

**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): October 29, 2020**

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

**Delaware**  
(State or other jurisdiction  
of incorporation)

**001-13439**  
(Commission  
File Number)

**74-2162088**  
(I.R.S. Employer  
Identification No.)

**6401 N. Eldridge Parkway**  
**Houston, Texas**  
(Address of principal executive offices)

**77041**  
(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 October 29, 2020, Dril-Quip, Inc. ("Dril-Quip") reported third quarter 2020 earnings. For additional information regarding Dril-Quip's third quarter 2020 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 October 29, 2020, Dril-Quip posted the Q3 2020 Supplemental Earnings Information presentation (the "Presentation") to its website at [www.dril-quip.com](http://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:

<u>Exhibit No.</u>	<u>Description</u>
99.1	<a href="#">Press Release issued October 29, 2020.</a>
99.2	<a href="#">Q3 2020 Supplemental Earnings Information Presentation.</a>
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/ Raj Kumar  
Raj Kumar  
Vice President and Chief Financial Officer

Date: October 29, 2020

**DRIL-QUIP, INC. ANNOUNCES THIRD QUARTER 2020 RESULTS**

HOUSTON, October 29, 2020 — Dril-Quip, Inc. (NYSE: DRQ), (the “Company” or “Dril-Quip”) today reported operational and financial results for the third quarter of 2020.

Key highlights for the third quarter of 2020 included:

- 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;

Blake DeBerry, Dril-Quip’s Chief Executive Officer, commented, “Our third quarter results reflect the progress we are making as an organization in managing the continued challenges to our operations and the overall commodity price environment brought about by the COVID-19 pandemic and the associated oil and gas demand declines. I am proud of our employees in the manner in which they have remained productive and efficient in our manufacturing plants, aftermarket services and remote work locations. Our third quarter performance was a result of their efforts.”

“We were able to improve our adjusted EBITDA by nearly 70% sequentially on mostly flat revenue as we executed on our previously announced cost reductions in response to the current market environment. We generated free cash flow due to improved collection efforts and a federal income tax refund related to COVID-19 relief legislation. We also saw our quarterly product bookings improve to \$50.2 million during the third quarter. These bookings included several subsea tree awards in Europe and Asia and set us on a path toward achieving our \$200 million bookings target for the full year 2020.”

“While we have been able to manage the many difficulties and disruptions posed by the global pandemic, we still face obstacles that are out of our control, including in particular, the demand destruction for oil and natural gas stemming from the global economic slowdown associated with the pandemic. Our customers are in the process of evaluating their portfolio of opportunities and determining how to allocate budgets for projects in the coming year. Additionally, they are seeking to delay some current projects to a future period of more stable commodity prices, resulting in higher inventory levels. Consequently, this has had an estimated quarterly impact on cash flow generation of \$10 to \$15 million and also has affected our ability to grow our bookings.”

"While we have an experienced management team with a track record of navigating through these types of challenges, our expectation is that they will persist into 2021 as the global economy works to regain its footing and commodity prices begin to stabilize. Despite the potential for ongoing headwinds, we remain in a strong financial position that lets us capitalize on opportunities as they arise. This flexibility allows us to evaluate potential acquisitions within our strategic planning framework, which includes profitably expanding market share through consolidation while maintaining a strong balance sheet. We are also actively exploring alternative approaches towards monetizing our innovative technology. We believe the potential to manufacture and deliver subsea tree and wellhead technology to other offshore equipment providers represents a unique opportunity to expand our customer base, participate in more operator projects, help reduce costs and further consolidate capacity in our industry. The pursuit of these strategic initiatives gives me optimism about Dril-Quip's long-term future and its ability to generate value for all stakeholders."

In conjunction with today's release, the Company posted a new investor presentation entitled "Third Quarter 2020 Supplemental Earnings Information" to its website, [www.dril-quip.com](http://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](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 release.

