

# ***DRIL-QUIP***

PARETO SECURITIES' 26<sup>TH</sup> OIL & OFFSHORE CONFERENCE  
SEPTEMBER 11, 2019  
OSLO, NORWAY

Blake DeBerry  
President & Chief Executive Officer

[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 goals, projections, estimates, expectations, market outlook, forecasts, plans and objectives, including revenue and new product revenue 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 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 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. Non-GAAP financial information supplements should be read together with, and are 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 Adjusted EBITDA to the most directly comparable GAAP measure can be found on slide 29.

## 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.

# AGENDA

I. COMPANY OVERVIEW

II. DEEPWATER OUTLOOK

III. STRATEGIC OBJECTIVES

a) COMMERCIAL EXCELLENCE

b) STRATEGIC TRANSFORMATION



COMPANY OVERVIEW

DEEPWATER OUTLOOK

STRATEGIC OBJECTIVES

COMMERCIAL EXCELLENCE

STRATEGIC TRANSFORMATION

# 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



Experienced Management Team

# PRODUCTS & SERVICES

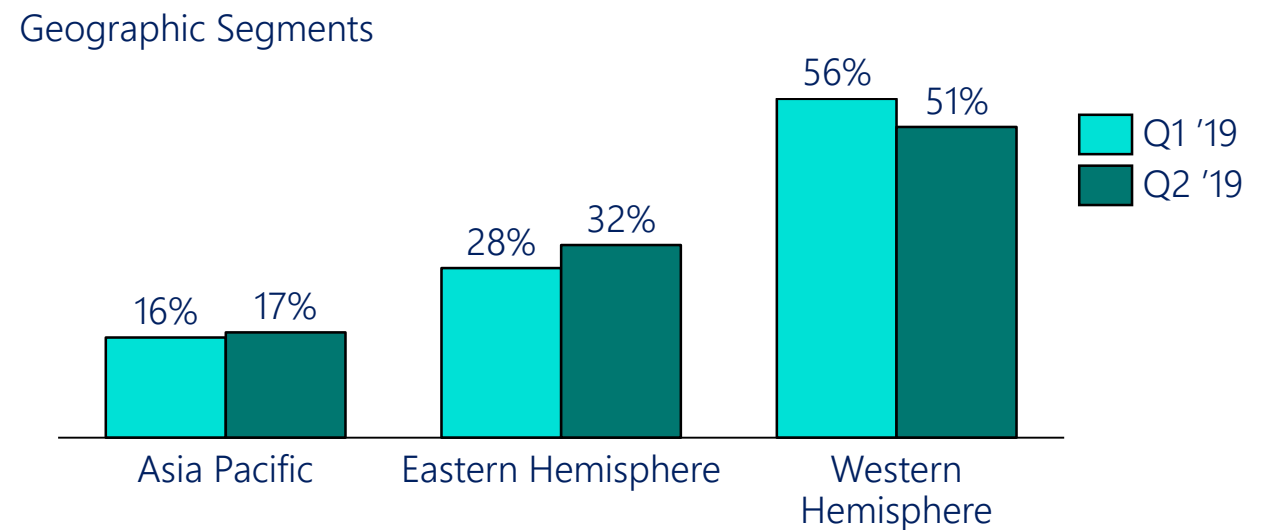
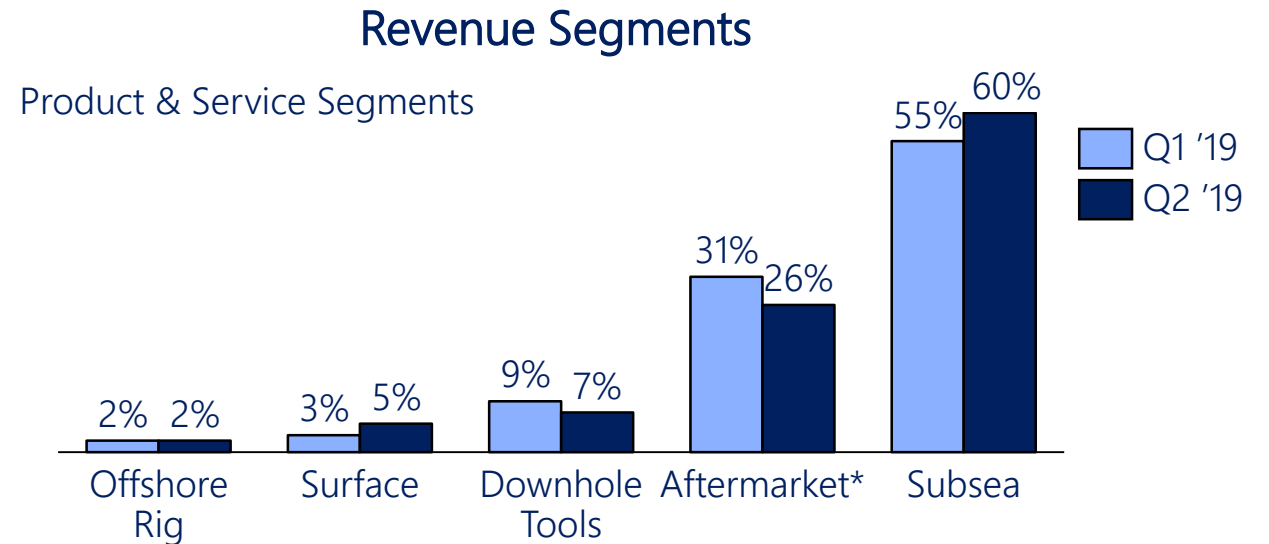
SUBSEA EQUIPMENT

