

**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): February 27, 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 February 27, 2020, Dril-Quip, Inc. ("Dril-Quip") reported full year 2019 and fourth quarter 2019 earnings. For additional information regarding Dril-Quip's full year 2019 and fourth quarter 2019 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 February 27, 2020, Dril-Quip posted the Q4 2019 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:

<u>Exhibit No.</u>	<u>Description</u>
99.1	Press Release issued February 27, 2020.
99.2	Q4 2019 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/ Jeffrey J. Bird

Jeffrey J. Bird

Senior Vice President - Production Operations and
Chief Financial Officer

Date: February 27, 2020

Dril-Quip, Inc. Announces Fourth Quarter and Full Year 2019 Results

HOUSTON – February 27, 2020 / GlobeNewswire - Dril-Quip, Inc. (NYSE: DRQ) (the “Company” or “Dril-Quip”) today reported operational and financial results for the fourth quarter and full year 2019.

Key highlights included:

- Continued revenue growth with fourth quarter 2019 revenue of \$108.5 million and full year 2019 revenue of \$414.8 million, both at the high end of their respective guidance ranges;
- Increased product bookings to \$101 million in the fourth quarter of 2019 and to \$388 million for the full year of 2019 driven by additional growth in new technology product orders;
- Reported net income of \$7.4 million, or \$0.21 per diluted share, in the fourth quarter of 2019 and net income of \$1.7 million, or \$0.05 per diluted share, for the full year 2019;
- Generated net cash provided by operating activities of \$8.1 million in the fourth quarter of 2019 and \$14.7 million for the full year 2019; free cash flow totaled \$5.2 million in the fourth quarter of 2019 and \$3.2 million for the full year 2019;
- Grew Adjusted EBITDA to \$15.8 million in the fourth quarter of 2019 and to \$53.8 million for the full year of 2019, which was more than triple the amount reported in full year 2018;
- Completed cost saving initiatives by capturing additional annualized savings of approximately \$8 million in the fourth quarter with total cost savings captured at \$52 million exceeding the initial target of \$40 to \$50 million;
- Maintained a clean balance sheet with no debt and cash on hand of \$399 million as of December 31, 2019; and
- Repurchased over 615,000 common shares at an average price of \$43.12 for a total of \$26.6 million in 2019.

Blake DeBerry, Dril-Quip’s President and Chief Executive Officer, commented, “I am proud of the many achievements that we made in an improving, but still uncertain offshore energy environment over this past year. In the fourth quarter of 2019, we recorded revenue and product bookings at the high end of our

guidance and continued to benefit from realized cost savings captured through the transformation initiative. The fourth quarter of 2019 was the first time since 2014 that we achieved non-project product bookings above \$100 million. In addition, we continued to grow our Adjusted EBITDA to \$16 million in the fourth quarter and \$54 million for the full year of 2019. For the full year of 2019, we generated \$415 million in revenue, a year-over-year increase of 8%, but more importantly we grew Adjusted EBITDA by 209% in 2019 compared to 2018. This significant increase would not be possible without the \$30 million in realized cost savings in 2019. We continue to reduce costs, improve performance, execute operationally and deliver on our guidance.”

“The financial and operational gains we achieved were directly attributable to our ability to deliver on our ambitious business transformation launched in late 2018. This transformation targeted aggressive booking goals, penetration of our recently launched new products and ambitious cost reduction targets. I am pleased to announce that we made tremendous progress on all three of these targets. Our retooled commercial teams delivered increases in non-project product bookings year-over-year of 59%. The new products we developed over the past few years are starting to gain traction as 13% of our product bookings in 2019 came from new products. We initially announced a 2019 target of \$40 million to \$50 million of annualized cost savings focused on a new, more efficient, leaner operating model. Through the efforts of our global workforce, we were able to deliver annualized savings of \$52 million, above the high end of our expectations. We expect this new operating model will continue to yield positive momentum into 2020 through further gains in productivity. We generated \$3 million in free cash flow while strategically investing in inventory in 2019 to position us for growth in our subsea production systems and our downhole tools businesses in 2020. Our cash position continued to remain strong at over \$399 million at year-end 2019, and our balance sheet remains debt-free. We worked hard executing on our business transformation and remained focused on achieving our strategic goals while operating efficiently through this downturn.”

“As we look to 2020 and beyond, Dril-Quip is well-positioned operationally to support increasing order activity with a more efficient overall cost structure and improving margins. We entered 2020 with strong momentum and a belief that growth would continue but we currently are not giving full year guidance for revenues or bookings until there is better line of sight on global demand because of the developing impact

of the Coronavirus. As a result of temporary disruptions in our Singapore operations due to travel restrictions and quarantine, we are forecasting revenue for the first quarter of 2020 to be between \$95 million and \$105 million. We are proactively ramping up production in our facilities outside of the Asia Pacific region to mute further effect of these temporary disruptions. Despite the impact to revenue, we remain encouraged that our product bookings estimate for the first quarter is unchanged, ranging between \$85 million and \$105 million.

"We will continue to leverage our technologically innovative products, strong balance sheet and customer focused approach to provide the equipment and support to meet the changing needs of the global market. In addition, we remain keenly focused on continuing to optimize our operational performance while delivering profitable growth."