## **Operational and Financial Results**

### *Revenue, Cost of Sales and Gross Operating Margin*

Consolidated revenue for the third quarter of 2020 was \$91.3 million, up \$0.8 million from the second quarter of 2020 and down \$16.9 million from the third quarter of 2019. The sequential increase in revenue was driven by increased product volumes, particularly progress on subsea tree projects awarded in the third quarter, partially offset by aftermarket service declines in Asia Pacific. The decrease in revenue year-over-year was primarily due to oil and gas demand declines caused primarily by impacts of the COVID-19 pandemic.

Cost of sales for the third quarter of 2020 was \$67.2 million, an increase of \$0.3 million sequentially and a decrease of \$8.8 million compared to the prior year. Gross operating margin for the third quarter of 2020 was 26.4%, mostly flat compared to the second quarter of 2020 and a decrease from 29.8% in the third quarter of 2019. Gross margin sequentially remained flat due to an improvement in product margins driven primarily by improved product mix in the Western Hemisphere, which was partially offset by a decrease in aftermarket services revenue related to resolution of a one-time customer dispute on rental equipment in Asia Pacific. The decline in gross margin year-over-year was primarily related to increased costs associated with COVID-19 pandemic related costs comprising staggered shifts, supply chain disruptions, additional freight charges and more extensive cleaning and sanitization of workstations as well as unfavorable product mix compared to the third quarter of 2019.

#### *Selling, General and Administrative Expenses*

Selling, general and administrative (“SG&A”) expenses for the third quarter of 2020 were \$20.8 million, a decrease of \$2.5 million compared to the second quarter of 2020 and a decrease of \$8.3 million compared to the third quarter of 2019. The sequential and year-over-year decline in SG&A was primarily due to lower corporate overhead from cost saving actions completed in the second and third quarters. Engineering and product development expenses for the third quarter of 2020 were \$1.4 million lower compared to the second quarter of 2020 and \$0.2 million higher compared to the third quarter of 2019. The decrease sequentially was driven by cost reduction actions including reprioritization of projects and the transfer of our controls product line to Proserv. The modest increase in expense year-over-year was related to increased research and development costs, primarily related to the VXTe subsea tree commercialization.

#### *Net Income, Adjusted EBITDA and Free Cash Flow*

For the third quarter of 2020, the Company reported net income of \$14.3 million, or \$0.41 per share, compared to a net loss of \$14.1 million, or \$0.40 per share, for the second quarter of 2020 and a net loss of \$1.3 million, or \$0.04 per diluted share, for the third quarter of 2019. The sequential and year-over-year increase in net income was a result of decreased SG&A expenses from the execution of cost reduction actions and a federal income tax benefit related to U.S. COVID-19 pandemic relief.

Adjusted EBITDA totaled \$10.2 million for the third quarter of 2020 compared to \$6.0 million for the second quarter of 2020 and \$15.3 million for the third quarter of 2019. The sequential increase in adjusted EBITDA results from improved product margin mix and cost reductions associated with the realignment of manufacturing operations and lower engineering spend. This was partially offset by a decrease in aftermarket services related to resolution of a one-time customer dispute on rental equipment in Asia Pacific. The decrease in adjusted EBITDA year-over-year was due to declines in product and leasing revenues as a result of a weaker market.

Net cash provided by operations was \$13.9 million and free cash flow was approximately \$12.0 million for the third quarter of 2020. The improvement in net cash provided by operations of \$10.8 million compared to the second quarter of 2020 was primarily driven by a federal income tax benefit, improved collections of receivables and successful negotiation of extended supplier payment terms, partially offset by increases in stocking program inventory and timing of deliveries due to logistical disruptions and delays caused by the global pandemic. Capital expenditures in the third quarter of 2020 were approximately \$1.9 million, the majority of which was related to machinery and equipment spend consolidating our Aberdeen manufacturing operations into Houston.