SURFACE EQUIPMENT

DOWNHOLE TOOLS

OFFSHORE RIG EQUIPMENT

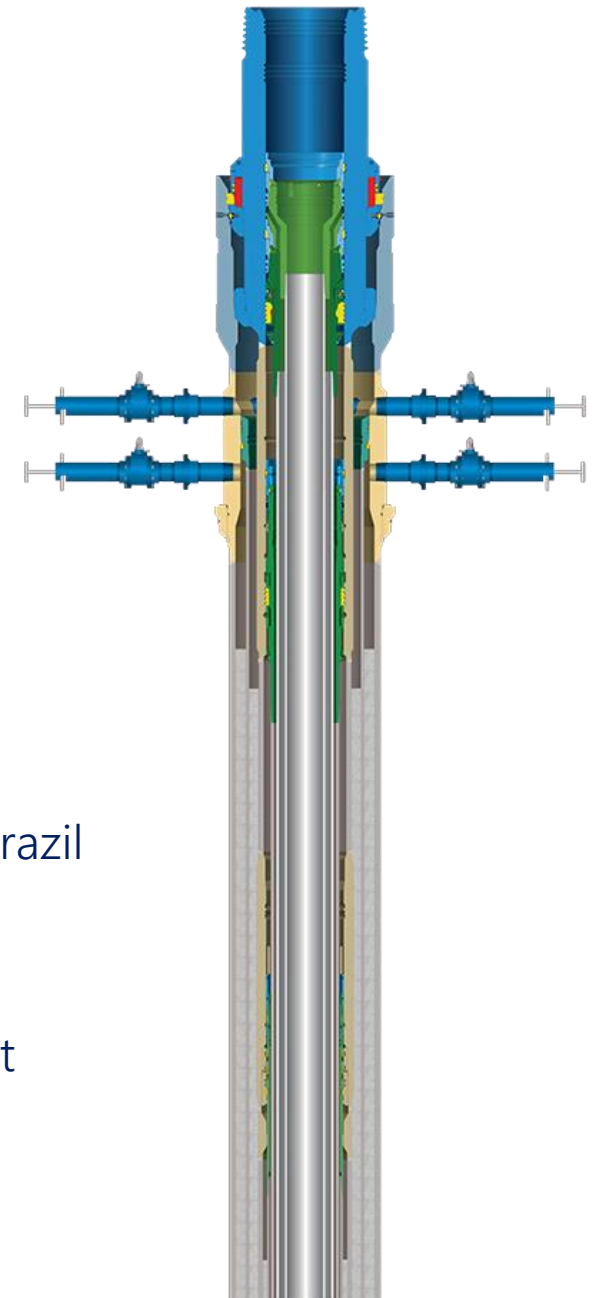
AFTERMARKET SERVICES



\*Aftermarket revenue includes both Services and Leasing revenue

# KEY HIGHLIGHTS

- Grew backlog to \$322 million as of 6/30/2019
- Quarterly product bookings expected to be between \$75 - 95 million for the remainder of 2019
- Doubled addressable tree market as a result of focused R&D efforts in the Subsea Production Systems (SPS) segment
- Received several orders to supply new technology products amounting to ~17% of product bookings in 1H 2019
- Awarded contract to supply wellheads for upcoming drilling campaign for IOC in Brazil
- Ca Rong Do (CRD) project status unchanged
  - Letter of Award from Repsol extended to 12/31/2019 and remains in backlog but not included in 2019 revenue guidance
- Premier's Sea Lion Phase I project continues to make progress with financing arrangements, regulatory reviews and approval processes





COMPANY OVERVIEW

DEEPWATER OUTLOOK

STRATEGIC OBJECTIVES

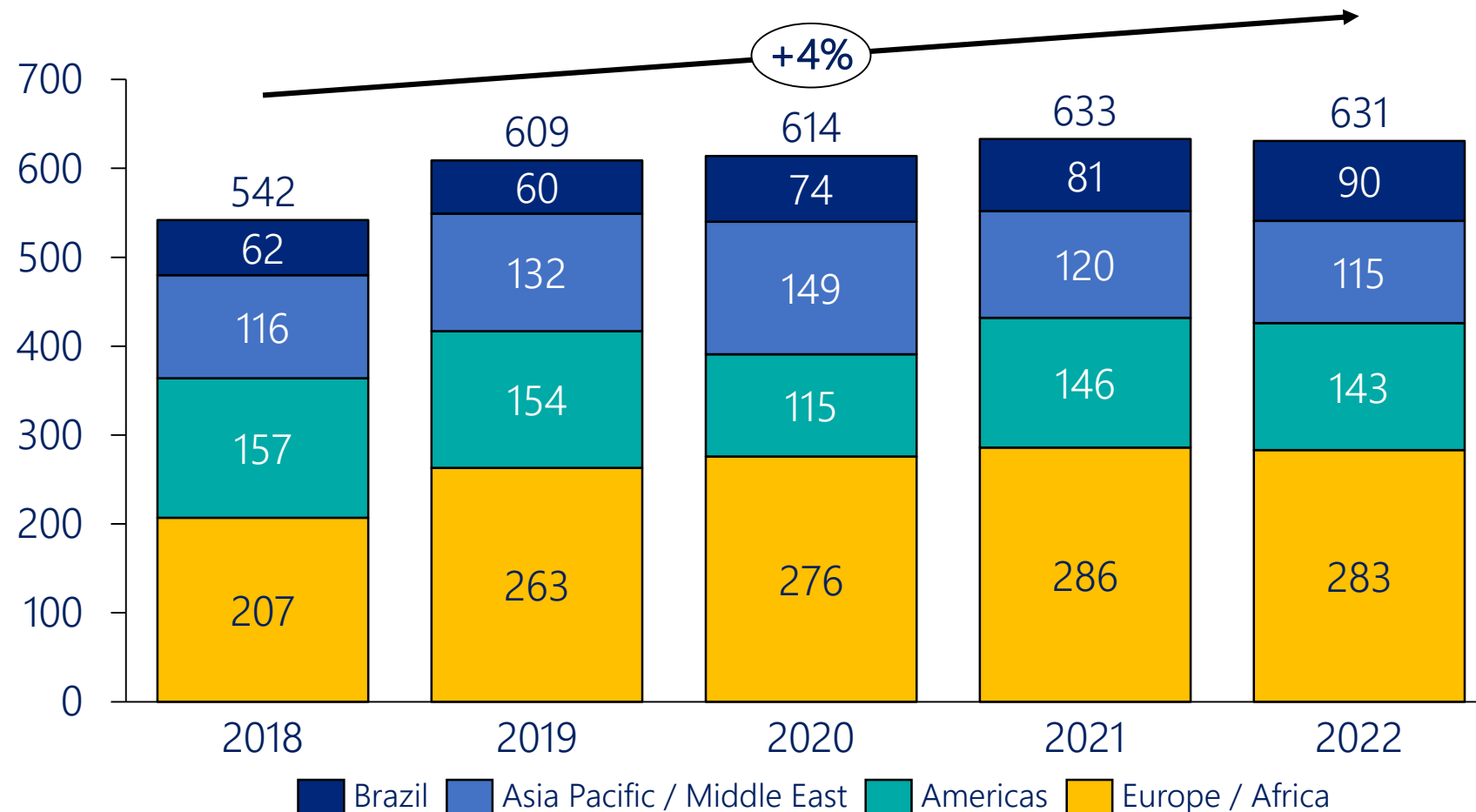
COMMERCIAL EXCELLENCE

STRATEGIC TRANSFORMATION



# DEEPWATER DRILLING ACTIVITY

Deepwater wells drilled by region (number of wells)

