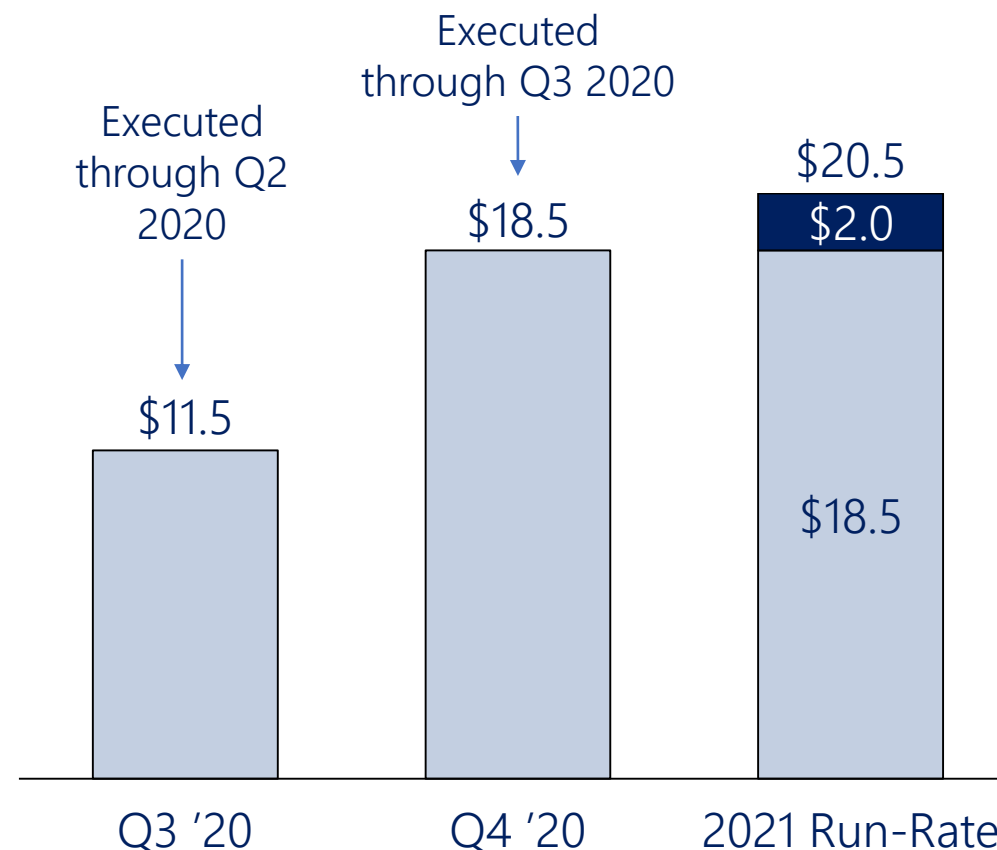
- Delivered \$91.3 million of revenue from increased product volumes, primarily driven by improved production output and product mix in Asia Pacific and the U.S.;
- Reported third quarter net income of \$14.3 million, or \$0.41 per share, an improvement of \$28.5 million, or \$0.81 per share, from the second quarter of 2020 primarily driven by federal income tax benefits;
- Increased adjusted EBITDA to \$10.2 million, or 11.1% of revenue, from improved product margins and lower costs;
- Generated net cash provided by operating activities of \$13.9 million and increased cash position by \$13.4 million to \$359.2 million with no debt;
- Executed on an additional \$7.0 million of annualized cost saving actions resulting in a year-to-date cumulative cost savings of \$18.5 million annualized;
- Selling, general and administrative expense declined \$2.5 million in the third quarter compared to the second quarter of 2020 and \$8.3 million from the third quarter of 2019



# 2020 TRANSFORMATION UPDATE

- Additional \$7.0 million in cost savings executed in Q3 2020, primarily in Eastern Hemisphere
- Year-to-date actions represent approximately \$18.5 million in annualized savings
- Control what we can control: Continue to monitor market conditions and assess need for further cost saving actions

