# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION
**Washington, D.C. 20549**

# FORM 8-K

**CURRENT REPORT**
**Pursuant to Section 13 or 15(d)**
**of the Securities Exchange Act of 1934**

**Date of Report (date of earliest event reported): July 28, 2022**

# DRIL-QUIP, INC.
**(Exact name of registrant as specified in its charter)**

| Delaware | 001-13439 | 74-2162088 |
|---|---|---|
| (State or other jurisdiction of incorporation) | (Commission File Number) | (I.R.S. Employer Identification No.) |

| 6401 N. Eldridge Parkway Houston, Texas | 77041 |
|---|---|
| (Address of principal executive offices) | (Zip Code) |

**Registrant's telephone number, including area code: (713) 939-7711**

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (*see* General Instruction A.2):

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Securities registered pursuant to Section 12(b) of the Act:

| Title of each class | Trading symbol(s) | Name of each exchange on which registered |
|---|---|---|
| **Common Stock, $.01 par value per share** | **DRQ** | **New York Stock Exchange** |

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

**Item 2.02 Results of Operations and Financial Condition.**

On July 28, 2022, Dril-Quip, Inc. ("Dril-Quip") reported second quarter 2022 earnings. For additional information regarding Dril-Quip's second quarter 2022 earnings, please refer to Dril-Quip's press release attached to this report as Exhibit 99.1 (the "Press Release"), which Press Release is incorporated by reference herein.

**Item 7.01 Regulation FD Disclosure.**

On July 28, 2022, Dril-Quip posted the Second Quarter 2022 Supplemental Earnings Information presentation (the "Presentation") to its website at www.dril-quip.com. The Presentation is attached hereto as Exhibit 99.2.

The information in the Press Release and the Presentation is being furnished, not filed, pursuant to Items 2.02 and 7.01. Accordingly, the information in the Press Release and the Presentation will not be incorporated by reference into any registration statement filed by Dril-Quip under the Securities Act of 1933, as amended, unless specifically identified therein as being incorporated therein by reference.

**Item 9.01 Financial Statements and Exhibits.**

(d) Exhibits.

The exhibits listed below are being furnished pursuant to Items 2.02 and 7.01 of this Form 8-K:

| Exhibit No. | Description |
|---|---|
| 99.1 | Press Release issued July 28, 2022. |
| 99.2 | Second Quarter 2022 Supplemental Earnings Information Presentation. |
| 104 | Cover Page Interactive Data File - the cover page XBRL tags are embedded within the Inline XBRL document. |

**SIGNATURE**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

DRIL-QUIP, INC.

By: /s/ Kyle F. McClure
Kyle F. McClure
Vice President and Chief Financial Officer

Date: July 28, 2022

**Exhibit 99.1**

# DRIL-QUIP, INC. ANNOUNCES SECOND QUARTER 2022 RESULTS

HOUSTON, July 28, 2022 — Dril-Quip, Inc. (NYSE: DRQ), (the "Company" or "Dril-Quip") today reported operational and financial results for the second quarter of 2022.

Results for the second quarter of 2022 included:

- Revenue of $94.0 million for the second quarter of 2022, an increase of $10.8 million from the first quarter of 2022 driven by higher subsea equipment and downhole products and services revenue;
- A net loss of $5.6 million, or a $0.16 loss per share, an improvement of $3.4 million, or $0.10 per share compared to the first quarter of 2022, due to improved gross profit and foreign exchange benefits partially offset by higher restructuring charges;
- Generated adjusted EBITDA of $9.3 million, or 9.9% of revenue; an increase of $6.2 million from the first quarter of 2022;
- Second quarter net cash used by operating activities of $9.3 million and free cash flow of negative $10.6 million, inclusive of $1.4 million of capital expenditures;
- Booked $49.6 million of new orders during the second quarter of 2022 net of $7.1 million of cancellations and adjustments;
- Repurchased $3.8 million of shares at an average price of $24.49 during the second quarter of 2022. Year-to-date repurchases through the third quarter of 2022 total approximately $21 million; and
- Announced Scope 1 and Scope 2 GHG emissions reduction target of 50% by the year 2030.

Jeff Bird, Dril-Quip's President and Chief Executive Officer, commented, "Our second quarter results reflect the improving offshore drilling market as well as our commitment to controlling costs and improving margins. Second quarter revenue was up approximately 13% sequentially reflecting strength in our shorter cycle businesses as quick return projects are completed, customers utilize existing inventory, and we start to see rigs come back online. Downhole Tools led this with a record quarter and broad growth across all geographies. Subsea Services also benefited from strong demand on rework and recertification as rigs start to come back online. Bookings for our Subsea Products slowed from the prior quarter as operators continue to evaluate projects in an uncertain demand environment with historically high inflation. Many of these projects are targeting second half decisions and are reflected in our outlook for full year bookings. We continue to expect revenue growth of 10% for the full year 2022 compared to 2021.

"We believe the foundation of the strong product-line focused teams that we began forming in early 2022 is bearing fruit by streamlining customer focus, eliminating excess costs and improving efficiency. We also continue to progress on our footprint rationalization plan, including executing a purchase and sale agreement for the forge facilities at our Houston, Texas campus. We expect this transaction to close in the third quarter and anticipate reaching agreements on the two remaining properties by year-end. For all three transactions, we expect the combined net proceeds to be in the $40 to $50 million range. We plan to use a portion of the proceeds from these real estate sales to make investments in our manufacturing capabilities to lower costs and improve productivity in the coming years.