#### **Cost Saving Initiatives**

In the first quarter of 2020, the Company announced its plans to achieve \$20 million in annualized cost savings in response to the deteriorating market conditions in 2020. These actions will span manufacturing, supply chain, SG&A, engineering and research and development and better align our organization with anticipated market activity. During the third quarter, the Company executed on approximately \$7.0 million of these annualized cost saving actions, resulting in a total of \$18.5 million annualized year to date 2020. The remainder of the full \$20 million in annualized cost savings are expected to be completed in the fourth quarter of 2020.

**Balance Sheet and Liquidity**

Dril-Quip's cash on hand as of September 30, 2020 was \$359.2 million, which, together with amounts available under the asset-based lending (ABL) facility, resulted in approximately \$403.8 million of available liquidity. The Company's strong liquidity position, combined with a debt-free balance sheet, provides both financial and operational flexibility. The Company intends to use its financial strength to pursue strategic acquisitions and collaborations that differentiate its products offerings and continue investing in the rapid commercialization of new technologies. The Company expects to generate positive free cash flow for the full year 2020. In addition, inclusive of received and expected cash tax benefits as a result of the CARES Act, the Company is targeting to achieve close to a neutral year-end cash balance in 2020 compared to 2019.

**Share Repurchases**

For the three-month period ended September 30, 2020, the Company did not purchase shares under its share repurchase plan authorized by the Board of Directors in February of 2019. For the first nine months ended September 30, 2020, the Company purchased 808,389 shares under the share repurchase plan at an average price of approximately \$30.91 per share totaling approximately \$25.0 million and retired such shares. The Company has purchased approximately \$51 million of the \$100 million authorized. The Company continues to evaluate the amount and timing of its share repurchases and intends for the total amount of shares repurchased in 2020 to not exceed its full year free cash flow generation.

**About Dril-Quip**

Dril-Quip is a leading manufacturer of highly engineered drilling and production equipment for use onshore and offshore, which is particularly well suited for use in deep-water, harsh environments and severe service applications.

**Forward-Looking Statements**

Statements contained herein relating to future operations and financial results that are forward-looking statements, including those related to the effects of COVID-19 pandemic, market conditions, anticipated project bookings, expected timing of completing the 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 the recent significant decline in oil and natural gas prices, the volatility of oil and natural gas prices and cyclical nature 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, 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 net 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, 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.

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**

Blake Holcomb, Director of Investor Relations and Corporate Planning  
(713) 939-7711  
[Blake.Holcomb@dril-quip.com](mailto:Blake.Holcomb@dril-quip.com)



**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)			
<b>Revenues:</b>			
Products	\$ 66,451	\$ 63,133	\$ 81,851
Services	17,778	20,750	17,884
Leasing	7,066	6,563	8,492
<b>Total revenues</b>	<b>91,295</b>	<b>90,446</b>	<b>108,227</b>
<b>Costs and expenses:</b>			
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)
<b>Total costs and expenses</b>	<b>93,399</b>	<b>97,951</b>	<b>108,005</b>
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
<b>Net income (loss)</b>	<b>\$ 14,326</b>	<b>\$ (14,142)</b>	<b>\$ (1,310)</b>
<b>Earnings (loss) per share</b>			
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
<b>Weighted Average Shares Outstanding</b>			
Basic	35,049	35,023	35,559
Diluted	35,249	35,023	35,559

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

	September 30, 2020	December 31, 2019
	(In thousands)	
<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>

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

<u>Adjusted Net Income and EPS:</u>	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)	<u>\$ 15,402</u>	<u>\$ 0.44</u>	<u>\$ (12,309)</u>	<u>\$ (0.34)</u>	<u>\$ (2,002)</u>	<u>\$ (0.07)</u>

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

<u>Free Cash Flow:</u>	<u>Three months ended</u>		
	<u>September 30,</u> <u>2020</u>	<u>June 30,</u> <u>2020</u>	<u>September 30,</u> <u>2019</u>
	(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	<u>\$ 11,964</u>	<u>\$ (1,085)</u>	<u>\$ (8,048)</u>