In conjunction with today's release, the Company posted a new investor presentation entitled "Fourth Quarter and Full Year 2019 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 fourth quarter of 2019 was \$108.5 million, slightly higher compared with the \$108.2 million in the third quarter of 2019. Revenues for the fourth quarter of 2019 were at the high end of the Company's guidance range of \$100 to \$110 million primarily due to an increase in fabricated joint revenues. For the full year 2019, revenue was \$414.8 million, a year-over-year increase of \$30.2 million, or 8%, driven by an increase primarily in subsea trees, fabricated joints and connectors, partially offset by lower lease revenues year-over-year.

Western Hemisphere revenue increased by approximately \$5 million, or 8%, during the fourth quarter of 2019 compared to the third quarter due to increased product and aftermarket revenue. Eastern Hemisphere revenue decreased by approximately \$4 million, or 14%, as compared to the prior quarter due to lower product sales partially offset by higher fabricated joint work. Asia-Pacific revenue was flat sequentially.

Gross operating margin for the fourth quarter of 2019 was 30%, in line with the third quarter of 2019. For the full year of 2019, gross operating margin was 29%, which was up from 24% in the full year of 2018, driven by the improvements captured in the costs saving initiatives.

Cost of sales for the fourth quarter of 2019 was \$75.7 million, a slight decrease of \$0.3 million compared to the prior quarter. For the full year of 2019, cost of sales was \$295 million, an increase of \$1.4 million, or 0.5%, compared to full year 2018 cost of sales of \$293.6 million.

Selling, General and Administrative Expenses

Selling, general and administrative ("SG&A") expenses for the fourth quarter of 2019 were \$21.4 million, a reduction of \$6.6 million compared to third quarter of 2019, primarily due to lower stock compensation expense. For full year 2019, SG&A expenses decreased by approximately \$4.3 million, or 4.3%, to \$96.8 million from \$101.1 million in 2018. The year-over-year reduction was primarily due to continued progress in the Company's transformation efforts, partially offset by the return to more normalized annual merit increases for our employees. SG&A expenses as a percentage of revenues decreased to 23.3% for the year ended December 31, 2019, down from 26.3% for 2018.

Net Income, Adjusted EBITDA and Free Cash Flow

For the fourth quarter of 2019, Dril-Quip reported net income of \$7.4 million, or \$0.21 per diluted share, compared to a net loss of \$1.3 million, or \$0.04 per diluted share, in the third quarter of 2019. Adjusted net income for the fourth quarter was \$8.1 million, or \$0.23 per diluted share, after excluding \$0.02 per share related to restructuring charges, gains related to foreign currency, the sale of assets, and other items. For the full year 2019, Dril-Quip reported net income of \$1.7 million, or \$0.05 per diluted share, compared to a net loss of \$95.7 million, or \$2.58 per diluted share, in 2018. Adjusted net income for the full year 2019 was \$2.7 million, or \$0.08 per diluted share, compared with an adjusted net loss of \$23.5 million, or \$0.63 per diluted share, in calendar 2018.

Adjusted EBITDA totaled \$15.8 million for the fourth quarter of 2019, compared to \$15.3 million in the third quarter of 2019. For the full year 2019, Dril-Quip generated Adjusted EBITDA of \$53.8 million compared to Adjusted EBITDA of \$17.4 million for 2018, an increase of 209% year-over-year, driven by realized cost savings and increased revenues.

Free cash flow for the fourth quarter of 2019 totaled \$5.2 million, as compared to negative \$8 million generated in the third quarter of 2019. For the full year 2019, free cash flow totaled \$3.2 million compared with \$13.4 million in 2018. This decline was driven largely by higher activity and the Company's strategic stocking program.

Cost Saving Initiatives

In 2018, Dril-Quip began the implementation of a full business transformation centered around a structured approach to improve cost performance across the entire Company. The sustainable cost-saving initiatives are focused on optimizing and improving the Company's infrastructure across manufacturing, supply chain, SG&A, engineering and research and development. This reorganization will allow Dril-Quip to maintain its global presence in key markets, while supporting an integrated supply chain model which will create more flexibility in meeting the needs of its customers. The original goal was to achieve annualized savings in place by year-end 2019 of approximately \$40 to \$50 million.

At the end of the fourth quarter of 2019, Dril-Quip had completed the initial phase of the cost saving initiatives with \$52 million in annualized savings achieved. Some examples of the progress made over the past 18 months include reducing and rationalizing global footprints, optimizing operational activities, supplier renegotiations and workforce reductions. Looking forward, the Company will leverage the skills gained during this transformation to focus on additional productivity initiatives that are longer-term in nature and will continue to add value in 2020 and beyond.

Balance Sheet

Dril-Quip's cash on hand as of December 31, 2019 was \$399 million, which together with amounts available under the asset-based lending (ABL) facility resulted in approximately \$432 million of available liquidity. This robust liquidity position provides both financial and operational flexibility and allows the Company to continue to execute on its long-term strategy of investing in research and development, supporting a market upturn, opportunistically returning cash to shareholders and pursuing strategic acquisitions.

Share Repurchases

On February 26, 2019, the Board of Directors authorized a share repurchase plan under which the Company could repurchase up to \$100 million of its common stock. The repurchase plan has no set expiration date and any repurchased shares are expected to be cancelled. The manner, timing and amount of any purchase will be determined by management based on an evaluation of market conditions, stock price, liquidity and other factors. The program does not obligate the Company to acquire any particular amount of common stock and may be modified or superseded at any time at the Company's discretion.