"Additionally, in June we announced our decarbonization targets in alignment with the ambitions of the Paris Agreement. We are targeting the reduction of Scope 1 and Scope 2 GHG emissions by more than 50% between 2021 and the target year 2030. By partnering with our customers and key suppliers, we will further encourage environmental stewardship through the broader energy industry. Our strategic focus on innovation and peer collaborations support these targets as evidenced by our ground-breaking *e*-Series products that help our customers reduce their carbon footprint and by our collaboration with Aker Solutions to provide optimal carbon capture, utilization and storage solutions for our customers. I am proud of the work our team has done to assess our carbon footprint and identify meaningful steps we can take to reduce our global emissions.

"Looking to the second half of 2022, we believe our previously set financial targets remain achievable. We are focused on year-over-year improvements in our bookings, revenue and profitability and are aligning our activities and structure accordingly. Ongoing success in these areas would enable us the opportunity to generate free cash flow to invest in growth and return cash to shareholders through share repurchases. Our continuous improvement initiatives, clear strategic vision and strong balance sheet will lead to a stronger, nimbler Dril-Quip in the coming quarters and years for the benefit of our shareholders and stakeholders."

In conjunction with today's release, the Company posted a new investor presentation entitled "Second Quarter 2022 Supplemental Earnings Information" to its website, www.dril-quip.com, on the "Events & Presentations" page under the Investors tab. Investors should note that Dril-Quip announces material financial information in Securities and Exchange Commission ("SEC") filings, press releases and public conference calls. Dril-Quip may use the Investors section of its website (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 release.

**Operational and Financial Results**

*Revenue, Cost of Sales and Gross Operating Margin*

Consolidated revenue for the second quarter of 2022 was $94.0 million, up $10.8 million from the first quarter of 2022 and up $13.2 million compared to the second quarter of 2021. The sequential increase was primarily a result of higher subsea and downhole tool product volumes, primarily subsea wellheads. Service revenues in both the subsea equipment and downhole tools also increased. The increase in revenue year-over-year was driven by higher leasing revenues across most regions related to improved subsea rental tool utilization due to increased customer activity. Subsea wellhead product sales volumes also increased year-over-year as U.S. Gulf of Mexico activity increased.

Cost of sales for the second quarter of 2022 was $69.7 million, an increase of $5.7 million from the first quarter of 2022 and an increase of $8.1 million compared to the prior year. Gross operating margin for the second quarter of 2022 was 25.9%, an increase from 23.0% in the first quarter of 2022 and an increase from 23.8% in the second quarter of 2021. The increase in gross margins sequentially and year-over-year was attributed to increased absorption of fixed overhead from higher product revenues, an increase in service revenues and favorable product mix.

*Selling, General and Administrative Expenses*

Selling, general and administrative ("SG&A") expenses for the second quarter of 2022 were $22.5 million, an increase of $0.1 million compared to the first quarter of 2022 and a decrease of $7.1 million compared to the second quarter of 2021. The year-over-year decrease in SG&A is primarily attributable to lower legal expenses in connection with the FMC Technologies, Inc. lawsuit and cost reduction initiatives. Engineering and product development expenses were down $1.0 million sequentially and year-over-year due to lower research and development expenses as a result of the completion of investments in certain strategic projects. We are in the process of reprioritizing new research and development initiatives.

*Net Loss, Adjusted EBITDA and Free Cash Flow*

For the second quarter of 2022, the Company reported a net loss of $5.6 million, or a $0.16 loss per share. Adjusted EBITDA totaled $9.3 million for the second quarter of 2022 compared to $3.2 million for the first quarter 2022, representing incremental margins of 57% quarter-over-quarter. The improvement in adjusted EBITDA sequentially can be attributed to increased revenues across all product and service lines and favorable product mix. Adjusted EBITDA for the second quarter of 2022 was up $6.7 million compared to the second quarter of 2021. The increase in adjusted EBITDA year-over-year can be mostly attributed to increased revenues, reductions in administrative and engineering expense and non-recurrence of the adverse impact of the forge facility lease cancellation.

Net cash used by operations was $9.3 million and free cash flow was a negative $10.6 million for the second quarter of 2022. Capital expenditures in the second quarter of 2022 were approximately $1.4 million, down approximately $0.7 million compared to the first quarter of 2022. The Company expects that capital expenditures will increase throughout the remainder of 2022 for rentals tools to support upcoming projects in Latin America and investments in information technology and manufacturing equipment.

**Share Repurchases**

For the three-month period ended June 30, 2022, the Company purchased 157,101 shares under its share repurchase plan at an average price of $24.49 per share, totaling $3.8 million, and retired such shares. As of July 27, 2022, the company year-to-date has purchased 888,197 shares at an average price of $23.35 per share, totaling $20.8 million and retired such shares. The Company has purchased approximately $103 million remaining of the current authorization by the Board of Directors. The Company continues to evaluate the amount and timing of its share repurchases as part of the Company's overall capital allocation strategy.

**About Dril-Quip**

Dril-Quip is a developer, manufacturer and provider of highly engineered equipment, service and innovative technologies for use in the energy industry.

**Forward-Looking Statements**

Statements contained herein relating to future operations and financial results that are forward-looking statements, including those related to market conditions, anticipated project bookings, expected timing of completing strategic restructuring, anticipated timing of delivery of new orders, anticipated revenues, costs, cost synergies and savings, possible acquisitions, new product offerings and related revenues, share repurchases and expectations regarding operating results, are based upon certain assumptions and analyses made by the management of the Company in light of its experience and perception of historical trends, current conditions, expected future developments and other factors. These statements are subject to risks beyond the Company's control, including, but not limited to, the impact of the ongoing COVID-19 pandemic, 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, the impact of actions taken by the Organization of Petroleum Exporting Countries (OPEC) and non-OPEC nations to adjust their production levels, the general volatility of oil and natural gas prices and cyclicality of the oil and gas industry, declines in investor and lender sentiment with respect to, and new capital investments in, the oil and gas industry, project terminations, suspensions or scope adjustments to contracts, uncertainties regarding the effects of new governmental regulations, the Company's international operations, operating risks, the impact of our customers and the global energy sector shifting some of their asset allocation from fossil-fuel production to renewable energy resources, and other factors detailed in the Company's public filings with the SEC. Investors are cautioned that any such statements are not guarantees of future performance and actual outcomes may vary materially from those indicated.