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

<u>Adjusted EBITDA:</u>	<u>Three months ended</u>		
	<u>September 30,</u> <u>2020</u>	<u>June 30,</u> <u>2020</u>	<u>September 30,</u> <u>2019</u>
	(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	<u>\$ 10,169</u>	<u>\$ 6,036</u>	<u>\$ 15,312</u>

# ***DRIL-QUIP***

## THIRD QUARTER 2020 SUPPLEMENTAL EARNINGS INFORMATION

[dril-quip.com](http://dril-quip.com) | NYSE: DRQ

# 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

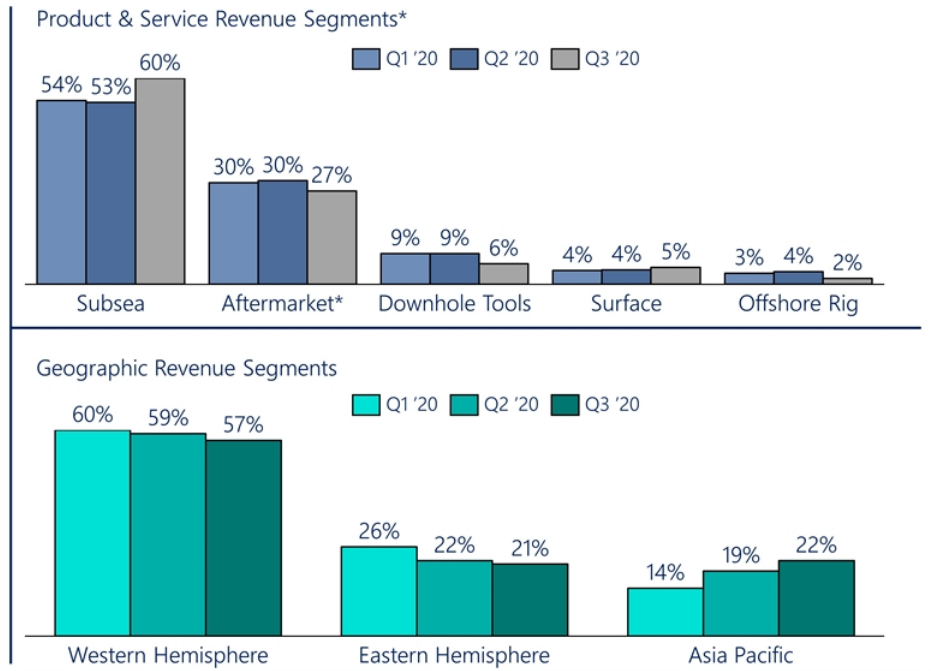
SUBSEA EQUIPMENT

SURFACE EQUIPMENT

DOWNHOLE TOOLS

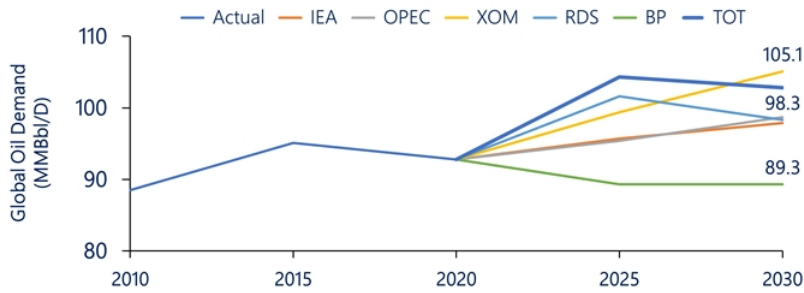
OFFSHORE RIG EQUIPMENT