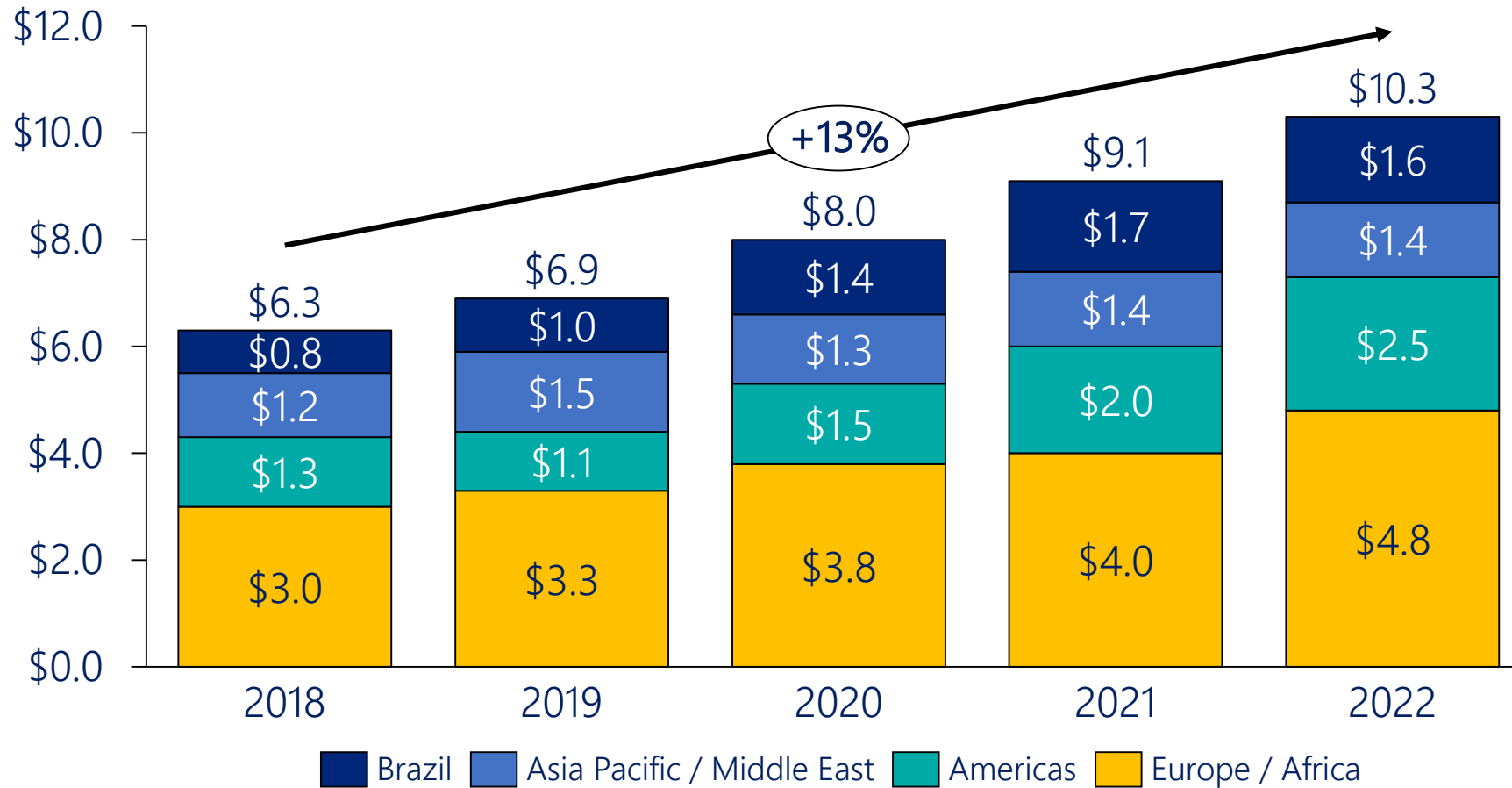


2018 – 2022 CAGR	
Brazil	10%
Asia Pac. / Middle East	0%
Americas (excl. Brazil)	-2%
Europe / Africa	8%
Total (excl. Brazil)	3%

Moderate Near-Term Growth in Number of Wells Forecasted

# IMPROVING OUTLOOK FOR SUBSEA INVESTMENT

Subsea equipment spend by region (\$bn)

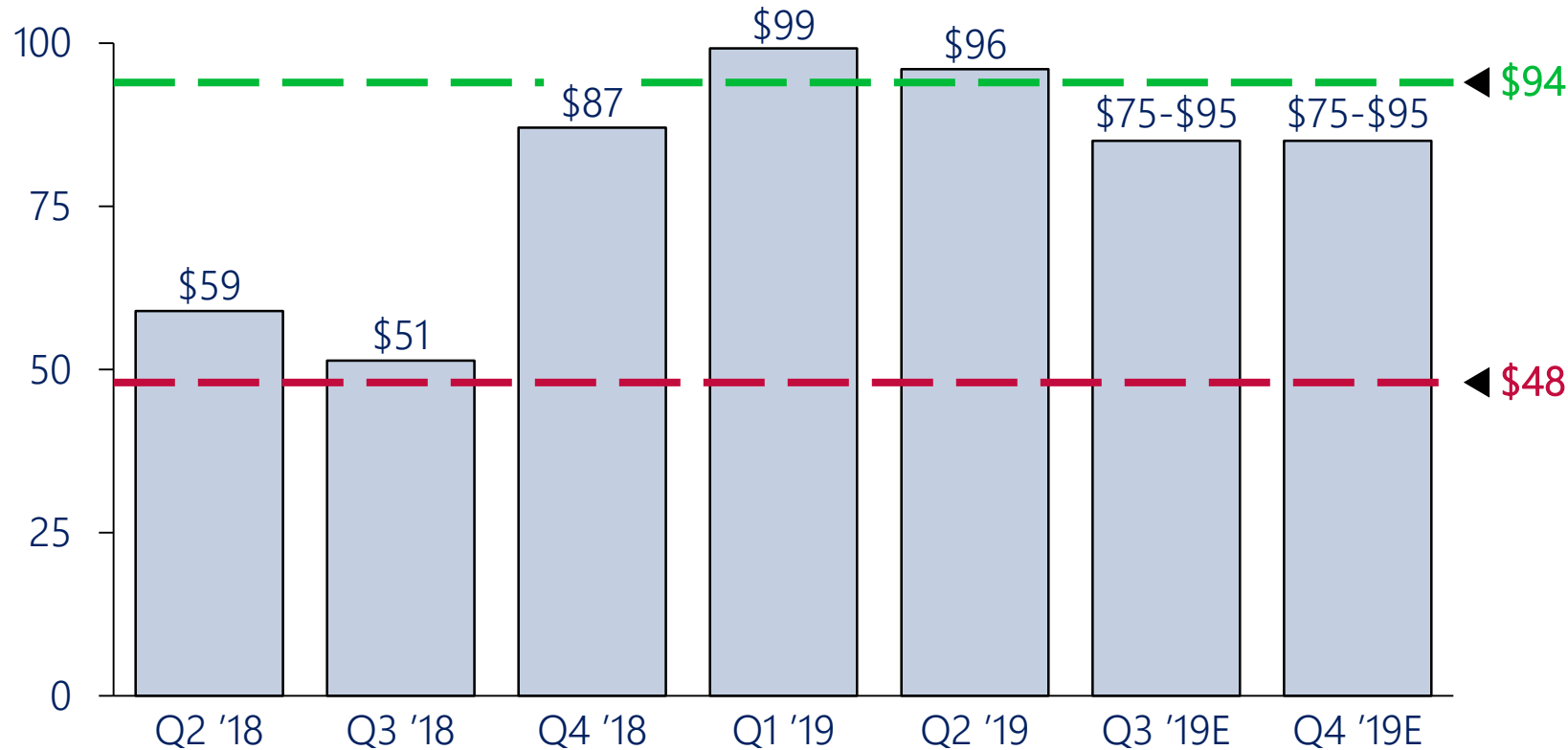


2018 – 2022 CAGR	
Brazil	19%
Asia Pac. / Middle East	4%
Americas (excl. Brazil)	18%
Europe / Africa	12%
<hr/>	
Total (excl. Brazil)	12%