***Non-GAAP Financial Information***

Adjusted Net Income (Loss), Adjusted Diluted EPS, Free Cash Flow and Adjusted EBITDA are non-GAAP measures.

Adjusted Net Income (Loss) 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.

Free Cash Flow is defined as net cash provided by operating activities less cash used in the purchase of property, plant and equipment.

Adjusted EBITDA is defined as net income excluding income taxes, interest income and expense, depreciation and amortization expense, stock-based compensation, non-cash gains or losses from foreign currency exchange rate changes as well as other significant non-cash items and other adjustments for certain charges and credits.

The Company believes that these non-GAAP measures enable it to evaluate and compare more effectively the results of our operations period over period and identify operating trends by removing the effect of its capital structure from its operating structure. In addition, the Company believes 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. Adjusted Net Income (Loss), Adjusted EBITDA and Free Cash Flow 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”).

See “Unaudited Non-GAAP Financial Measures” below for additional information concerning non-GAAP financial information, including a reconciliation of the non-GAAP financial information presented in this press release to the most directly comparable financial information presented in accordance with GAAP. Non-GAAP financial information supplements and should be read together with, and is not an alternative or substitute for, the Company’s 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.

**Investor Relations Contact**

Erin Fazio, Director of Corporate Development, Investor Relations & FP&A
(713) 939-7711
Erin_Fazio@dril-quip.com

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

| | Three months ended | | |
|---|---|---|---|
| | June 30, 2022 | March 31, 2022 | June 30, 2021 |
| | (In thousands, except per share data) | | |
| Revenues: | | | |
| Products | $ 61,979 | $ 55,642 | $ 55,860 |
| Services | 19,596 | 17,499 | 17,536 |
| Leasing | 12,403 | 9,996 | 7,401 |
| Total revenues | 93,978 | 83,137 | 80,797 |
| Costs and expenses: | | | |
| Cost of sales | 69,663 | 63,995 | 61,539 |
| Selling, general and administrative | 22,498 | 22,393 | 29,593 |
| Engineering and product development | 2,720 | 3,676 | 3,722 |
| Restructuring and other charges | 5,765 | 32 | 1,000 |
| (Gain) loss on sale of property, plant and equipment | (380) | (114) | 82 |
| Foreign currency transaction gains | (2,419) | (1,254) | (475) |
| Total costs and expenses | 97,847 | 88,728 | 95,461 |
| Operating loss | (3,869) | (5,591) | (14,664) |
| Interest income | 573 | 203 | 63 |
| Interest expense | (99) | (54) | (59) |
| Income tax provision | 2,175 | 3,496 | 4,407 |
| Net loss | $ (5,570) | $ (8,938) | $ (19,067) |
| Loss per share | | | |
| Basic | $ (0.16) | $ (0.26) | $ (0.54) |
| Diluted | $ (0.16) | $ (0.26) | $ (0.54) |
| Depreciation and amortization | $ 7,670 | $ 7,559 | $ 7,343 |
| Capital expenditures | $ 1,363 | $ 2,066 | $ 3,524 |
| Weighted Average Shares Outstanding | | | |
| Basic | 34,476 | 34,494 | 35,387 |
| Diluted | 34,476 | 34,494 | 35,387 |

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

| | June 30, 2022 | December 31, 2021 |
|---|---|---|
| | (In thousands) | |
| **Assets:** | | |
| Cash and cash equivalents | $ 320,784 | $ 355,451 |
| Other current assets | 427,079 | 390,098 |
| PP&E, net | 179,938 | 216,200 |
| Other assets | 45,765 | 48,677 |
| Total assets | $ 973,566 | $ 1,010,426 |
| **Liabilities and Equity:** | | |
| Current liabilities | $ 84,856 | $ 93,663 |
| Deferred Income taxes | 4,234 | 3,925 |
| Other long-term liabilities | 15,787 | 15,730 |
| Total liabilities | 104,877 | 113,318 |
| Total stockholders equity | 868,689 | 897,108 |
| Total liabilities and equity | $ 973,566 | $ 1,010,426 |

## Dril-Quip, Inc.
## Reconciliation of Net Income (Loss) to Adjusted Net Income (Loss) and Adjusted Diluted Earnings (Loss) per Share

| Adjusted Net Income (Loss) and EPS: | Three months ended | | | | | |
|---|---|---|---|---|---|---|
| | June 30, 2022 | | March 31, 2022 | | June 30, 2021 | |
| | Effect on net income (loss) (after-tax) | Impact on diluted earnings (loss) per share | Effect on net income (loss) (after-tax) | Impact on diluted earnings (loss) per share | Effect on net income (loss) (after-tax) | Impact on diluted earnings (loss) per share |
| | (In thousands, except per share amounts) | | | | | |
| Net loss | $ (5,570) | $ (0.16) | $ (8,938) | $ (0.26) | $ (19,067) | $ (0.54) |
| Adjustments (after tax): | | | | | | |
| Reverse the effect of foreign currency transaction gains | (1,911) | (0.06) | (991) | (0.03) | (375) | (0.01) |
| Restructuring and other costs, including severance | 4,554 | 0.13 | 25 | - | 790 | 0.02 |
| (Gain) loss on sale of property, plant and equipment | (300) | (0.01) | (90) | - | 65 | - |
| Adjusted net loss | $ (3,227) | $ (0.10) | $ (9,994) | $ (0.29) | $ (18,587) | $ (0.53) |