AFTERMARKET SERVICES

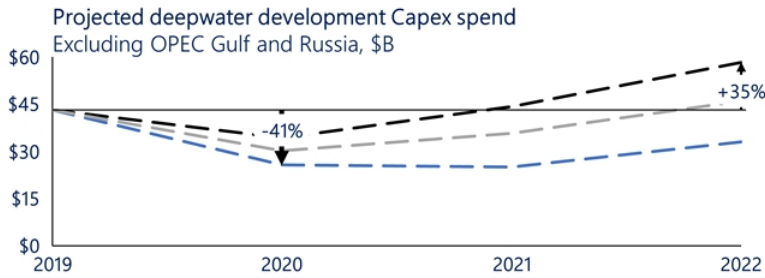


\*Aftermarket revenue includes both Services and Leasing revenue

# GLOBAL MARKET ENVIRONMENT



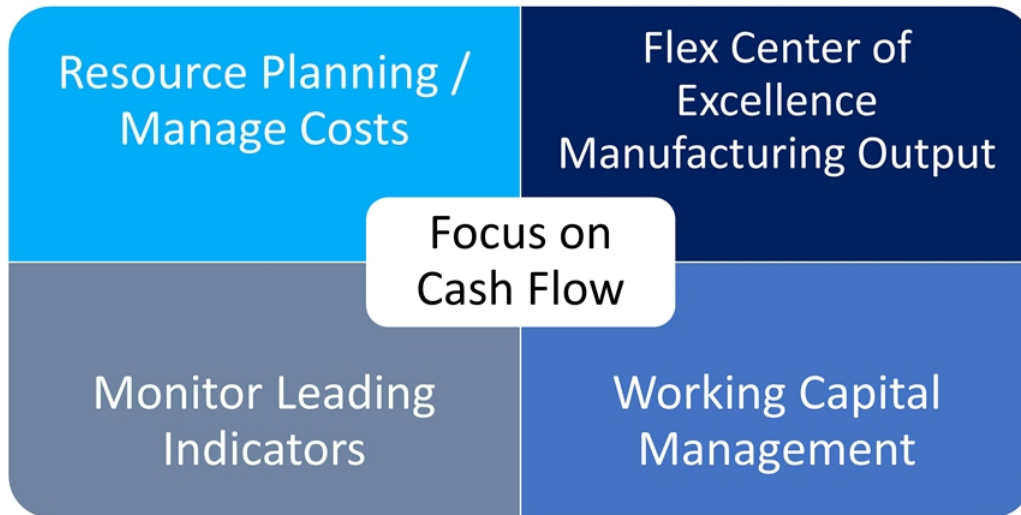
- Global oil demand not expected to return to 2019 levels of 100 million barrels per day (Bbl/d) for several years
- Recovery in capital spending dependent on supply / demand rebalancing post COVID-19 pandemic
- Europe, Africa and South America expected to drive growth through 2023



Broad Range of Outcomes Tied to Pandemic Recovery Timeline



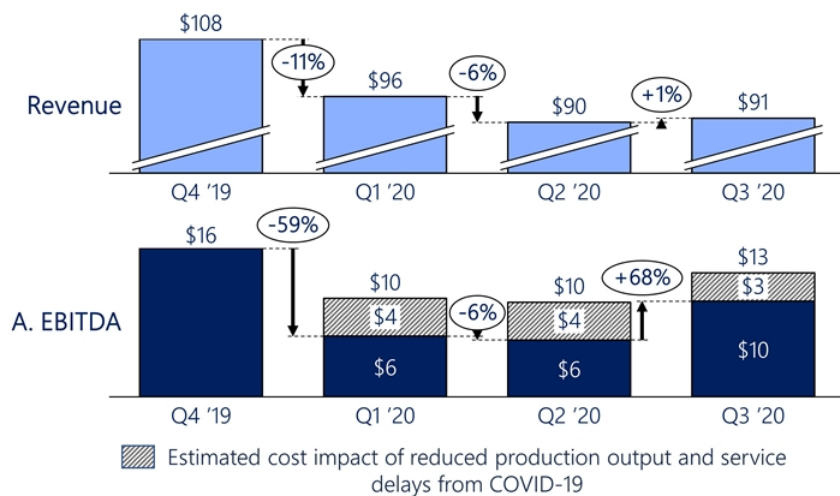
# STRATEGY FOR MANAGING THE CURRENT ENVIRONMENT