For the three-month period ended December 31, 2019, the Company purchased 490,052 shares under the share repurchase plan at an average price of approximately \$43.25 per share, totaling approximately \$21.2 million and retired such shares. For the full year 2019, the Company purchased 615,940 shares under the share repurchase plan at an average price of \$43.12 per share, totaling approximately \$26.6 million. The Company continues to evaluate current market conditions on an ongoing basis as it relates to executing its share buyback program while also taking the liquidity needs of the Company into consideration.

Conference Call

As previously announced, the Company will hold a conference call to discuss its 2019 results and 2020 outlook tomorrow, Friday, February 28, 2020, at 9:00 a.m. Central Time (10:00 a.m. Eastern Time). Interested parties may participate by dialing (877) 317-6789 (domestic) or (412) 317-6789 (international) and asking to be connected to the Dril-Quip year-end 2019 conference call. The call will also be webcast and will be available on Dril-Quip's website at www.dril-quip.com on the "Events and Presentations" page under the "Investors" tab. An audio replay of the call will be available on Dril-Quip's website approximately 2 hours following its conclusion.

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 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 volatility of oil and natural gas prices and cyclical nature of 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, Adjusted Diluted EPS, Free Cash Flow, and Adjusted EBITDA 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.

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 its 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, Adjusted EBITDA and Free Cash Flow do not represent funds available for 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.

SOURCE: Dril-Quip, Inc.

Raj Kumar, Vice President Finance and Chief Accounting Officer, (713) 939-7711

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

	Three months ended		Twelve months ended	
	December 31, 2019	September 30, 2019	December 31, 2019	December 31, 2018
	(In thousands, except per share data)			
Revenues:				
Products	\$ 78,762	\$ 81,851	\$ 303,279	\$ 265,052
Services	19,082	17,884	72,018	72,414
Leasing	10,610	8,492	39,509	47,160
Total revenues	108,454	108,227	414,806	384,626
Costs and expenses:				
Cost of sales	75,741	76,023	295,007	293,573
Selling, general and administrative	21,444	27,962	96,782	101,090
Engineering and product development	4,798	3,754	17,329	20,297
Impairment, restructuring and other charges	435	546	4,396	98,602
Gain on sale of assets	(28)	(280)	(1,511)	(6,198)
Total costs and expenses	102,390	108,005	412,003	507,364
Operating income (loss)	6,064	222	2,803	(122,738)
Interest income	1,347	1,906	7,940	8,040
Interest expense	(166)	(26)	(314)	(291)
Income tax provision (benefit)	(155)	3,412	8,709	(19,294)
Net income (loss)	\$ 7,400	\$ (1,310)	\$ 1,720	\$ (95,695)
Earnings (loss) per share:				
Basic	\$ 0.21	\$ (0.04)	\$ 0.05	\$ (2.58)
Diluted	\$ 0.21	\$ (0.04)	\$ 0.05	\$ (2.58)
Depreciation and amortization	\$ 8,865	\$ 8,304	\$ 34,020	\$ 35,312
Capital expenditures	\$ 2,881	\$ 4,022	\$ 11,501	\$ 32,061
Weighted Average Shares Outstanding:				
Basic	35,873	35,559	35,839	37,075
Diluted	36,101	35,559	36,152	37,075

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

	December 31, 2019	September 30, 2019	December 31, 2018
	(In thousands)		
Assets:			
Cash and cash equivalents	\$ 398,946	\$ 413,102	\$ 418,100
Other current assets	481,543	465,617	434,881
PP&E, net	258,497	259,423	274,123
Other assets	67,579	67,493	65,406
Total assets	\$ 1,206,565	\$ 1,205,635	\$ 1,192,510
Liabilities and Equity:			
Current liabilities	\$ 96,940	\$ 96,533	\$ 81,539
Deferred income taxes	4,150	2,259	2,466
Other long-term liabilities	14,774	14,171	12,343
Total liabilities	115,864	112,963	96,348
Total stockholders equity	1,090,701	1,092,672	1,096,162
Total liabilities and equity	\$ 1,206,565	\$ 1,205,635	\$ 1,192,510

Dril-Quip, Inc.
Unaudited Non-GAAP Financial Measures

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

<u>Adjusted Net Income and EPS:</u>	<u>Three months ended</u>					
	<u>December 31, 2019</u>		<u>September 30, 2019</u>		<u>December 31, 2018</u>	
	<u>Effect on net income (after-tax)</u>	<u>Impact on diluted earnings per share</u>	<u>Effect on net income (after-tax)</u>	<u>Impact on diluted earnings per share</u>	<u>Effect on net income (after-tax)</u>	<u>Impact on diluted earnings per share</u>
	(In thousands, except per share amounts)					
Net income (loss)	\$ 7,400	\$ 0.21	\$ (1,310)	\$ (0.04)	\$ (74,912)	\$ (2.09)
Adjustments (after tax):						
Reverse the effect of foreign currency	355	0.01	(903)	(0.03)	(156)	—
Add back impairment and other charges	—	—	—	—	67,569	1.88
Restructuring costs, including severance	344	0.01	432	0.01	6,894	0.19
Gain on sale of assets	(22)	—	(221)	(0.01)	(857)	(0.02)
Adjusted net income (loss)	<u>\$ 8,077</u>	<u>\$ 0.23</u>	<u>\$ (2,002)</u>	<u>\$ (0.07)</u>	<u>\$ (1,462)</u>	<u>\$ (0.04)</u>