Expected Operational Transformation  
Cumulative Annualized Cost Savings (\$M)

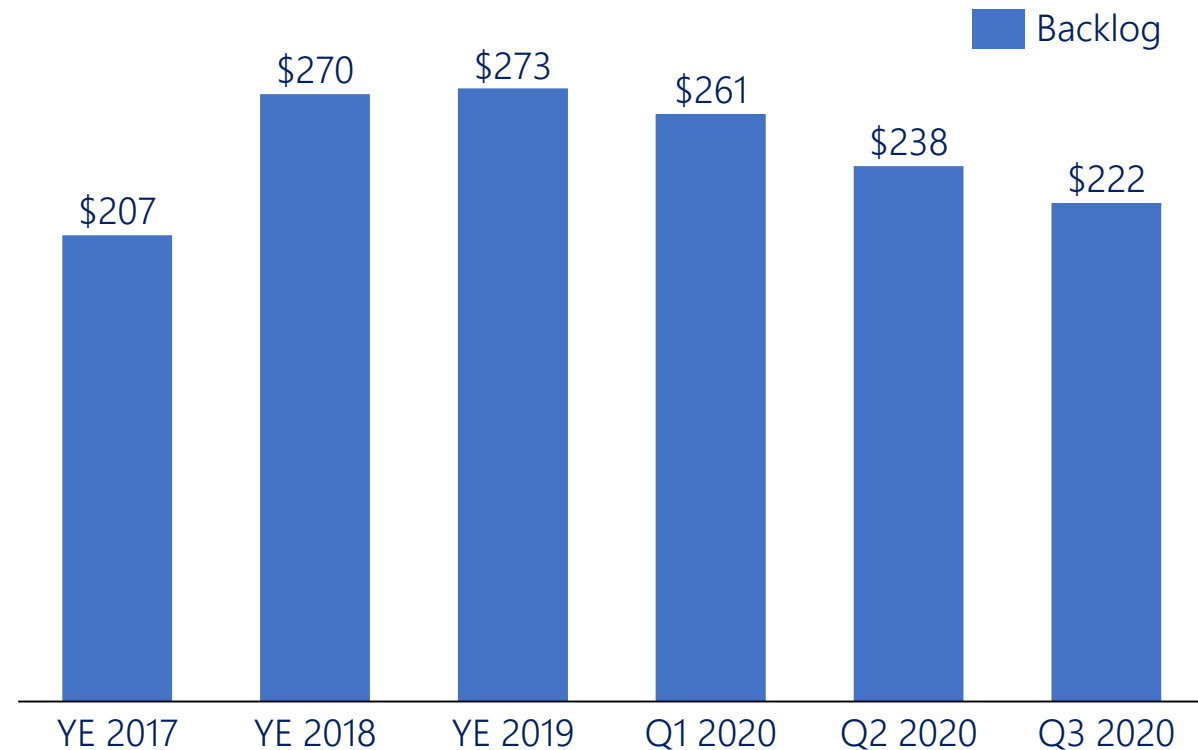


2020 Transformation Well on Track to Deliver \$20 Million in Annualized Savings

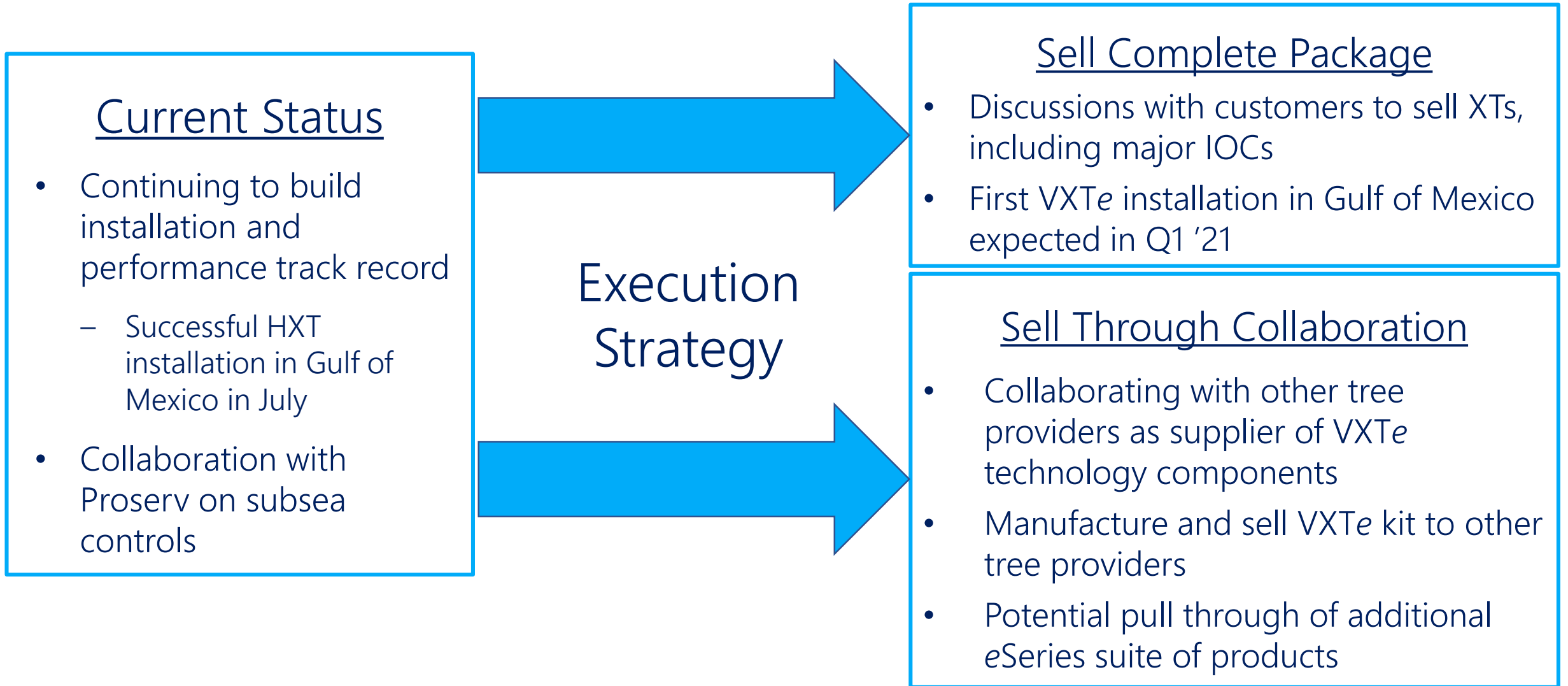
# COMMERCIAL UPDATE

- Backlog of \$222 million as of 9/30/2020 after recording \$50.2 million of product bookings in Q3 2020
- Q3 Bookings include five subsea tree bookings in Asia Pacific and Europe
- Bookings remain on track to be approximately \$200 million in total for the full year 2020
- Customers continue to request product delivery delays or installation deferrals due to market conditions and pandemic travel restrictions
- Majority of bookings continue to be in Eastern Hemisphere and with nationally owned or large integrated oil companies

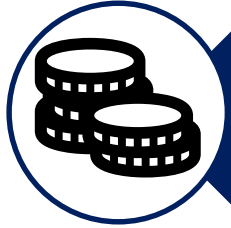
Historical Backlog Trends (\$M)



# CONTINUE PATH TO SPS MONETIZATION



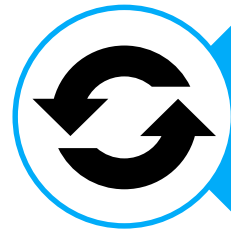
# PATH TO CASH NEUTRALITY IN 2020



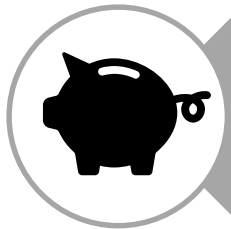
Improve cash flow generation from cost actions, collections and inventory management