Maintaining Strong Balance Sheet is a Key Priority

# FINANCIAL PERFORMANCE

Quarterly  
(USD\$ millions)



- 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

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

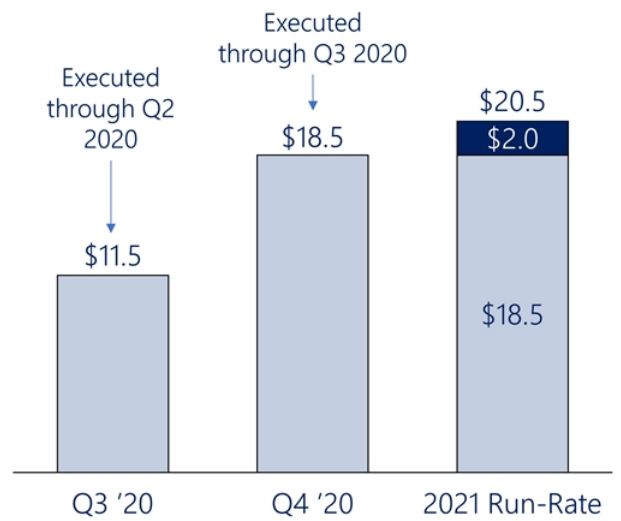
## Q3 2020 HIGHLIGHTS

- 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)