<u>Adjusted Net Income and EPS:</u>	<u>Twelve months ended December 31,</u>					
	<u>2019</u>		<u>2018</u>		<u>2017</u>	
	<u>Effect on net income (after-tax)</u>	<u>Impact on diluted earnings per share</u>	<u>Effect on net income (after-tax)</u>	<u>Impact on diluted earnings per share</u>	<u>Effect on net income (after-tax)</u>	<u>Impact on diluted earnings per share</u>
	(In thousands, except per share amounts)					
Net income (loss)	\$ 1,720	\$ 0.05	\$ (95,695)	\$ (2.58)	\$ (100,639)	\$ (2.69)
Adjustments (after tax):						
Reverse the effect of foreign currency	(1,287)	(0.04)	(796)	(0.02)	6,733	0.18
Add back impairment and other charges	—	—	67,569	1.82	39,629	1.06
Less one-time tax adjustments	—	—	—	—	60,547	1.62
Restructuring costs, including severance	3,473	0.10	10,326	0.28	3,548	0.09
Gain on sale of assets	(1,194)	(0.03)	(4,896)	(0.13)	—	—
Adjusted net income (loss)	<u>\$ 2,712</u>	<u>\$ 0.08</u>	<u>\$ (23,491)</u>	<u>\$ (0.63)</u>	<u>\$ 9,818</u>	<u>\$ 0.26</u>

Reconciliation of Net Income (Loss) to Adjusted EBITDA

Adjusted EBITDA:	Three months ended		
	December 31, 2019	September 30, 2019	December 31, 2018
	(In thousands)		
Net income (loss)	\$ 7,400	\$ (1,310)	\$ (74,912)
Add:			
Interest (income) expense	(1,181)	(1,880)	(2,329)
Income tax expense (benefit)	(155)	3,412	(21,585)
Depreciation and amortization expense	8,865	8,304	9,346
Restructuring costs, including severance	435	546	8,726
Long-lived asset, inventory and goodwill impairments			85,531
Gain on sale of assets	(28)	(280)	(1,085)
Foreign currency loss (gain)	449	(1,143)	(197)
Stock compensation expense	(25)	7,663	3,509
Adjusted EBITDA	\$ 15,760	\$ 15,312	\$ 7,004
Adjusted EBITDA:	Year ended		
	December 31, 2019	December 31, 2018	December 31, 2017
	(In thousands)		
Net income (loss)	\$ 1,720	\$ (95,695)	\$ (100,639)
Add:			
Interest income, (net)	(7,626)	(7,749)	(3,492)
Income tax expense (benefit)	8,709	(19,294)	34,995
Depreciation and amortization expense	34,020	35,312	40,974
Restructuring costs, including severance	4,396	13,071	5,170
Long-lived asset, inventory and goodwill impairments		85,531	60,968
Gain on sale of assets	(1,511)	(6,198)	—
Foreign currency loss (gain)	(1,630)	(1,007)	8,292
Stock compensation expense	15,721	13,459	14,270
Adjusted EBITDA	\$ 53,799	\$ 17,430	\$ 60,538

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

Free Cash Flow:	Three months ended		
	December 31, 2019	September 30, 2019	December 31, 2018
	(In thousands)		
Net cash provided by operating activities	\$ 8,054	\$ (4,026)	\$ 12,896
Less:			
Purchase of property, plant and equipment	(2,881)	(4,022)	(6,394)
Free cash flow	<u>\$ 5,173</u>	<u>\$ (8,048)</u>	<u>\$ 6,502</u>
 Free Cash Flow:			
	Year ended December 31,		
	2019	2018	2017
	(In thousands)		
Net cash provided by operating activities	\$ 14,678	\$ 45,503	\$ 107,993
Less:			
Purchase of property, plant and equipment	(11,501)	(32,061)	(27,622)
Free cash flow	<u>\$ 3,177</u>	<u>\$ 13,442</u>	<u>\$ 80,371</u>

DRIL-QUIP

FOURTH QUARTER AND FULL YEAR 2019 SUPPLEMENTAL EARNINGS INFORMATION

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, 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

EBITDA, 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. EBITDA is defined as net income excluding income taxes, interest income and expense, and depreciation and amortization expense. 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 and 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 Products & First-class Service