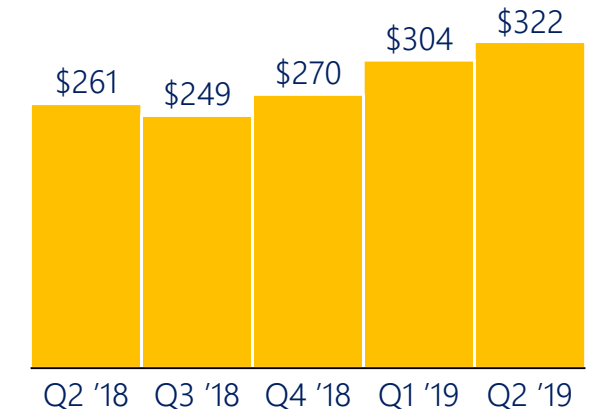
Product Portfolio Optimized to Capture Increased Well Spend

# BOOKINGS CONTINUE TO BE FAVORABLE

Product Bookings (\$mm)

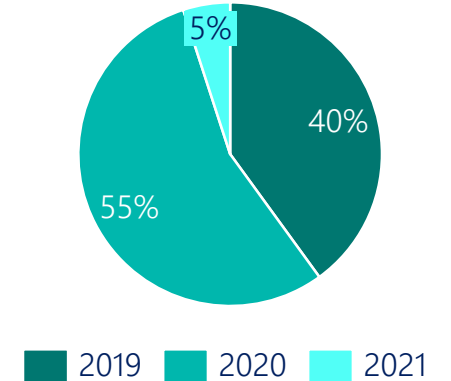


Ending Backlog (\$mm)



\*CRD LOA expires 12/31/19

Estimated Backlog Conversion to Revenue





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# STRATEGIC PRIORITIES

## Commercial Excellence

- Commercialization of research & development
- Transformation of sales organization

## Transformation & LEAN Implementation

- Footprint optimization
- Integrated supply chain
- LEAN as a way of doing business

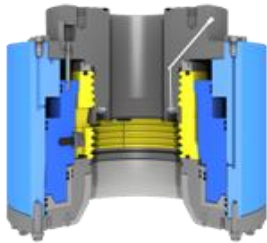
# R&D KEY TO COMMERCIAL EXCELLENCE

- Developing innovative products that structurally reduce total cost of ownership
- Expanding product portfolio to increase markets and market share
- Presented with *OTC Spotlight on New Technology* award for four new products for past 3 years



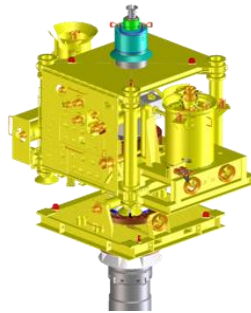
BigBore IIe  
Wellhead

**Spotlight**  
on new  
TECHNOLOGY  
2017

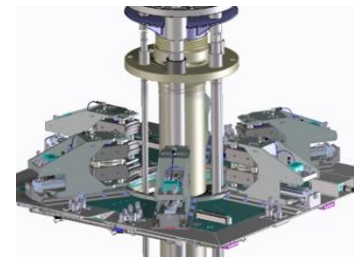


DXe Wellhead  
Connector

**Spotlight**  
on new  
TECHNOLOGY  
2017

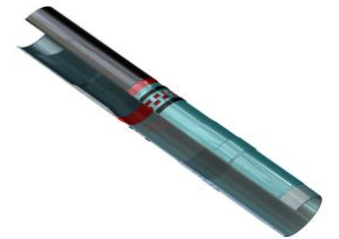


Concentric  
Monobore &  
HorizontalBore  
Trees



HFRe Hands-Free  
Drilling Riser

**Spotlight**  
on new  
TECHNOLOGY  
2018



Double Expansion  
XPAK Liner Hanger

**Spotlight**  
on new  
TECHNOLOGY  
2019

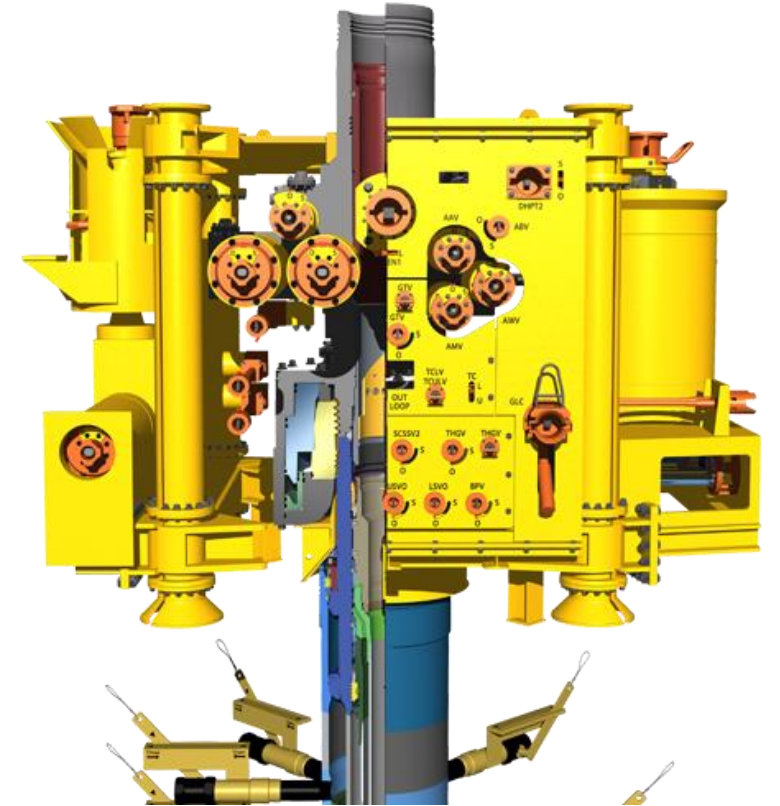
# GROWING ADDRESSABLE TREE MARKET

## 2018 – 1H 2019

- More than doubled current addressable subsea tree market with the introduction of the HorizontalBore™ Production Tree
- Received 5 subsea tree orders in Q2 2019 including an initial order for two horizontal subsea trees

## 2H 2019 & Beyond

- Further increase market presence by:
  - Increasing customer base and expanding scope to existing customers
  - Obtaining compliance with regulatory standards in target markets
  - Progressing leading-edge, differentiated solutions



Focused Efforts to Continue SPS Growth Trajectory

# EXECUTING ON COMMERCIAL EXCELLENCE

## New Product Success

### Subsea Production Systems

- Focused R&D efforts doubled addressable tree market yielding increased quote activity and bookings

### Wellheads

- Expanded customer commitments for new subsea wellhead technology – including conversions, new equipment, and stocking plans

### Wellhead Connectors

- Received 1<sup>st</sup> order for wellhead system specifying the DXe™ profile
- Connector profile licensed to three large peers