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

| **Adjusted EBITDA:** | **Three months ended** | | |
|---|---|---|---|
| | **June 30, 2022** | **March 31, 2022** | **June 30, 2021** |
| | | **(In thousands)** | |
| Net loss | $ (5,570) | $ (8,938) | $ (19,067) |
| Add: | | | |
| Interest (income) expense, net | (474) | (149) | (4) |
| Income tax provision | 2,175 | 3,496 | 4,407 |
| Depreciation and amortization expense | 7,670 | 7,559 | 7,343 |
| Restructuring and other costs, including severance | 5,765 | 32 | 7,250 |
| (Gain) loss on sale of property, plant and equipment | (380) | (114) | 82 |
| Foreign currency transaction gains | (2,419) | (1,254) | (475) |
| Stock compensation expense | 2,573 | 2,527 | 3,079 |
| Adjusted EBITDA | $ 9,340 | $ 3,159 | $ 2,615 |

## Dril-Quip, Inc.
## Reconciliation of Net Cash Provided by Operating Activities to Free Cash Flow

| **Free Cash Flow:** | **Three months ended** | | |
|---|---|---|---|
| | **June 30, 2022** | **March 31, 2022** | **June 30, 2021** |
| | | **(In thousands)** | |
| Net cash provided (used) by operating activities | $ (9,281) | $ (10,928) | $ 11,343 |
| Less: | | | |
| Purchase of property, plant and equipment | (1,363) | (2,066) | (3,112) |
| Free cash flow | $ (10,644) | $ (12,994) | $ 8,231 |

Exhibit 99.2

# Second Quarter 2022 Supplemental Earnings Information

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# Disclaimer | 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, but are not limited to, 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 ongoing COVID-19 pandemic, the impact of actions taken by the Organization of Petroleum Exporting Countries (OPEC) and non-OPEC nations to adjust their production levels, the general volatility of oil and natural gas prices and cyclicality of the oil and gas industry, declines in investor and lender sentiment with respect to, and new capital investments in, the oil and gas industry, project terminations, suspensions or scope adjustments to contracts, uncertainties regarding the effects of new governmental regulations, the Company's international operations, operating risks, the impact of our customers and the global energy sector shifting some of their asset allocation from fossil-fuel production to renewable energy resources, 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, stock-based compensation, 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 cash provided by operating activities less 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) 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, Environmentally Responsible Products & First-class Service
- Strong Financial Position
- Historically Superior Margins to Peers
- Results Driven Management Team

# Q2 2022| Revenue Breakdown

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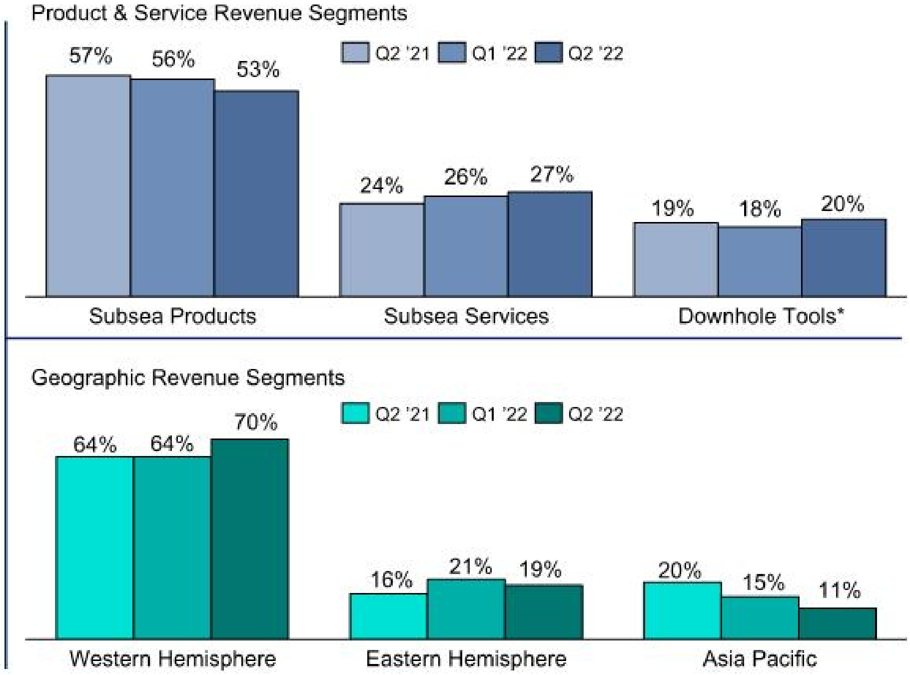
SUBSEA PRODUCTS