Strong Financial Position



Historically Superior Margins to Peers



Results Driven Management Team

PRODUCTS & SERVICES

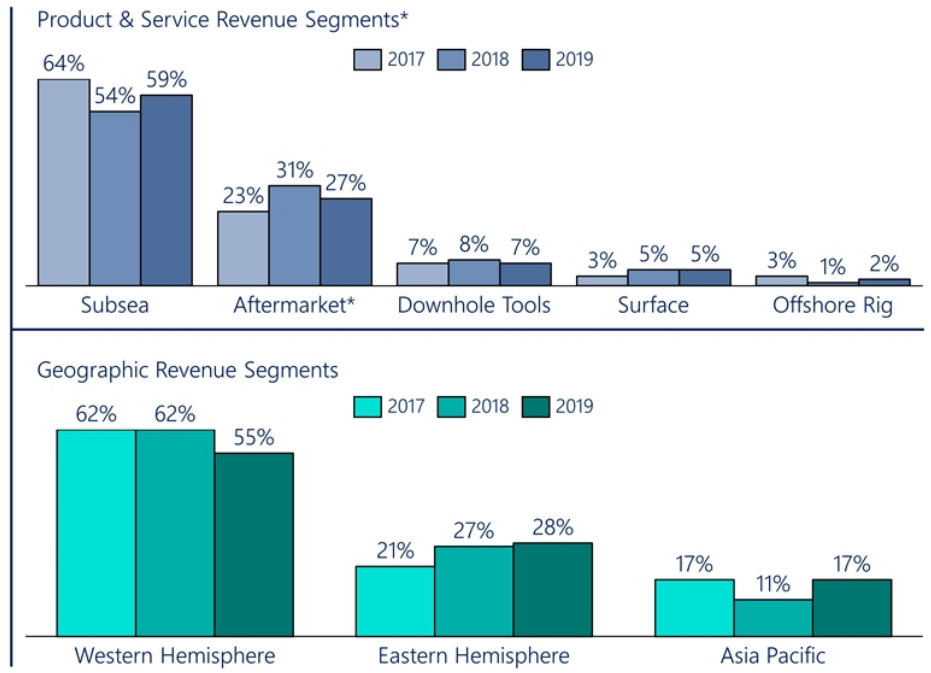
SUBSEA EQUIPMENT

SURFACE EQUIPMENT

DOWNHOLE TOOLS

OFFSHORE RIG EQUIPMENT

AFTERMARKET SERVICES



*Aftermarket revenue includes both Services and Leasing revenue

Q4 2019 HIGHLIGHTS

- Continued revenue growth to \$109 million at the high end of guidance range
- Increased product bookings to \$101 million, 1st time since Q4 2014 with non-project product bookings above \$100 million
- Reported net income of \$7 million, or \$0.21 per diluted share
- Grew Adjusted EBITDA to \$16 million
- Generated net cash provided by operating activities of \$8 million and free cash flow of \$5 million
- Captured additional annualized cost savings of ~\$8 million, mostly from supply chain

2019 ACCOMPLISHMENTS

- Grew revenue to \$415 million, an increase of 8% YoY, and at the high end of guidance
- Increased product bookings to \$388 million, up 59% YoY, driven by sales transformation which resulted in additional growth in new technology product orders
- Grew Adjusted EBITDA to \$54 million, more than double compared to 2018
- Generated net cash provided by operating activities of \$15 million and free cash flow of \$3 million
- Completed cost saving initiatives, resulting in total annualized cost savings of \$52 million, exceeding the initial target of \$40 to \$50 million
- Maintained clean balance sheet with no debt and cash on hand of \$399 million as of 12/31/2019
- Repurchased over 615,000 common shares at an average price of \$43.12 for a total of \$26.6 million

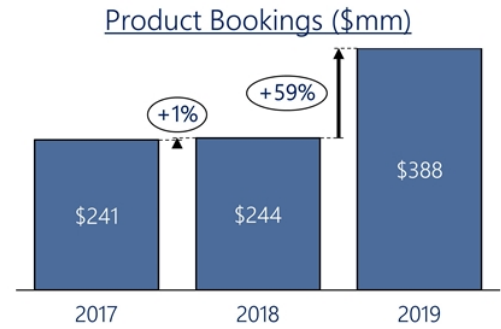
MARKET UPDATE

- Backlog of \$272 million as of 12/31/2019 after recording \$101 million of product bookings in Q4 and \$388 million in FY 2019
- Forecasting Q1 2020 product bookings to be \$85 - \$105 million
- New technology product bookings grew in 2019 to ~13% of total product bookings, or \$51 million, as compared to \$15 million in 2018
- Doubled target Subsea Production Systems (SPS) market as a result of focused R&D efforts on subsea trees

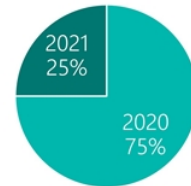


SALES TRANSFORMATION IMPROVED 2019 BOOKINGS

- Redesign of Sales and Marketing organization
- Commercialization of research & development
- Received 1st order for BB-IIe™ wellhead system specifying the DXe™ profile
- Connector profile licensed to three large peers
- Received 1st order for high strength, high fatigue Badger™ Connector



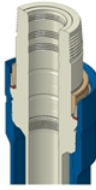
Estimated Backlog Conversion to Revenue as of Q4 '19



Transformation of Sales Organization Yielding Tangible Benefits

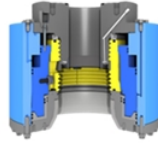
R&D KEY TO CONTINUED BOOKINGS IMPROVEMENT

- 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

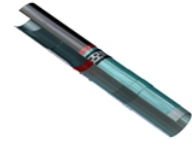


DXe Wellhead
Connector

Spotlight™
on new
TECHNOLOGY
2017



Concentric
Monobore &
HorizontalBore



Double Expansion
XPAK Liner Hanger

Spotlight™
on new
TECHNOLOGY
2019

Investing Incremental ~\$8 Million Annually in R&D; ~\$28 Million Full Year

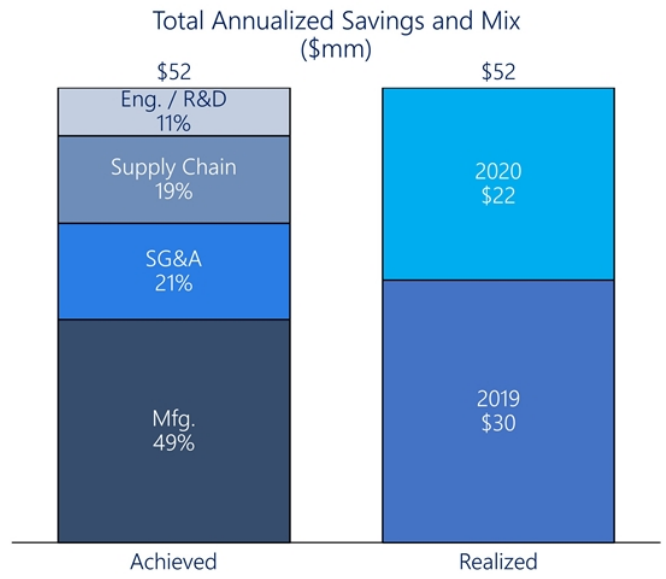
DEEPENING MARKET PENETRATION

	Expanding Scope with Existing Customers	New Customer Relationships
SPS	   	  
Wellheads	 	      
Connectors	  	     