### Casing Connectors

- Received 1<sup>st</sup> order for high strength, high fatigue Badger™ Connector

Transformation of Sales Organization Yielding Tangible Benefits



# DEEPENING MARKET PENETRATION

	Expanding Scope with Existing Customers	New Customer Relationships
SPS	   	 
Wellheads	 	     
Connectors	  	    
Focused Sales Efforts Resulting in Increased Scope and Customer Mix		



COMPANY OVERVIEW

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# STRATEGIC TRANSFORMATION OVERVIEW

## Broad Workforce Engagement

- Distributed initiative ownership to enable frontline idea generation

## Organized Transformation of Infrastructure

- Systematic optimization of all cost elements throughout entire organization

## EBITDA Improvement

- \$40-50 million in run rate enhancement across all elements of cost structure by year-end 2019

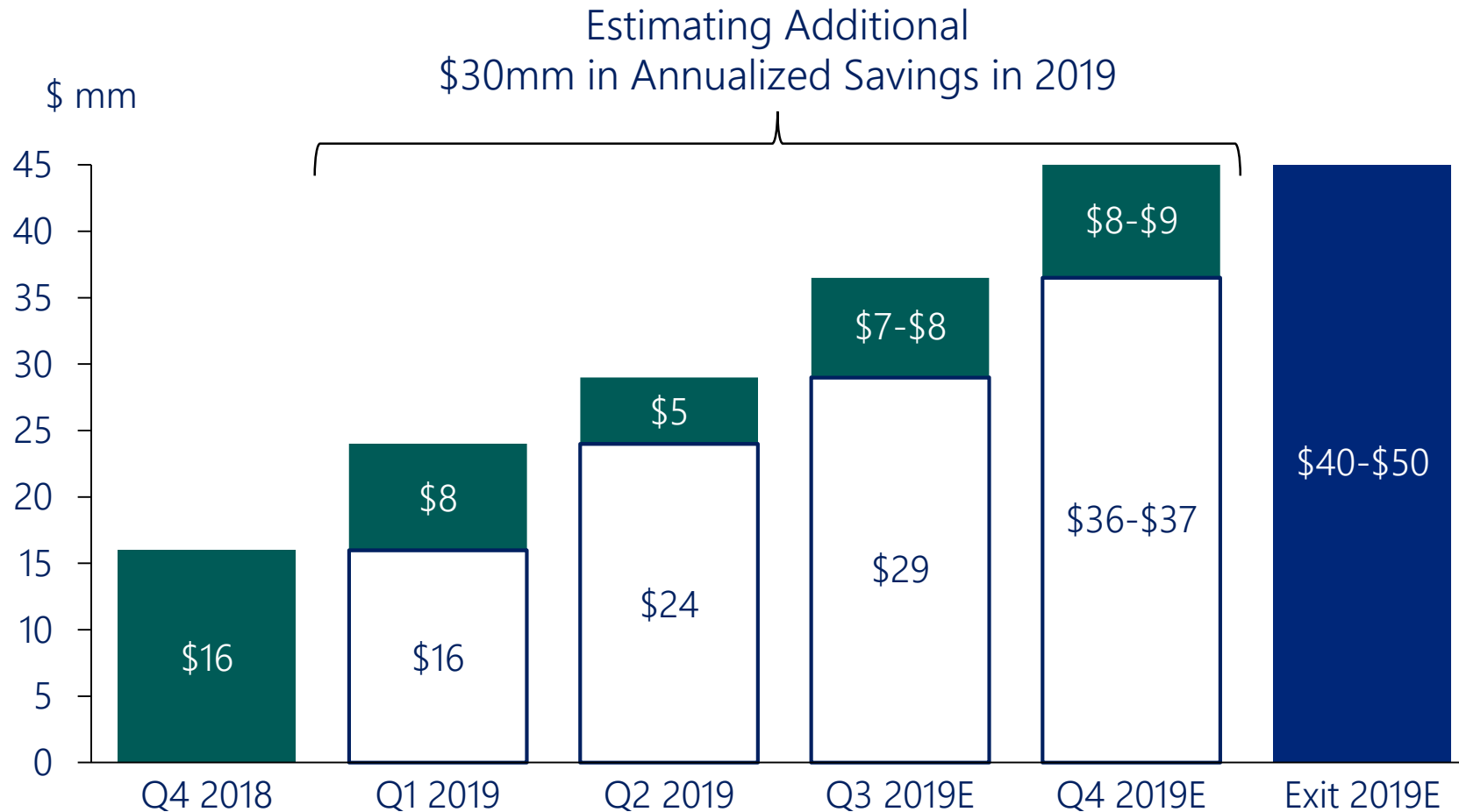
Structured Approach to Improve Cost Performance Across All Areas

# COE TRANSFORMATION IS WELL UNDERWAY

## Centers of Excellence

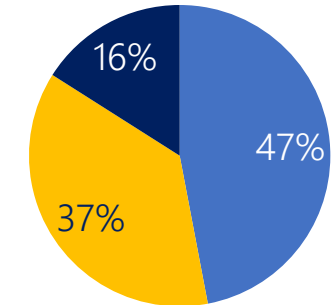
All Locations	Aberdeen	Houston	Singapore	Macaé
Customer Facing Support	Subsea Production Systems	Subsea Wellhead Systems	Specialty Connectors	Expanded use of local suppliers
Pipe Fabrication		Downhole Tools	Surface Wellhead Equipment	
Test & Assembly		Subsea Control Systems	Mudline Suspension	
Heavy Fabrication		Wellhead Connectors	Diverter Systems	
Aftermarket				