Pursue real estate transactions related to transformation action plan – some delays due to COVID-19



CARES Act federal tax relief



Limit capital expenditures to maintenance levels

# APPENDIX

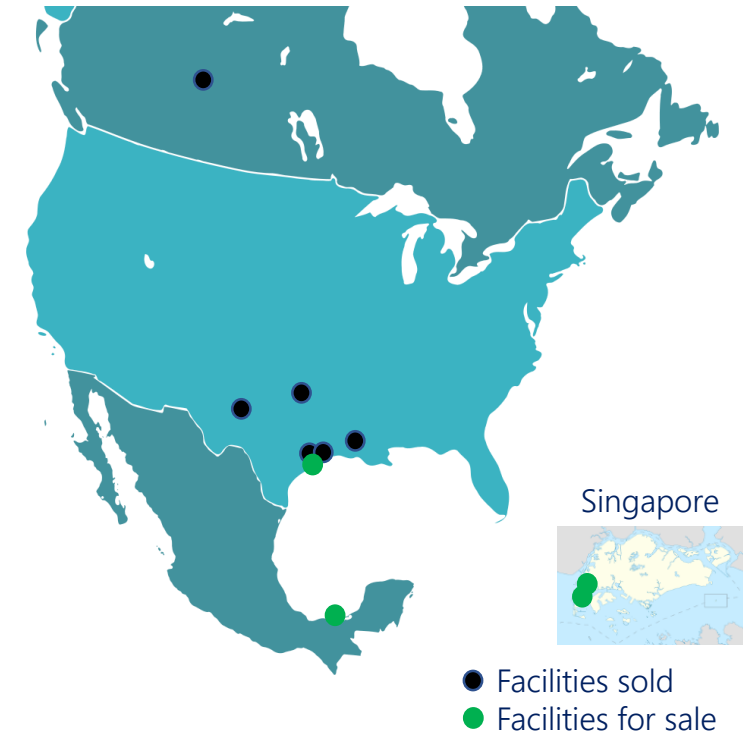
# OPTIMIZING OPERATIONAL FOOTPRINT

## Executed Sales from Start of Transformation to YTD 2020

- Six facilities sold for a total of approximately \$7.8M

## Potential Additional Sales in 2020 Currently Listed

- Four facilities currently for sale with estimated value of \$15 to \$17 million
- Closing of transactions delayed due to COVID-19 continued disruptions