SUBSEA SERVICES

DOWNHOLE TOOLS

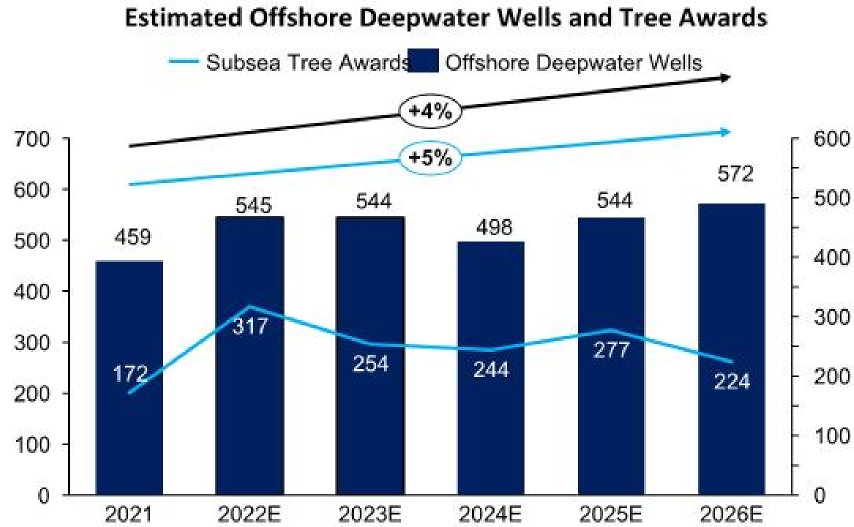



* Includes downhole tools products, leasing and services

## Q2 2022| Highlights

- Revenue of $94.0 million for the second quarter of 2022, an increase of $10.8 million from the first quarter of 2022 on higher subsea equipment and downhole tools product and services revenue;
- A net loss of $5.6 million, or a $0.16 loss per share, an improvement of $3.4 million, or $0.10 per share compared to the first quarter of 2022, due to improved gross profit and foreign exchange benefits partially offset by higher restructuring charges;
- Generated adjusted EBITDA of $9.3 million, or 9.9% of revenue; an increase of $6.2 million from the first quarter of 2022;
- Second quarter net cash used by operating activities of $9.3 million and free cash flow of negative $10.6 million, inclusive of $1.4 million of capital expenditures;
- Booked $49.6 million of new orders during the second quarter of 2022, net of $7.1 million of cancellations and adjustments;
- Repurchased $3.8 million of shares at an average price of $24.49 during the second quarter of 2022. Year to date repurchases through the third quarter of 2022 total approx. $21 million.
- Announced Scope 1 and Scope 2 GHG emission reduction target of 50% by the year 2030.

Adjusted EBITDA and free cash flow are non-GAAP measures. See appendix for reconciliation to GAAP measures.



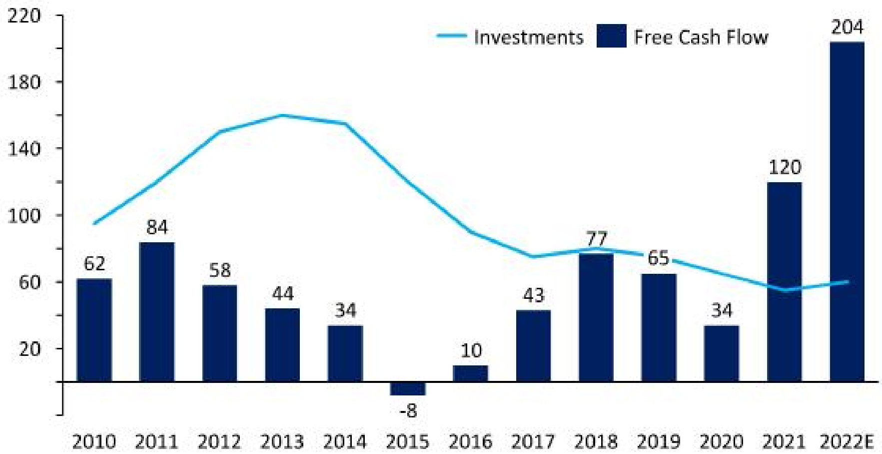

- Offshore deepwater wells drilled forecasted compound annual growth rate (CAGR) of 4% through 2026
- South America and Middle East leading overall offshore well count growth
- Europe and South America (Guyana) expected to lead growth in tree awards and well counts

Collaborations & technology adoption provide tailwinds in improving overall market beginning in 2022

Sources: Rystad Energy & DRQ Internal Estimates

# Market Environment| Customer Sentiment Outlook

**Historical investments and free cash flow from upstream activity for the majors***
Billion USD





Unprecedented confluence of events creating project delay risk despite increasing energy security needs. Redeployment of capital to shareholders and debt reduction were major operator focuses in 2021.

*Includes BP, Chevron, Equinor, ExxonMobil, Shell and TotalEnergies.
*Source: Rystad Energy*

# Q2 2022 | Financial Performance

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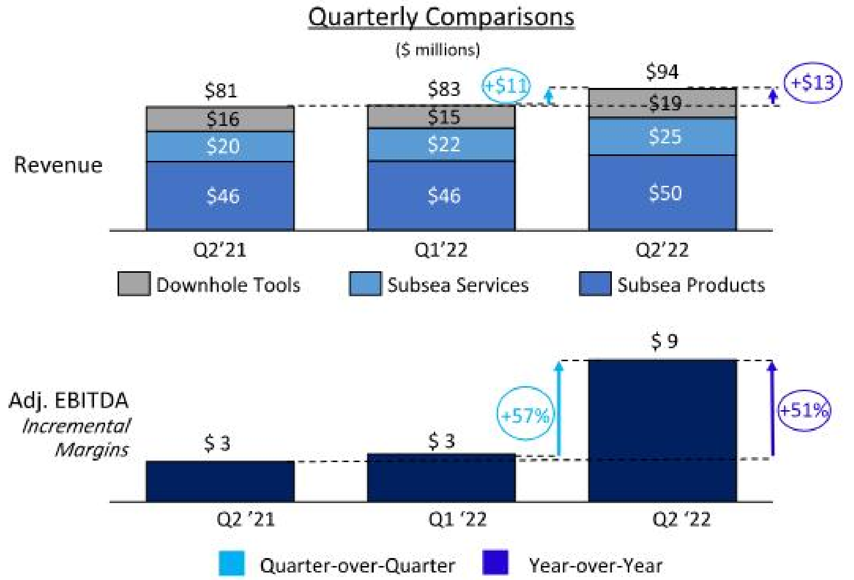



- Revenue up $10.8 million sequentially due to increased subsea and downhole tool products revenue
- Revenue increased year-over-year due to higher leasing revenue as well as higher subsea wellhead product sales
- Adjusted EBITDA was approximately $9.3 million, up sequentially due to higher revenues and favorable incremental margins on product and service mix
- Year-over-year increase in adjusted EBITDA driven primarily by increased revenue and the non-recurrence of the forge facility lease cancellation.