# OPTIMIZING COST STRUCTURE

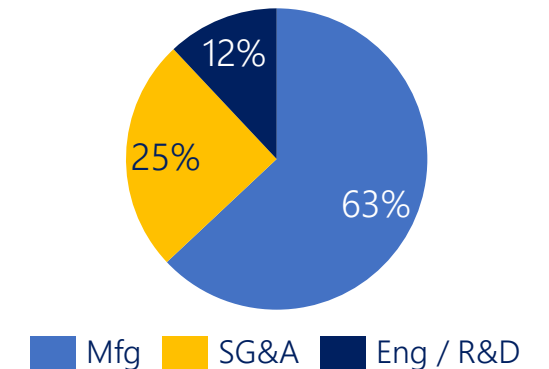


## Annualized Savings Mix

Q4 '18 – Q2 '19  
\$29 million captured



Beginning 2020  
Forecasting \$40-50 million



Realizing Sustainable Cost Savings

# FORGE STRATEGY

Estimated cost savings to be approximately \$10 - 12 million annually\*

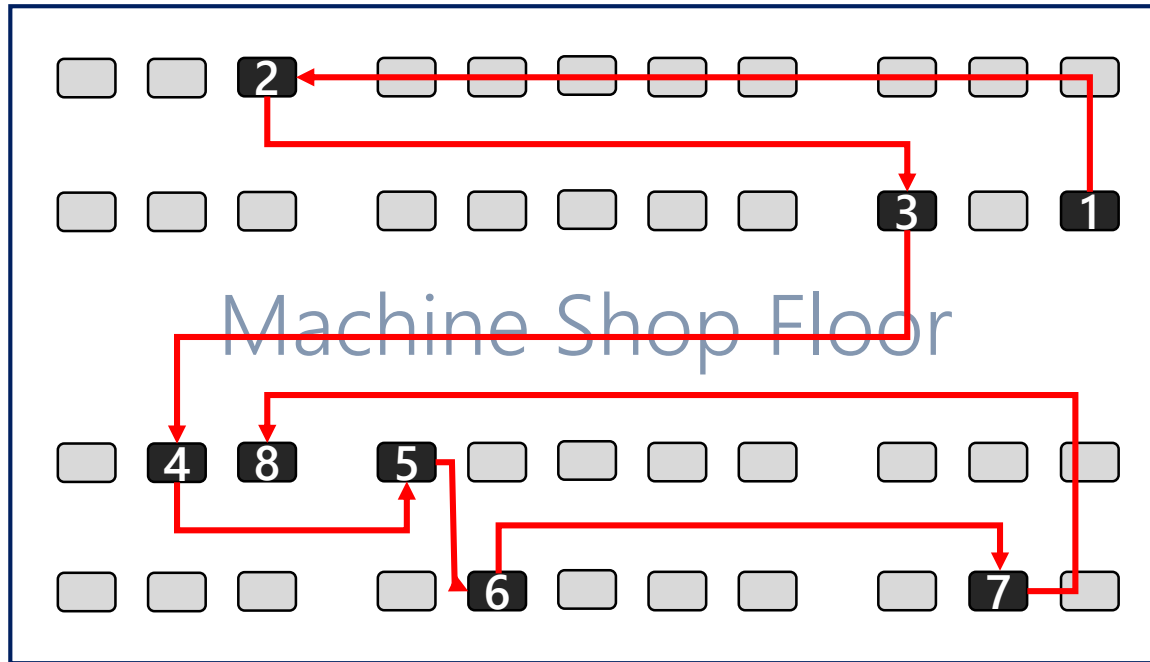
## Alternatives:

- ✓ I. Transfer Operation to Dedicated Forge Business
  - Captive supplier for quick turn products
  - Negotiated pricing on forgings
  - Source of rental income
- ✓ II. Outright Sale
  - One-time gain from sale of assets
- III. Mothball

Developing Deeper Relationships with Existing Forge Suppliers

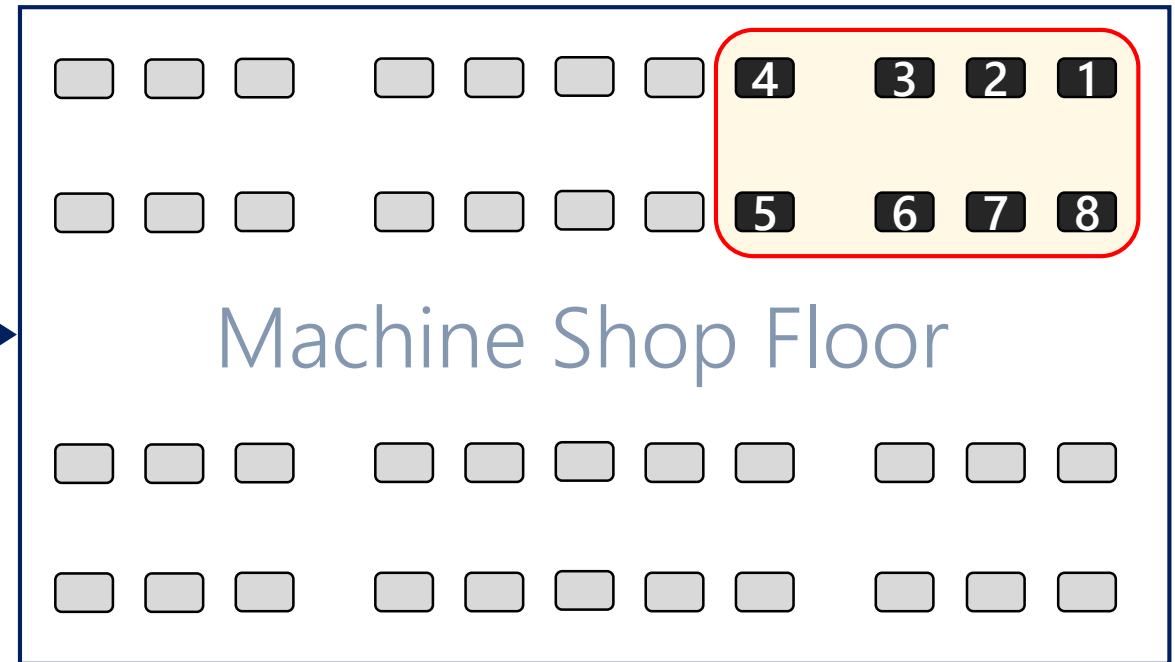
# CELLULAR MANUFACTURING ILLUSTRATION

## Before: Conventional Manufacturing Layout



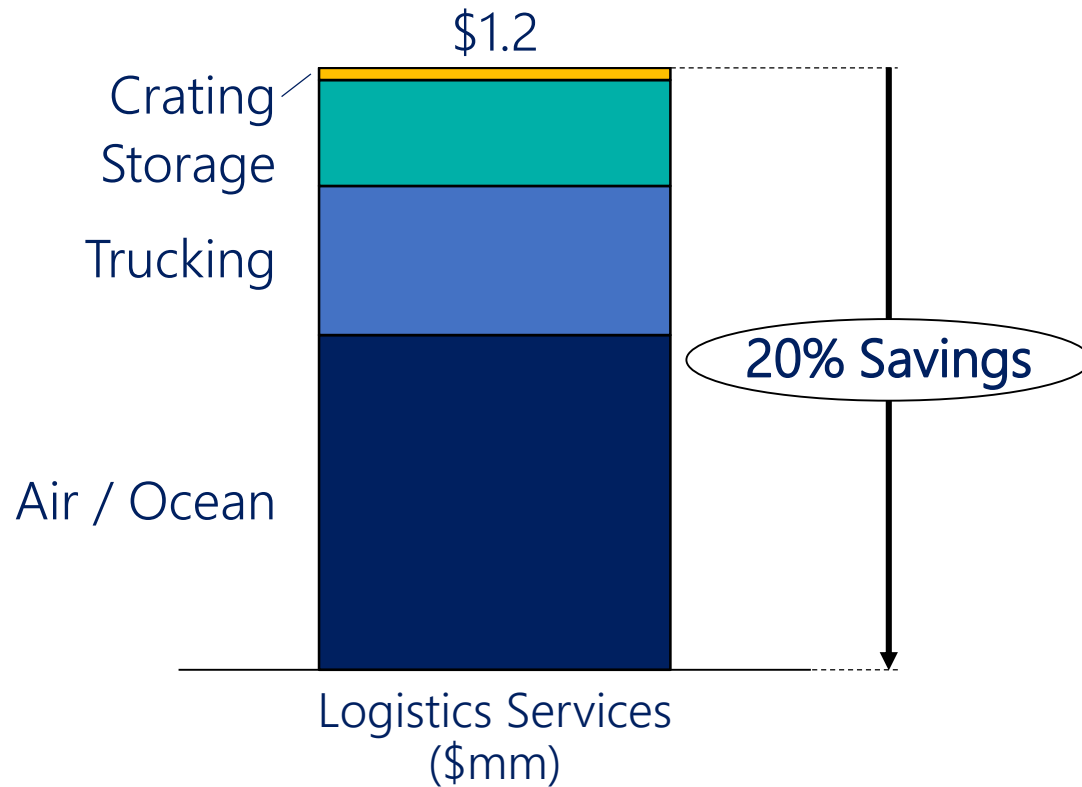
- Total distance travelled for a part could be measured in miles