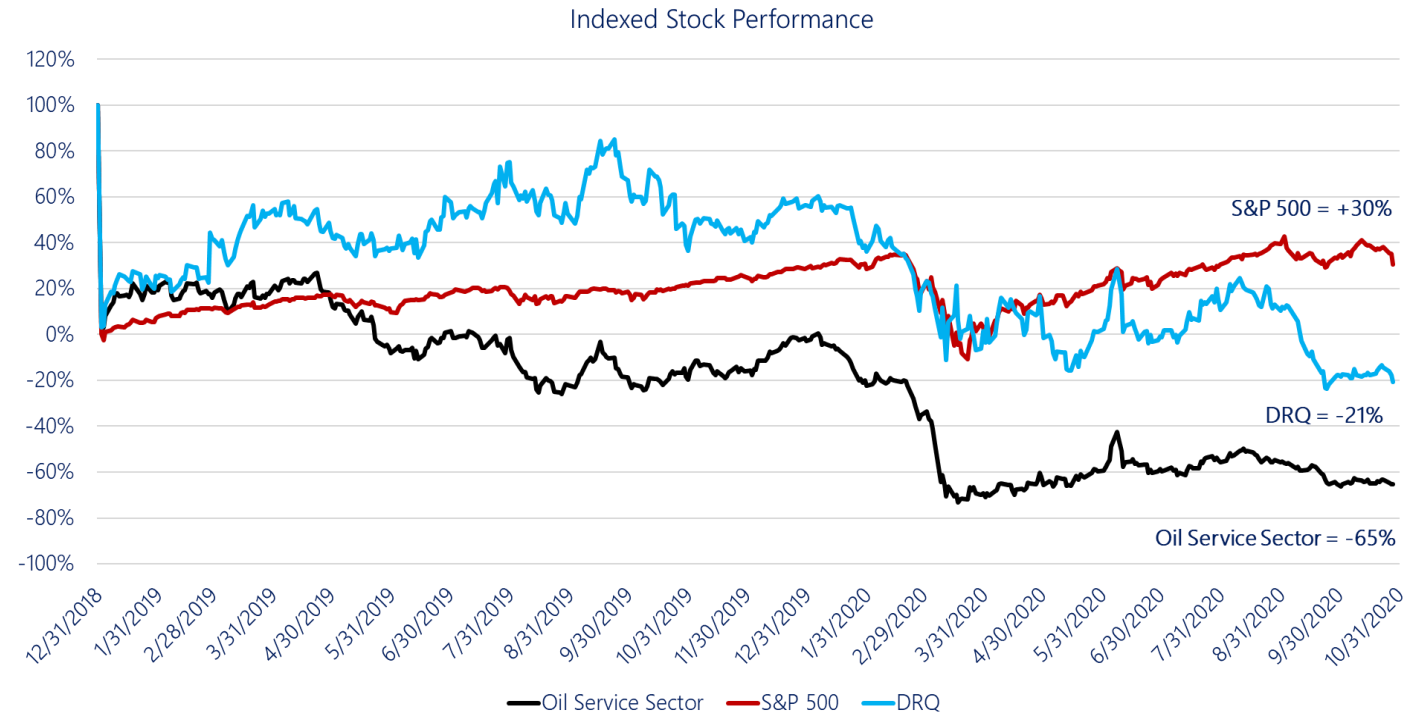


Taking steps to further consolidate footprint to improve operational efficiency

# MARKET PERFORMANCE

## MARKET INFORMATION

Ticker	NYSE: DRQ		
Share Price (at close: 10/28/20)	\$23.86		
52-Week Range	\$22.25 - \$48.39		
Performance:	DRQ	OSX	SPX
Since Q2 Filing (7/30/20)	-31%	-23%	1%
Year-to-Date	-49%	-64%	1%



Balance Sheet Strength and Backlog Supporting Share Price Relative to OSX

# INCOME STATEMENT

**Dril-Quip, Inc.**  
**Comparative Condensed Consolidated Income Statement**  
**(Unaudited)**

	Three months ended		
	September 30, 2020	June 30, 2020	September 30, 2019
	(In thousands, except per share data)		
Revenues:			
Products	\$ 66,451	\$ 63,133	\$ 81,851
Services	17,778	20,750	17,884
Leasing	7,066	6,563	8,492
Total revenues	91,295	90,446	108,227
Costs and expenses:			
Cost of sales	67,211	66,937	76,023
Selling, general and administrative	20,843	23,331	29,105
Engineering and product development	3,983	5,364	3,754
Restructuring and other charges	602	1,587	546
Gain on sale of assets	14	(85)	(280)
Foreign currency transaction (gains) and losses	746	817	(1,143)
Total costs and expenses	93,399	97,951	108,005
Operating income (loss)	(2,104)	(7,505)	222
Interest income	188	653	1,906
Interest expense	(138)	(209)	(26)
Income tax provision (benefit)	(16,380)	7,081	3,412
Net income (loss)	\$ 14,326	\$ (14,142)	\$ (1,310)
Earnings (loss) per share			
Basic	\$ 0.41	\$ (0.40)	\$ (0.04)
Diluted	\$ 0.41	\$ (0.40)	\$ (0.04)
Depreciation and amortization	\$ 7,908	\$ 7,940	\$ 8,304
Capital expenditures	\$ 1,925	\$ 4,131	\$ 4,022
Weighted Average Shares Outstanding			
Basic	35,049	35,023	35,559
Diluted	35,249	35,023	35,559