**Strong incremental margins sequentially and material overhead cost reductions in comparison to prior year.**

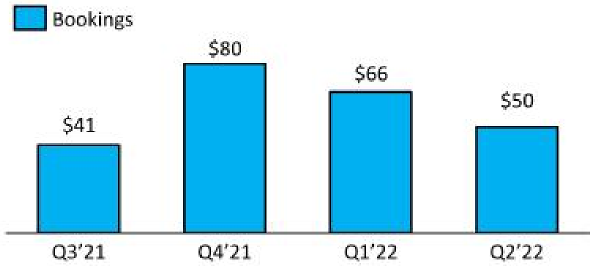
Note: Sum of components may not foot due to rounding. Adjusted EBITDA is a non-GAAP measure. See appendix for reconciliation to GAAP measure.

# Commercial Update| Bookings

- Q2 2022 product bookings of ~$50 million, net of ~$7 million of cancellations and adjustments as our customers continue to evaluate the economic environment
- Bookings range expectation up 20% for the full year 2022
- Subsea production system orders weighted toward 2H 2022 driving anticipated 30% growth compared to 1H 2022.

Historical Backlog Trends ($M)

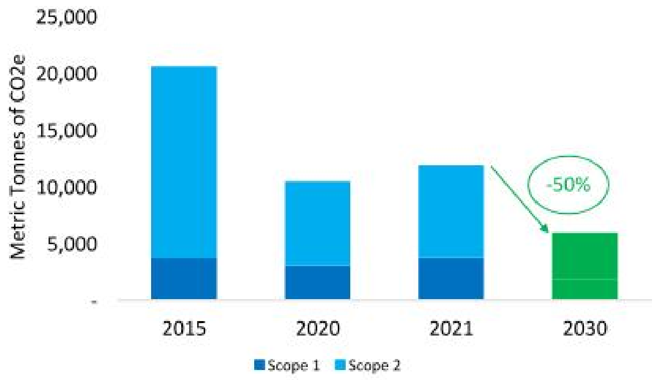

Historical Booking Trends ($M)



# ESG Update| Decarbonization Targets

- Alignment with the ambitions of the Paris Accord which seeks to limit global warming
- Decarbonization actions include:
  - Switching to renewable electricity across major manufacturing sites
  - Rightsizing of facilities
  - Investing in infrastructure to reduce fugitive emissions
  - Downscaling and evaluating the electrification of our vehicle fleet
- Partnering with key suppliers and customers to find avenues to decarbonize their operations.

Scopes 1 and 2 GHG Emissions & Target




Note: 2015 excludes the now outsourced "Forging Busines." Scope 2 emissions reduction between 2015 and 2020/2021 is primarily due to less overall business activity.

The launch of these decarbonization initiatives will enable Dril-Quip to achieve a > 50% reduction in Scope 1 and 2 emissions to align with the 1.5°C scenario by 2030.

## Strategic Growth Pillars

- Continue to execute on collaboration agreements, downhole tools growth and e-Series technology expansion

## Organizational Alignment

- Streamlined operations and leadership around more focused and integrated product and service lines

## Optimized Footprint

- Further transformation of our operational footprint to improve efficiency and reduce excess capacity

## Capital Allocation

- Disciplined deployment of capital to generate attractive returns on capital employed

# Organizational Alignment| Updating Our Operating Structure

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## Subsea Products

BBIIe Wellhead

**Wellheads, Connectors & SPS**

- Remain Tier 1 wellhead provider
- Execute collaboration & license agreements
- Increase shallow water tree share
- Grow deepwater presence through VXTe monetization

## Subsea Services

**Technical Service, Rentals and Rework**

- Highly reactive support for equipment installation
- Global network of trained technicians and specialized tooling
- Dedicated facilities for refurbishment and rework

## Downhole Tools

XPak De

**Liner Hangers and Services**

- Continue share gains in key markets
- Convert from conventional to expandable liner hangers
- Expand through current and future collaborations
- Increase test & assembly in local markets

## Energy Transition

**Expansion into Decarbonization Opportunities**

- Wellhead and tree injection offering for CCUS
- Collaborations with integrated providers (i.e. Aker Solutions)
- New technology introduction

SBTe XT

# Strategy| Q2 Progress Update

## Footprint Optimization

- ✓ Purchase and sale agreement signed for the Forge facilities at the Houston, TX campus. Anticipated to close in Q3 2022 .
- ✓ Terms being negotiated for two additional properties at Houston, TX campus. Targeted closing by year-end.
- ✓ Total proceeds from these sales expected to be in the $40-$50 million range, net of expenses

## Capital Allocation

- ✓ $22M of new manufacturing equipment approved for purchase. Anticipate cash outlay to occur over next 18 months.
- ✓ Capex range for the year of $15 million - $17 million
- ✓ $3.8M of stock repurchased in Q2
  - ✓ Year-to-date, inclusive of Q3, $20.8M of cash returned to shareholders

*As of July 27, 2022

# Capital Allocation | Framework

| Capex / Internal | Acquisition Growth | Share Repurchase |
| --- | --- | --- |
| • Fund high return internal investments<br>• Targeted investments for franchise products<br>• Manufacturing, IT Systems, etc. | • Selective opportunities (energy and energy adjacent) | • Returning excess cash to shareholders |

Priority to organic growth, then attractive acquisitions that drive size and scale