## After: Cellular Manufacturing Layout

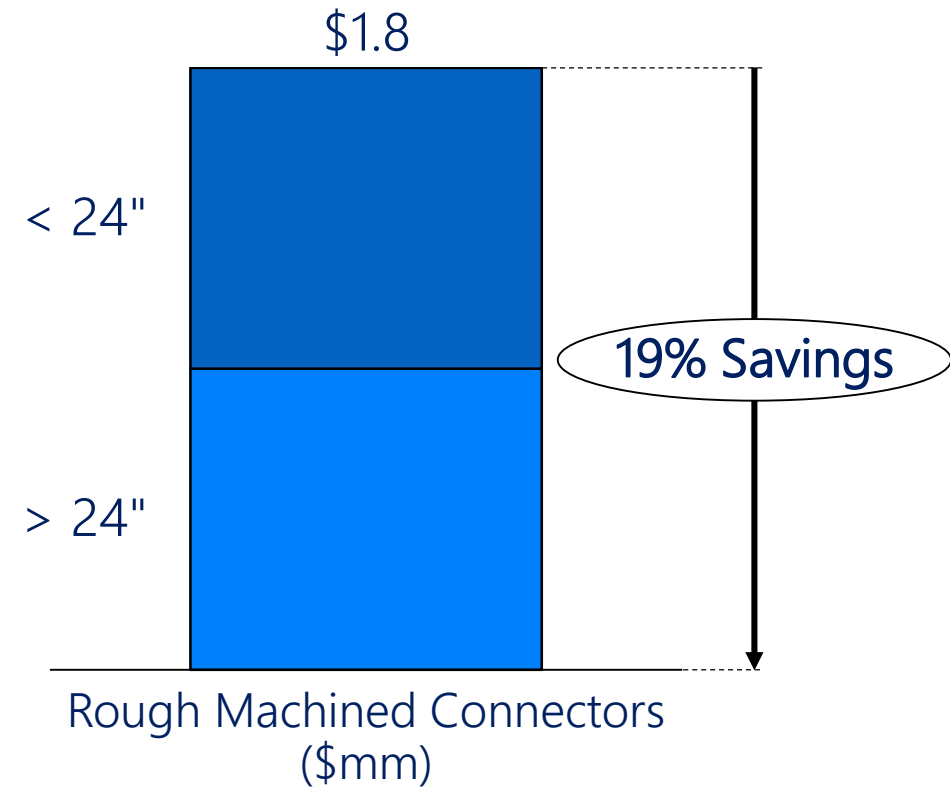


- Significant reduction in part movement
- Increased machine utilization
- Concentration of value-add activity

# EARLY SUPPLY CHAIN SAVINGS



Improved visibility to global spend



Significant improvement in working capital

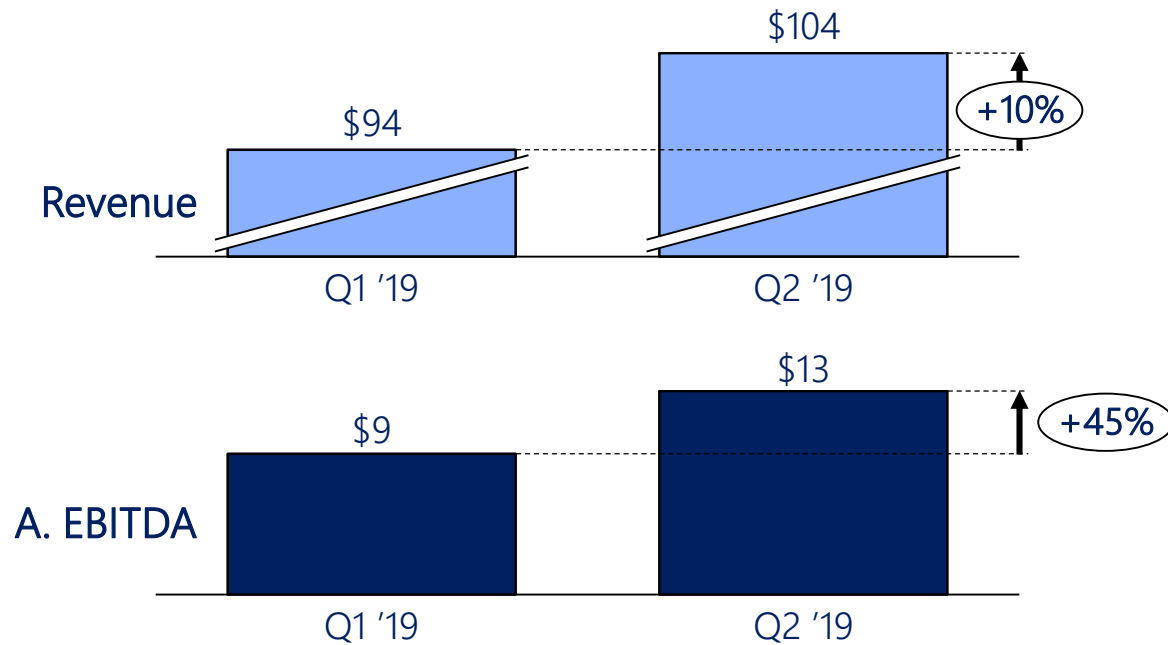
Expedited Savings Contributed \$3 Million to 2<sup>ND</sup> Quarter Savings\*