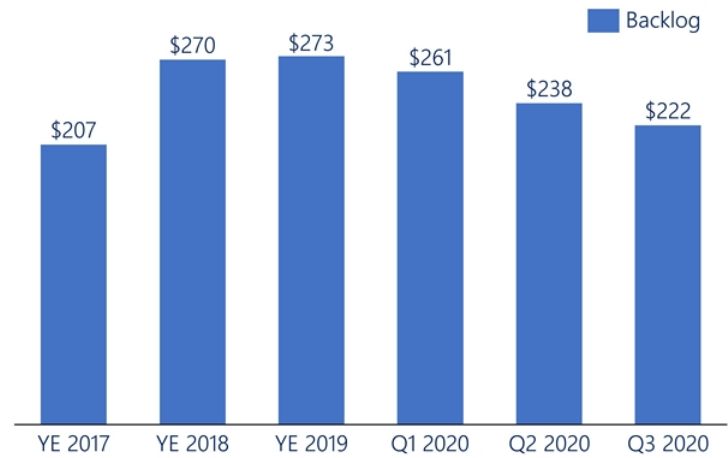


2020 Transformation Well on Track to Deliver \$20 Million in Annualized Savings

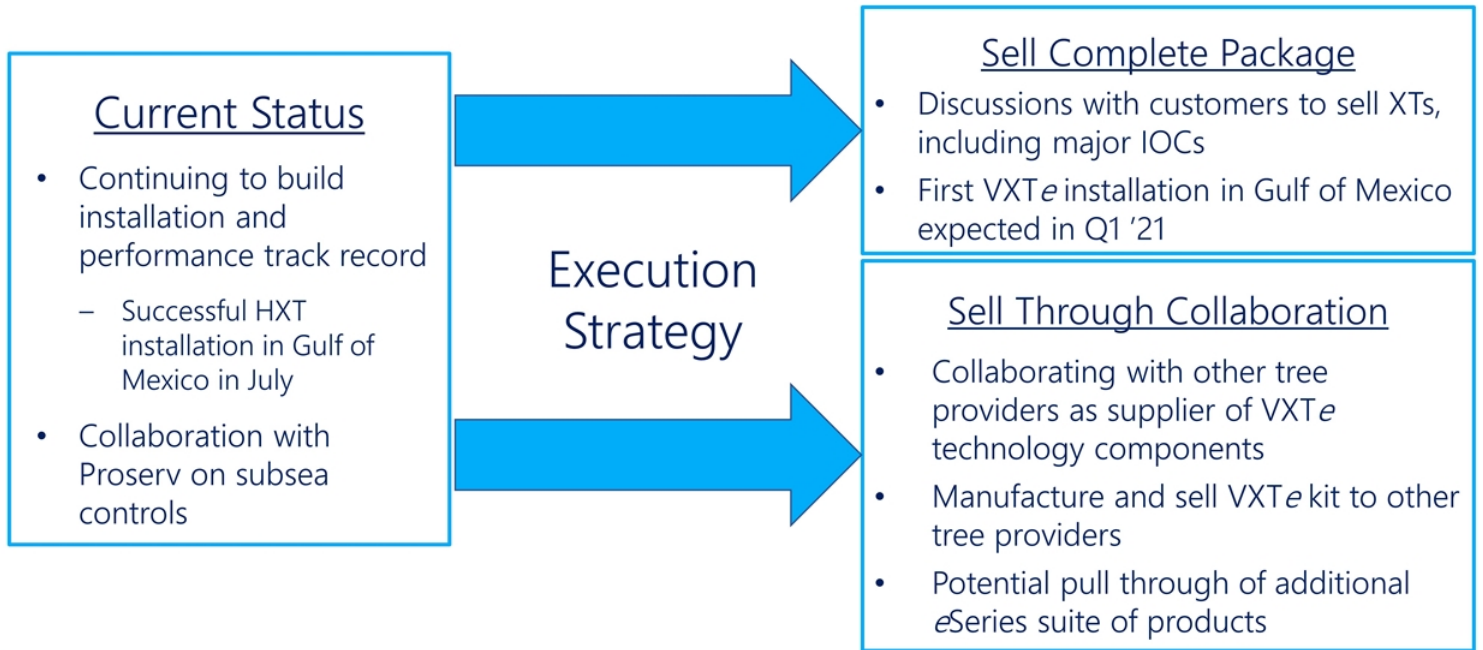
# COMMERCIAL UPDATE

- 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

[dril-quip.com](http://dril-quip.com) | NYSE: DRQ



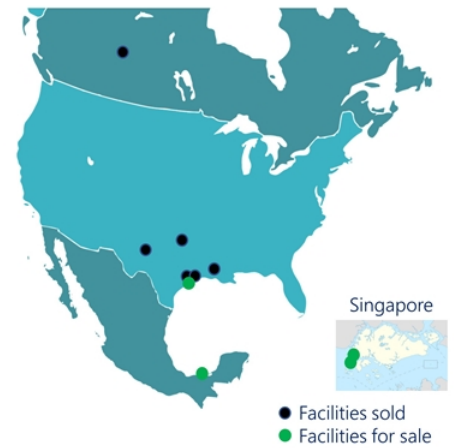
# OPTIMIZING OPERATIONAL FOOTPRINT

## 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

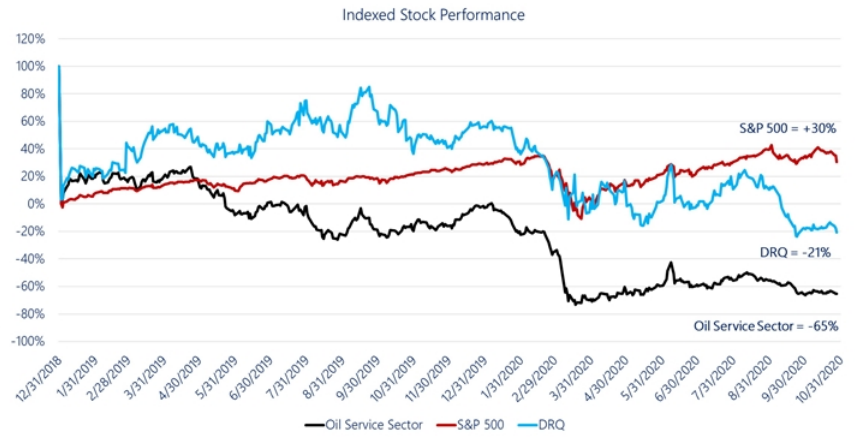


Taking steps to further consolidate footprint to improve operational efficiency

# 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)			
<b>Revenues:</b>			
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
<b>Costs and expenses:</b>			
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)
<b>Earnings (loss) per share</b>			
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
<b>Weighted Average Shares Outstanding</b>			
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)**