Focused Sales Efforts Resulting in Increased Scope and Customer Mix

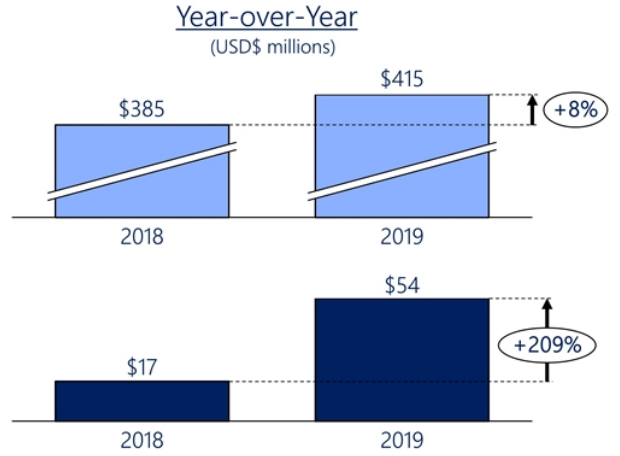
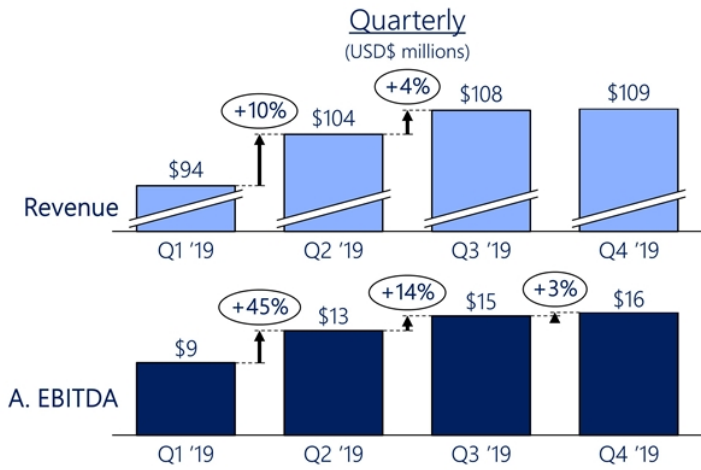
OPERATIONAL TRANSFORMATION & LEAN IMPLEMENTATION

- Footprint rationalization
- Integrated supply chain
- LEAN as a way of doing business
- Leads to continuous EBITDA improvement



Transformation Complete, Savings Captured, Operating Model Now Part of DNA

ADJUSTED EBITDA PROGRESSION



- Q4 '19 favorable incrementals muted by negative mix

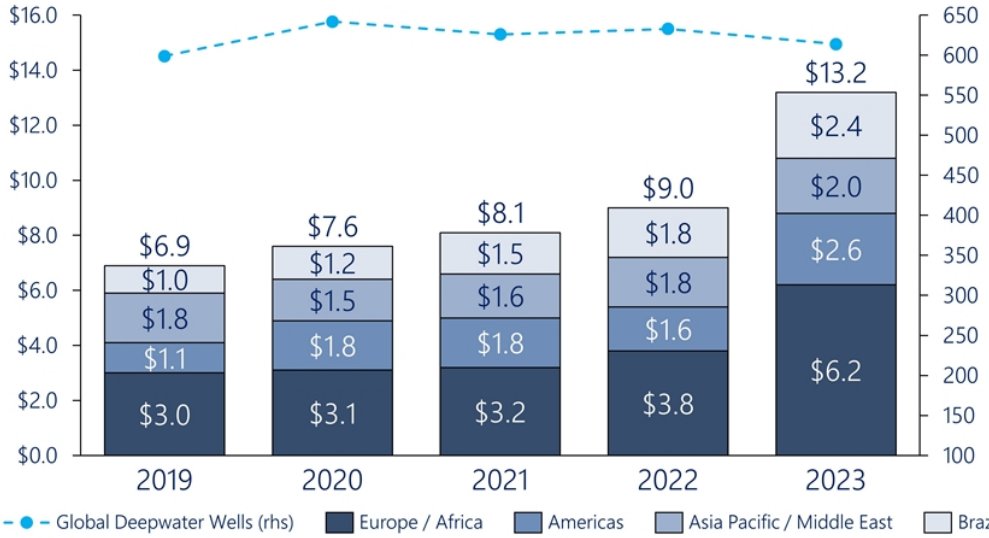
Transformation Savings Meaningfully Enhancing Profitability

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

IMPROVING OUTLOOK FOR SUBSEA INVESTMENT

Subsea Equipment Spend (\$bn)

Deepwater Wells



2019 – 2023 CAGR	
Americas (excl. Brazil)	24%
Europe / Africa	20%
Asia Pac. / Middle East	3%
Brazil	24%
Total (excl. Brazil)	16%

Optimizing Product Portfolio to Capture Increased Well Spend

Source: Rystad Energy

WORKING CAPITAL FOCUS

Focus Area	Targeted Improvement
Increase Customer Milestone Payments	DSO: 15 – 20 Days
Improve Vendor Payment Terms	DPO: 10 – 15 Days
Reduce Inventory	DSI: 20 – 25 Days
Cash Conversion Cycle	CCC: 45 – 60 Days