# ADJUSTED EBITDA PROGRESSION

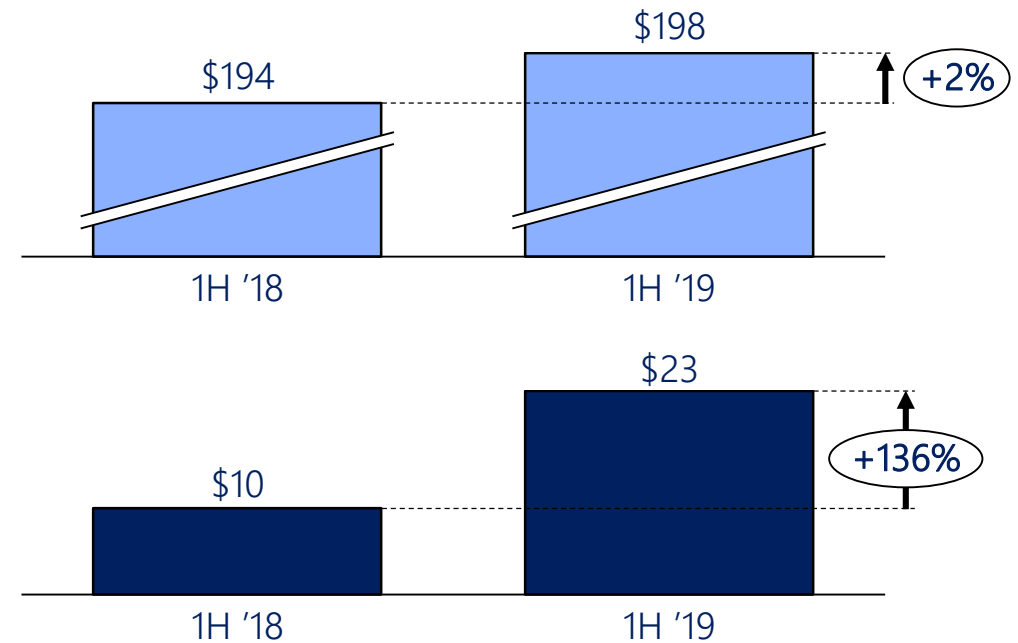
1Q 2019 vs. 2Q 2019

(USD\$ millions)



1H 2018 vs. 1H 2019

(USD\$ millions)

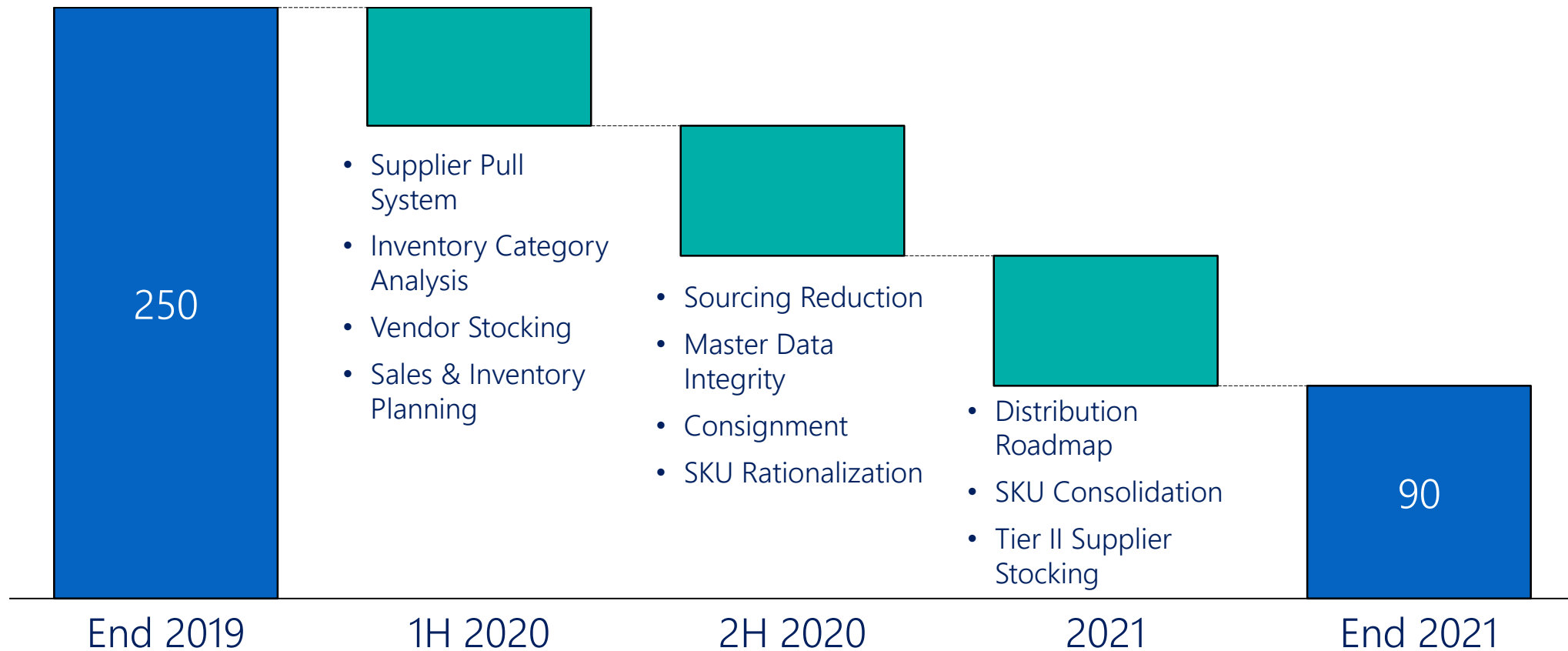


- Transformation on track – Achieved annualized savings of \$13 million in 1H '19, which was partially offset by employee compensation merit increases and partial restoration of prior salary rollback

Transformation Savings Favorably Impacting Profitability

# INVENTORY STRATEGY TO 2021

## Days Sales of Inventory



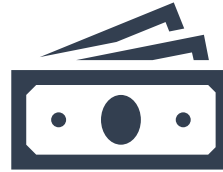
Putting the Tools in Place to Provide Significant Working Capital Reduction

# MAINTAINING CAPITAL DISCIPLINE



## Capital Expenditures

- 2019E capex of \$10-\$15 million
- Fund key projects & growth opportunities



## Share Repurchases

- New \$100 million share repurchase plan approved by Board in Q1 2019
- Repurchased \$2 million in 1H 2019 under new repurchase plan



## Acquisitions

- Smaller, tuck-in in nature
- Complementary, R&D-focused technologies

Liquidity in Place to Support Increased Activity

# PERFORMANCE TARGETS

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Bookings      2H '19E: \$75 - \$95 million per quarter

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Revenue      2H '19E: \$100 - \$110 million per quarter

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FY 2019E: \$400 - \$420 million

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Free Cash      Positive Full-Year Free Cash Flow

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Flow      FY 2019E Capex: \$10 - \$15 million

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***DRIL-QUIP***

Q&A

# NON-GAAP FINANCIAL MEASURES

## **Adjusted EBITDA:**

	<b>Three months ended</b>		<b>Six months ended</b>	
	<b>June 30, 2019</b>	<b>March 31, 2019</b>	<b>June 30, 2019</b>	<b>June 30, 2018</b>
	<b>(In thousands)</b>		<b>(In thousands)</b>	
Net Income (Loss)	\$ 1,681	\$ (6,051)	\$ (4,369)	\$ (10,421)
Add:				
Interest (income) expense	(2,680)	(1,885)	(4,565)	(3,725)
Income tax expense (benefit)	3,119	2,333	5,452	4,318
Depreciation and amortization expense	8,495	8,356	16,851	17,242
Restructuring costs, including severance	1,019	2,396	3,415	600
Gain on sale of assets	(1,190)	(13)	(1,203)	(5,099)
Foreign currency loss (gain)	(233)	(704)	(937)	(851)
Stock compensation expense	3,221	4,862	8,083	7,585
Adjusted EBITDA	<u>\$ 13,432</u>	<u>\$ 9,294</u>	<u>\$ 22,727</u>	<u>\$ 9,649</u>