	September 30, 2020	December 31, 2019
	(In thousands)	
<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	\$ 1,159,539	\$ 1,206,565
<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	121,977	115,864
Total stockholders equity	1,037,562	1,090,701
Total liabilities and equity	\$ 1,159,539	\$ 1,206,565

# 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**

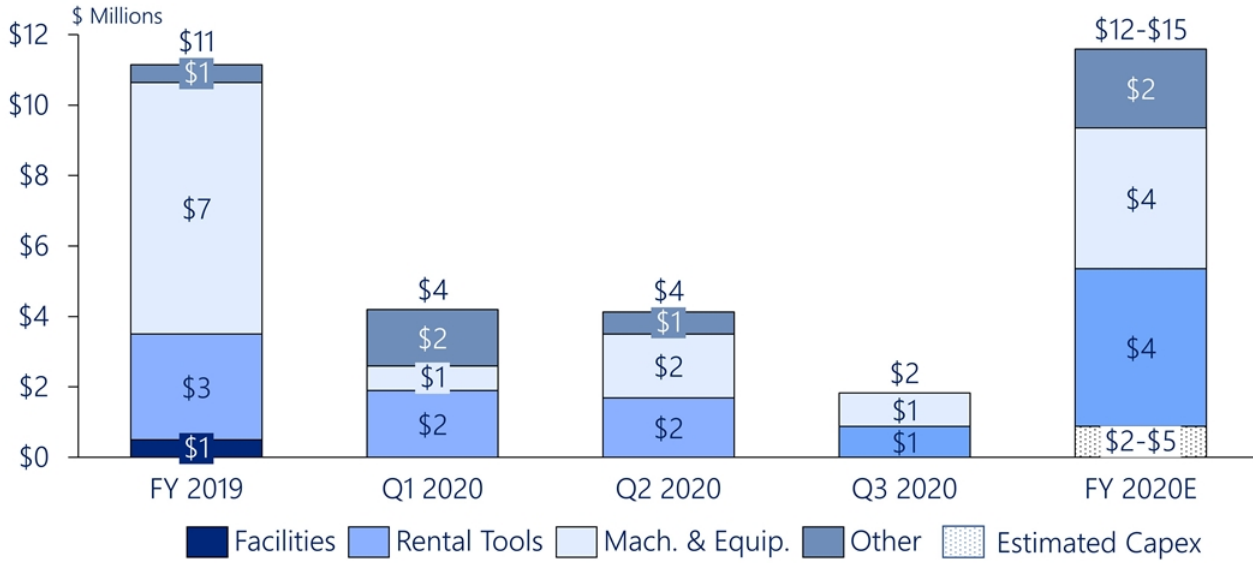
<b>Adjusted EBITDA:</b>	<b>Three months ended</b>		
	<b>September 30, 2020</b>	<b>June 30, 2020</b>	<b>September 30, 2019</b>
	<b>(In thousands)</b>		
Net income (loss)	\$ 14,326	\$ (14,142)	\$ (1,310)
Add:			
Interest income, net	(50)	(444)	(1,880)
Income tax expense (benefit)	(16,380)	7,081	3,412
Depreciation 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	<b>\$ 10,169</b>	<b>\$ 6,036</b>	<b>\$ 15,312</b>

# NON-GAAP FINANCIAL MEASURES

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

<b>Free Cash Flow:</b>	<b>Three months ended</b>		
	<b>September 30, 2020</b>	<b>June 30, 2020</b>	<b>September 30, 2019</b>
	<b>(In thousands)</b>		
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

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



# 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)