2022 Estimated Product Bookings

Up ~20% from 2021

2022 Estimated Revenue:

Up ~10% from 2021 levels

2022 Estimated Adj. EBITDA: 40% to 50% Incremental margins

2022 Estimated

Capex of

$15M to $17M

Targeting

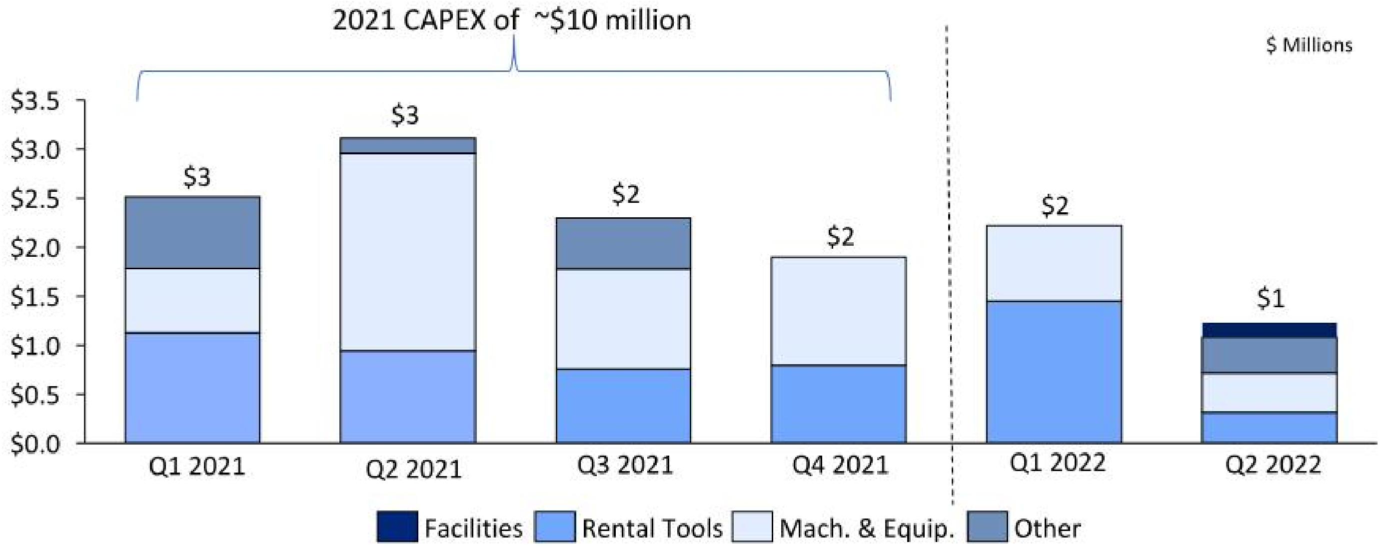
2022 Free Cash Flow* Margin of ~3 to 5%

*Free Cash Flow = Operating Cash Flow less Capital Expenditures and does not include potential real estate divestures

# Appendix

dril-quip.com | NYSE: DRQ

## Q2 2022| Capital Expenditures




Capital expenditures in 2022 are expected to be $15 to $17 million driven by rental tools and information technology upgrade to support growth

Note: Sum of components may not foot due to rounding.

# Dril-Quip | Market Performance

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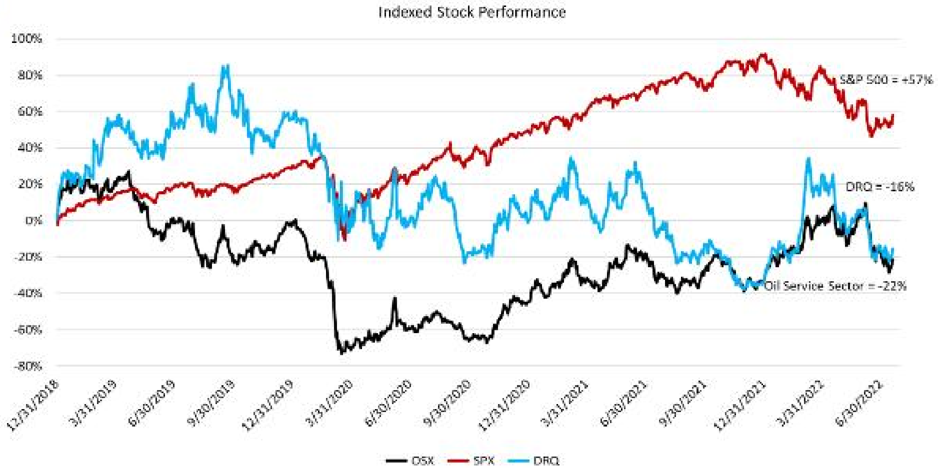
| MARKET INFORMATION | | | |
|---|---|---|---|
| Ticker | NYSE:DRQ | | |
| Share Price (at close: 7/20/22) | $23.36 | | |
| 52-Week Range | $18.17 - $41.23 | | |
| Cash per Share (as of 6/30/2022) | $ 9.30 | | |
| Performance: | DRQ | OSX | SPX |
| Since Q1 Filing (4/28/22) | -24% | -10% | -8% |
| Year-to-Date | 19% | 32% | -17% |




Dril-Quip mostly in-line with OSX index following period of outperformance post 2018 transformation

Source: FactSet, Market data as of 7/20/2022

# Financial Statements| Income Statement

Dril-Quip, Inc.