# BALANCE SHEET

**Dril-Quip, Inc.**  
**Comparative Condensed Consolidated Balance Sheets**  
**(Unaudited)**

	<u>September 30, 2020</u>	<u>December 31, 2019</u>
	<u>(In thousands)</u>	
<b>Assets:</b>		
Cash and cash equivalents	\$ 359,171	\$ 398,946
Other current assets	503,831	481,543
PP&E, net	239,591	258,497
Other assets	56,946	67,579
Total assets	<u>\$ 1,159,539</u>	<u>\$ 1,206,565</u>
<b>Liabilities and Equity:</b>		
Current liabilities	\$ 100,982	\$ 96,940
Deferred Income taxes	3,657	4,150
Other long-term liabilities	17,338	14,774
Total liabilities	<u>121,977</u>	<u>115,864</u>
Total stockholders equity	<u>1,037,562</u>	<u>1,090,701</u>
Total liabilities and equity	<u>\$ 1,159,539</u>	<u>\$ 1,206,565</u>

# NON-GAAP FINANCIAL MEASURES

## Dril-Quip, Inc.

### Reconciliation of Net Income (Loss) to Adjusted Net Income (Loss) and Adjusted Diluted Earnings per Share

#### Adjusted Net Income and EPS:

	Three months ended					
	September 30, 2020		June 30, 2020		September 30, 2019	
	Effect on net income (after-tax)	Impact on diluted earnings per share	Effect on net income (after-tax)	Impact on diluted earnings per share	Effect on net income (after-tax)	Impact on diluted earnings per share
(In thousands, except per share amounts)						
Net income (loss)	\$ 14,326	\$ 0.41	\$ (14,142)	\$ (0.40)	\$ (1,310)	\$ (0.04)
Adjustments (after tax):						
Reverse the effect of foreign currency	589	0.02	646	0.02	(903)	(0.03)
Restructuring costs, including severance	476	0.01	1,254	0.04	432	0.01
Gain on sale of assets	11	-	(67)	-	(221)	(0.01)
Adjusted net income (loss)	\$ 15,402	\$ 0.44	\$ (12,309)	\$ (0.34)	\$ (2,002)	\$ (0.07)

# NON-GAAP FINANCIAL MEASURES

**Dril-Quip, Inc.**  
**Reconciliation of Net Income (Loss) to Adjusted EBITDA**

**Adjusted EBITDA:**

	Three months ended		
	September 30, 2020	June 30, 2020	September 30, 2019
	(In thousands)		
Net income (loss)	\$ 14,326	\$ (14,142)	\$ (1,310)
Add:			
Interest income, net	(50)	(444)	(1,880)
Income tax expense (benefit)	(16,380)	7,081	3,412
Depreciation and amortization expense	7,908	7,940	8,304
Restructuring costs, including severance	602	1,587	546
Gain on sale of assets	14	(85)	(280)
Foreign currency loss (gain)	746	817	(1,143)
Stock compensation expense	3,003	3,282	7,663
Adjusted EBITDA	\$ 10,169	\$ 6,036	\$ 15,312