Putting the Tools in Place to Improve Free Cash Flow

LOOKING FORWARD

Est. Q1 2020 Revenue:
\$95 - \$105 million

Est. Q1 2020 Product
Bookings:
\$85 - \$105 million

Est. SG&A of ~\$100
million in 2020

Projecting Positive
Annual Free Cash Flow
in 2020

Productivity Driving
Adj. EBITDA Growth

Maintaining Capital
Discipline, While
Investing in R&D for
Future Growth

APPENDIX

dril-quip.com | NYSE: DRQ

INCOME STATEMENT

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

	Three months ended		Twelve months ended	
	December 31, 2019	September 30, 2019	December 31, 2019	December 31, 2018
(In thousands, except per share data)				
Revenues:				
Products	\$ 78,762	\$ 81,851	\$ 303,279	\$ 265,052
Services	19,082	17,884	72,018	72,414
Leasing	10,610	8,492	39,509	47,160
Total revenues	108,454	108,227	414,806	384,626
Costs and expenses:				
Cost of sales	75,741	76,023	295,007	293,573
Selling, general and administrative	21,444	27,962	96,782	101,090
Engineering and product development	4,798	3,754	17,329	20,297
Impairment, restructuring and other charges	435	546	4,396	98,602
Gain on sale of assets	(28)	(280)	(1,511)	(6,198)
Total costs and expenses	102,390	108,005	412,003	507,364
Operating income (loss)	6,064	222	2,803	(122,738)
Interest income	1,347	1,906	7,940	8,040
Interest expense	(166)	(26)	(314)	(291)
Income tax provision (benefit)	(155)	3,412	8,709	(19,294)
Net income (loss)	\$ 7,400	\$ (1,310)	\$ 1,720	\$ (95,695)
Earnings (loss) per share:				
Basic	\$ 0.21	\$ (0.04)	\$ 0.05	\$ (2.58)
Diluted	\$ 0.21	\$ (0.04)	\$ 0.05	\$ (2.58)
Depreciation and amortization	\$ 8,865	\$ 8,304	\$ 34,020	\$ 35,312
Capital expenditures	\$ 2,881	\$ 4,022	\$ 11,501	\$ 32,061
Weighted Average Shares Outstanding:				
Basic	35,873	35,559	35,839	37,075
Diluted	36,101	35,559	36,152	37,075

BALANCE SHEET

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

	<u>December 31, 2019</u>	<u>September 30, 2019</u>	<u>December 31, 2018</u>
(In thousands)			
Assets:			
Cash and cash equivalents	\$ 398,946	\$ 413,102	\$ 418,100
Other current assets	481,543	465,617	434,881
PP&E, net	258,497	259,423	274,123
Other assets	67,579	67,493	65,406
Total assets	\$ 1,206,565	\$ 1,205,635	\$ 1,192,510
Liabilities and Equity:			
Current liabilities	\$ 96,940	\$ 96,533	\$ 81,539
Deferred income taxes	4,150	2,259	2,466
Other long-term liabilities	14,774	14,171	12,343
Total liabilities	115,864	112,963	96,348
Total stockholders equity	1,090,701	1,092,672	1,096,162
Total liabilities and equity	\$ 1,206,565	\$ 1,205,635	\$ 1,192,510

NON-GAAP FINANCIAL MEASURES

Adjusted Net Income and EPS:

	December 31, 2019		Three months ended September 30, 2019		December 31, 2018	
	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)	\$ 7,400	\$ 0.21	\$ (1,310)	\$ (0.04)	\$ (74,912)	\$ (2.09)
Adjustments (after tax):						
Reverse the effect of foreign currency	355	0.01	(903)	(0.03)	(156)	-
Add back impairment and other charges	-	-	-	-	67,569	1.88
Restructuring costs, including severance	344	0.01	432	0.01	6,894	0.19
Gain on sale of assets	(22)	-	(221)	(0.01)	(857)	(0.02)
Adjusted net income (loss)	\$ 8,077	\$ 0.23	\$ (2,002)	\$ (0.07)	\$ (1,462)	\$ (0.04)

Adjusted Net Income and EPS:

	2019		Twelve months ended December 31, 2018		2017	
	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)	\$ 1,720	\$ 0.05	\$ (95,695)	\$ (2.58)	\$ (100,639)	\$ (2.69)
Adjustments (after tax):						
Reverse the effect of foreign currency	(1,287)	(0.04)	(796)	(0.02)	6,733	0.18
Add back impairment and other charges	-	-	67,569	1.82	39,629	1.06
Less one-time tax adjustments	-	-	-	-	60,547	1.62
Restructuring costs, including severance	3,473	0.10	10,326	0.28	3,548	0.09
Gain on sale of assets	(1,194)	(0.03)	(4,896)	(0.13)	-	-
Adjusted net income (loss)	\$ 2,712	\$ 0.08	\$ (23,491)	\$ (0.63)	\$ 9,818	\$ 0.26