Comparative Condensed Consolidated Income Statement

(Unaudited)

| | Three months ended | | |
|---|---|---|---|
| | June 30, 2022 | March 31, 2022 | June 30, 2021 |
| | (In thousands, except per share data) | | |
| Revenues: | | | |
| Products | $ 61,979 | $ 55,642 | $ 55,860 |
| Services | 19,596 | 17,499 | 17,536 |
| Leasing | 12,403 | 9,996 | 7,401 |
| Total revenues | 93,978 | 83,137 | 80,797 |
| Costs and expenses: | | | |
| Cost of sales | 69,663 | 63,995 | 61,539 |
| Selling, general and administrative | 22,498 | 22,393 | 29,593 |
| Engineering and product development | 2,720 | 3,676 | 3,722 |
| Restructuring and other charges | 5,765 | 32 | 1,000 |
| (Gain) loss on sale of property, plant and equipment | (380) | (114) | 82 |
| Foreign currency transaction gains | (2,419) | (1,254) | (475) |
| Total costs and expenses | 97,847 | 88,728 | 95,461 |
| Operating loss | (3,869) | (5,591) | (14,664) |
| Interest income | 573 | 203 | 63 |
| Interest expense | (99) | (54) | (59) |
| Income tax provision | 2,175 | 3,496 | 4,407 |
| Net loss | $ (5,570) | $ (8,938) | $ (19,067) |
| Loss per share | | | |
| Basic | $ (0.16) | $ (0.26) | $ (0.54) |
| Diluted | $ (0.16) | $ (0.26) | $ (0.54) |
| Depreciation and amortization | $ 7,670 | $ 7,559 | $ 7,343 |
| Capital expenditures | $ 1,363 | $ 2,066 | $ 3,524 |
| Weighted Average Shares Outstanding | | | |
| Basic | 34,476 | 34,494 | 35,387 |
| Diluted | 34,476 | 34,494 | 35,387 |

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

| | June 30, 2022 | December 31, 2021 |
|---|---|---|
| | (In thousands) | |
| **Assets:** | | |
| Cash and cash equivalents | $ 320,784 | $ 355,451 |
| Other current assets | 427,079 | 390,098 |
| PP&E, net | 179,938 | 216,200 |
| Other assets | 45,765 | 48,677 |
| Total assets | $ 973,566 | $ 1,010,426 |
| **Liabilities and Equity:** | | |
| Current liabilities | $ 84,856 | $ 93,663 |
| Deferred Income taxes | 4,234 | 3,925 |
| Other long-term liabilities | 15,787 | 15,730 |
| Total liabilities | 104,877 | 113,318 |
| Total stockholders equity | 868,689 | 897,108 |
| Total liabilities and equity | $ 973,566 | $ 1,010,426 |

**Dril-Quip, Inc.**
**Reconciliation of Net Income (Loss) to Adjusted Net Income (Loss) and Adjusted Diluted Earnings (Loss) per Share**
**and Adjusted Diluted Earnings (Loss) per Share**

| Adjusted Net Income (Loss) and EPS: | Three months ended | | | | | |
|---|---|---|---|---|---|---|
| | June 30, 2022 | | March 31, 2022 | | June 30, 2021 | |
| | Effect on net income (loss) (after-tax) | Impact on diluted earnings (loss) per share | Effect on net income (loss) (after-tax) | Impact on diluted earnings (loss) per share | Effect on net income (loss) (after-tax) | Impact on diluted earnings (loss) per share |
| | | | (In thousands, except per share amounts) | | | |
| Net loss | $ (5,570) | $ (0.16) | $ (8,938) | $ (0.26) | $ (19,067) | $ (0.54) |
| Adjustments (after tax): | | | | | | |
| Reverse the effect of foreign currency transaction gains | (1,911) | (0.06) | (991) | (0.03) | (375) | (0.01) |
| Restructuring and other costs, including severance | 4,554 | 0.13 | 25 | - | 790 | 0.02 |
| (Gain) loss on sale of property, plant and equipment | (300) | (0.01) | (90) | - | 65 | - |
| Adjusted net loss | $ (3,227) | $ (0.10) | $ (9,994) | $ (0.29) | $ (18,587) | $ (0.53) |

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

| Adjusted EBITDA: | Three months ended | | |
|---|---|---|---|
| | June 30, 2022 | March 31, 2022 | June 30, 2021 |
| | (In thousands) | | |
| Net loss | $ (5,570) | $ (8,938) | $ (19,067) |
| Add: | | | |
| Interest (income) expense, net | (474) | (149) | (4) |
| Income tax provision | 2,175 | 3,496 | 4,407 |
| Depreciation and amortization expense | 7,670 | 7,559 | 7,343 |
| Restructuring and other costs, including severance | 5,765 | 32 | 7,250 |
| (Gain) loss on sale of property, plant and equipment | (380) | (114) | 82 |
| Foreign currency transaction gains | (2,419) | (1,254) | (475) |
| Stock compensation expense | 2,573 | 2,527 | 3,079 |
| Adjusted EBITDA | $ 9,340 | $ 3,159 | $ 2,615 |

Dril-Quip, Inc.
Reconciliation of Net Cash Provided by Operating Activities to Free Cash Flow

| Free Cash Flow | Three months ended | | |
|---|---|---|---|
| | June 30, 2022 | March 31, 2022 | June 30, 2021 |
| | (In thousands) | | |
| Net cash provided (used) by operating activities | $ (9,281) | $ (10,928) | $ 11,343 |
| Less: | | | |
| Purchase of property, plant and equipment | (1,363) | (2,066) | (3,112) |
| Free cash flow | $ (10,644) | $ (12,994) | $ 8,231 |

Dril-Quip, Inc.
Product and Service Revenue Segments

| | Three months ended June 30, 2022 | Three months ended June 30, 2021 |
|---|---|---|
| | (In millions) | |
| Revenues: | | |
| Products: | | |
| Subsea equipment | $ 49.5 | $ 45.6 |
| Downhole tools | 12.5 | 10.3 |
| Total products | 62.0 | 55.9 |
| Services: | | |
| Subsea equipment | 14.8 | 14.0 |
| Downhole tools | 4.8 | 3.5 |
| Total services | 19.6 | 17.5 |
| Leasing | | |
| Subsea equipment | 10.5 | 5.6 |
| Downhole tools | 1.9 | 1.8 |
| Total leasing | 12.4 | 7.4 |
| Total revenues | $ 94.0 | $ 80.8 |

# Financial Metrics | 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)

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