# NON-GAAP FINANCIAL MEASURES

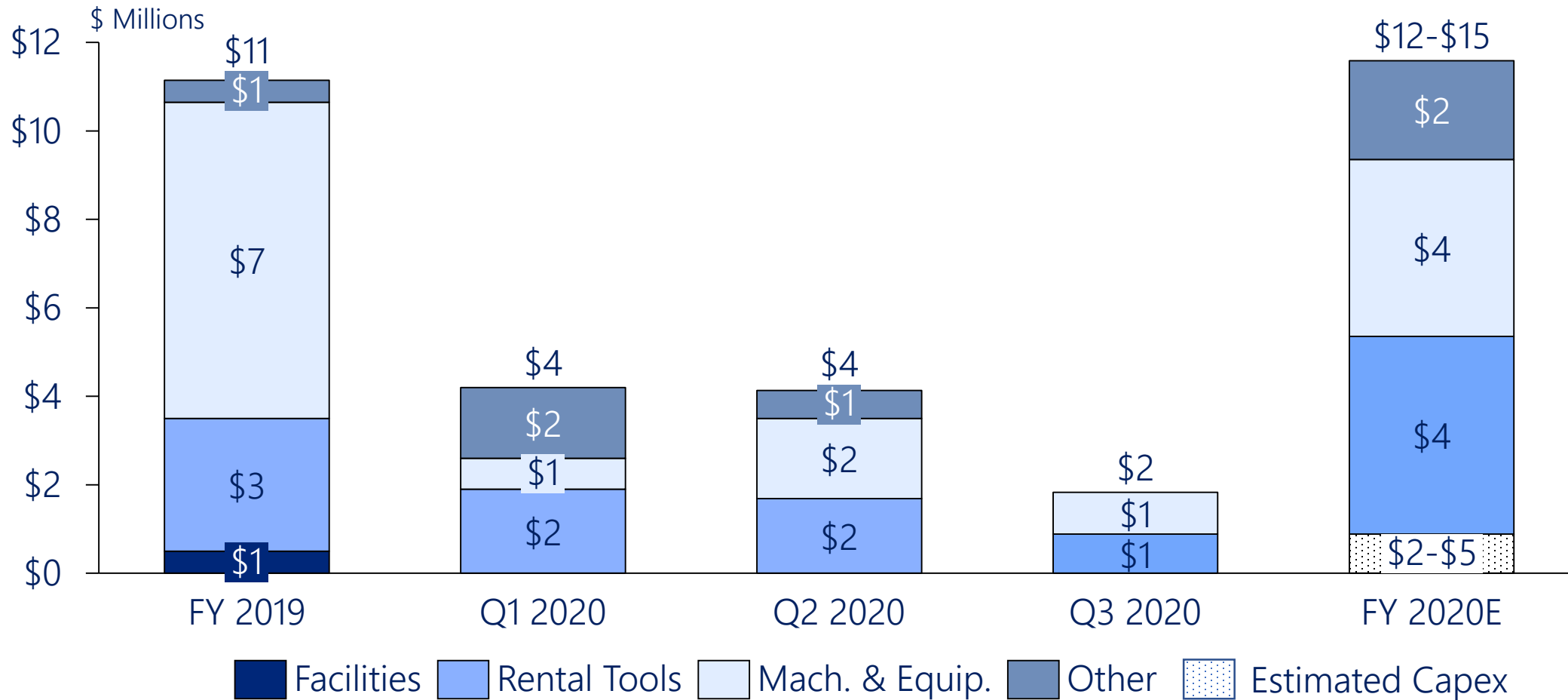
## Dril-Quip, Inc.

### Reconciliation of Net Cash Provided by Operating Activities to Free Cash Flow

#### Free Cash Flow:

	Three months ended		
	September 30, 2020	June 30, 2020	September 30, 2019
	(In thousands)		
Net cash provided (used) by operating activities	\$ 13,889	\$ 3,046	\$ (4,026)
Less:			
Purchase of property, plant and equipment	(1,925)	(4,131)	(4,022)
Free cash flow	\$ 11,964	\$ (1,085)	\$ (8,048)

# QUARTERLY CAPITAL EXPENDITURES



Annual Maintenance Capex ~\$10 - \$15 million

# FINANCIAL METRIC DEFINITIONS

- **Market Capitalization** = Share Price x Total Shares Outstanding
- **Enterprise Value** = Market Capitalization + Debt – Cash and Cash Equivalents
- **Non-cash Working Capital** = (Current Assets – Cash) – Current Liabilities
- **Book Value / Share** = Total Shareholders' Equity / Total Shares Outstanding
- **Cash / Share** = Cash & Cash Equivalents / Total Shares Outstanding
- **Non-cash Working Capital (WC) / Share** = Noncash Working Capital / Total Shares Outstanding
- **Total Debt / Capitalization** = Total Debt (Short-term + Long-term) / (Total Debt + Total Shareholders' Equity)