NON-GAAP FINANCIAL MEASURES

Adjusted EBITDA:	Three months ended		
	December 31, 2019	September 30, 2019	December 31, 2018
	(In thousands)		
Net income (loss)	\$ 7,400	\$ (1,310)	\$ (74,912)
Add:			
Interest (income) expense	(1,181)	(1,880)	(2,329)
Income tax expense (benefit)	(155)	3,412	(21,585)
Depreciation and amortization expense	8,865	8,304	9,346
Restructuring costs, including severance	435	546	8,726
Long-lived asset, inventory and goodwill impairments			85,531
Gain on sale of assets	(28)	(280)	(1,085)
Foreign currency loss (gain)	449	(1,143)	(197)
Stock compensation expense	(25)	7,663	3,509
Adjusted EBITDA	\$ 15,760	\$ 15,312	\$ 7,004

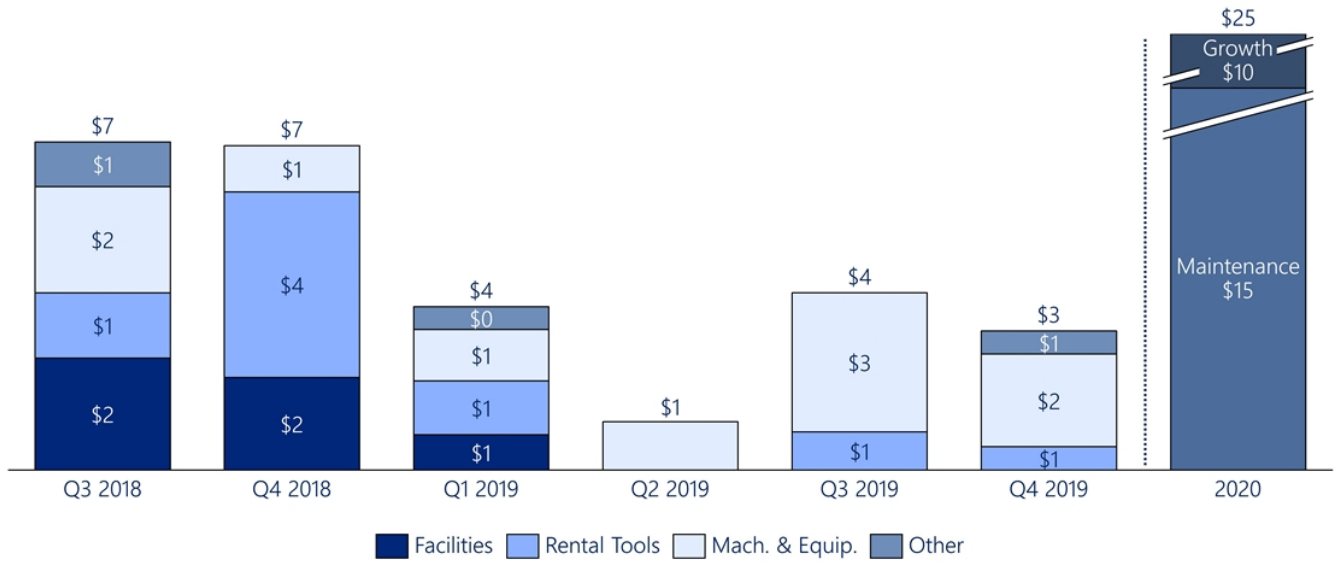
Adjusted EBITDA:	Year ended		
	December 31, 2019	December 31, 2018	December 31, 2017
	(In thousands)		
Net income (loss)	\$ 1,720	\$ (95,695)	\$ (100,639)
Add:			
Interest (income) expense	(7,626)	(7,749)	(3,492)
Income tax expense (benefit)	8,709	(19,294)	34,995
Depreciation and amortization expense	34,020	35,312	40,974
Restructuring costs, including severance	4,396	13,071	5,170
Long-lived asset, inventory and goodwill impairments		85,531	60,968
Gain on sale of assets	(1,511)	(6,198)	-
Foreign currency loss (gain)	(1,630)	(1,007)	8,292
Stock compensation expense	15,721	13,459	14,270
Adjusted EBITDA	\$ 53,799	\$ 17,430	\$ 60,538

NON-GAAP FINANCIAL MEASURES

Free Cash Flow:	Three months ended		
	December 31, 2019	September 30, 2019	December 31, 2018
	(In thousands)		
Net cash provided by operating activities	\$ 8,054	\$ (4,026)	\$ 12,896
Less:			
Purchase of property, plant and equipment	(2,881)	(4,022)	(6,394)
Free cash flow	\$ 5,173	\$ (8,048)	\$ 6,502

Free Cash Flow:	Year ended December 31,		
	2019	2018	2017
	(In thousands)		
Net cash provided by operating activities	\$ 14,678	\$ 45,503	\$ 107,993
Less:			
Purchase of property, plant and equipment	(11,501)	(32,061)	(27,622)
Free cash flow	\$ 3,177	\$ 13,442	\$ 80,371

CAPITAL EXPENDITURES



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

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

NYSE: DRQ

MARKET INFORMATION

Ticker	NYSE: DRQ
Share Price (at close: 2/26/20)	\$ 35.05
52-Week Range	\$33.22 - \$56.71
YTD Return	-25.3%
Shares Outstanding @ 12/31/19 (mm)	35.9
Market Cap (\$mm)	\$ 1,258
Enterprise Value (\$mm)	\$ 859

BALANCE SHEET METRICS (@ 12/31/19) (\$MM)

Non-cash Working Capital	\$ 385
Book Value / Share	\$ 30.38
Cash / Share	\$ 11.11
Non-cash WC / Share	\$ 10.71
Total Debt / Capitalization	0%
Total Share Repurchases in 2019	\$ 26.6



FINANCIAL METRIC DEFINITIONS

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