

DRIL-QUIP

FIRST QUARTER 2020 SUPPLEMENTAL EARNINGS INFORMATION

CAUTIONARY STATEMENT

Forward-Looking Statements

The information furnished in this presentation contains “forward-looking statements” within the meaning of the federal securities laws. Forward-looking statements include the effects of the COVID-19 pandemic, 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

EBITDA, Adjusted EBITDA and Free Cash Flow are non-GAAP measures. EBITDA is defined as net income excluding income taxes, interest income and expense, 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 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

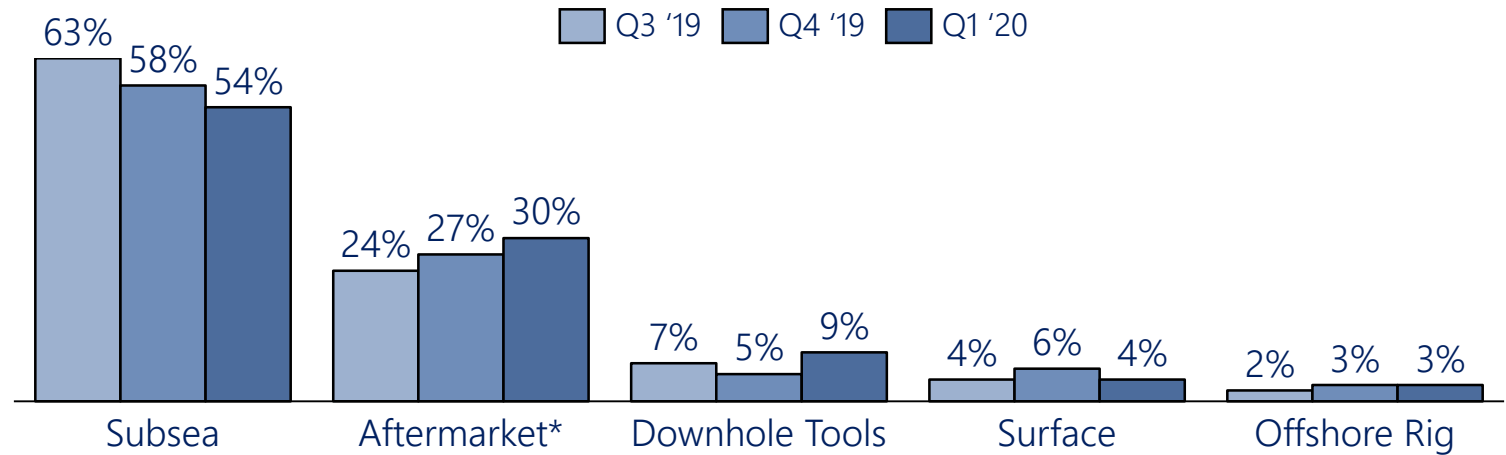
SURFACE EQUIPMENT

DOWNHOLE TOOLS

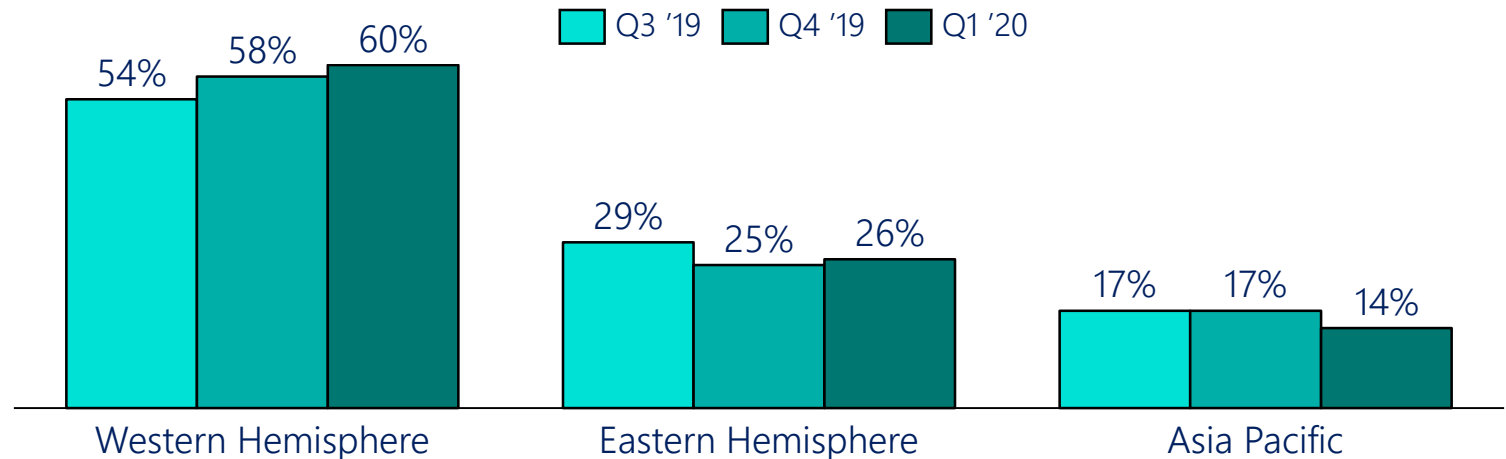
OFFSHORE RIG EQUIPMENT

AFTERMARKET SERVICES

Product & Service Revenue Segments*



Geographic Revenue Segments



*Aftermarket revenue includes both Services and Leasing revenue

Q1 2020 HIGHLIGHTS

- Delivered \$96.0 million of revenue, despite lower product volumes and services primarily from COVID-19 related impacts
- Reported net loss of \$19.7 million, or \$0.55 per share, driven by \$40.4 million of impairments, restructuring and other charges, partially offset by a \$21.6 million income tax benefit
- Generated adjusted EBITDA of \$6.5 million, or 6.7% of revenue
- Announced action plan for an additional \$20 million in annualized cost savings, of which \$10 million is expected to be realized in the second half of 2020
- Maintained strong balance sheet with cash on hand of \$343.5 million and no debt
- Net cash used by operating activities of \$21.2 million and Free Cash Flow of negative \$25.4 million, inclusive of \$4.2 million of capital expenditures, driven primarily by slower collections late in Q1 2020
- Repurchased approximately \$25.0 million or 800,000 of Company shares in Q1 2020
- Presented with a "Spotlight on New Technology Award" by the 2020 Offshore Technology Conference for the VXTe™ vertical subsea tree system

COVID-19 AND OPEC+ IMPACTS

- Global economic slowdown combined with oversupply of oil and gas production leading to a projected 30-50% decline in 2020 customer capital spending
- Rapidly changing environment has caused customers to put investment decisions on hold and pushed out delivery of existing projects in backlog
- Social distancing, staggered shifts and quarantine measures are driving lower productivity and resulting in product and service delivery delays
- Supply chain bottlenecks are resulting in slightly higher freight expense, raw material procurement delays
- Slow down in collections of receivables and other day-to-day business interactions due to adjustment to remote working arrangements

RAPID RESPONSE TO COVID-19 AND OPEC+

Executed Immediate Cost Containment

Hiring freeze, compensation curtailment, elimination of discretionary spending

Implemented Business Continuity Plan

Staggered manufacturing shifts, self-quarantine of service personnel between jobs, working remotely

Ensuring Customer Orders Are Fulfilled

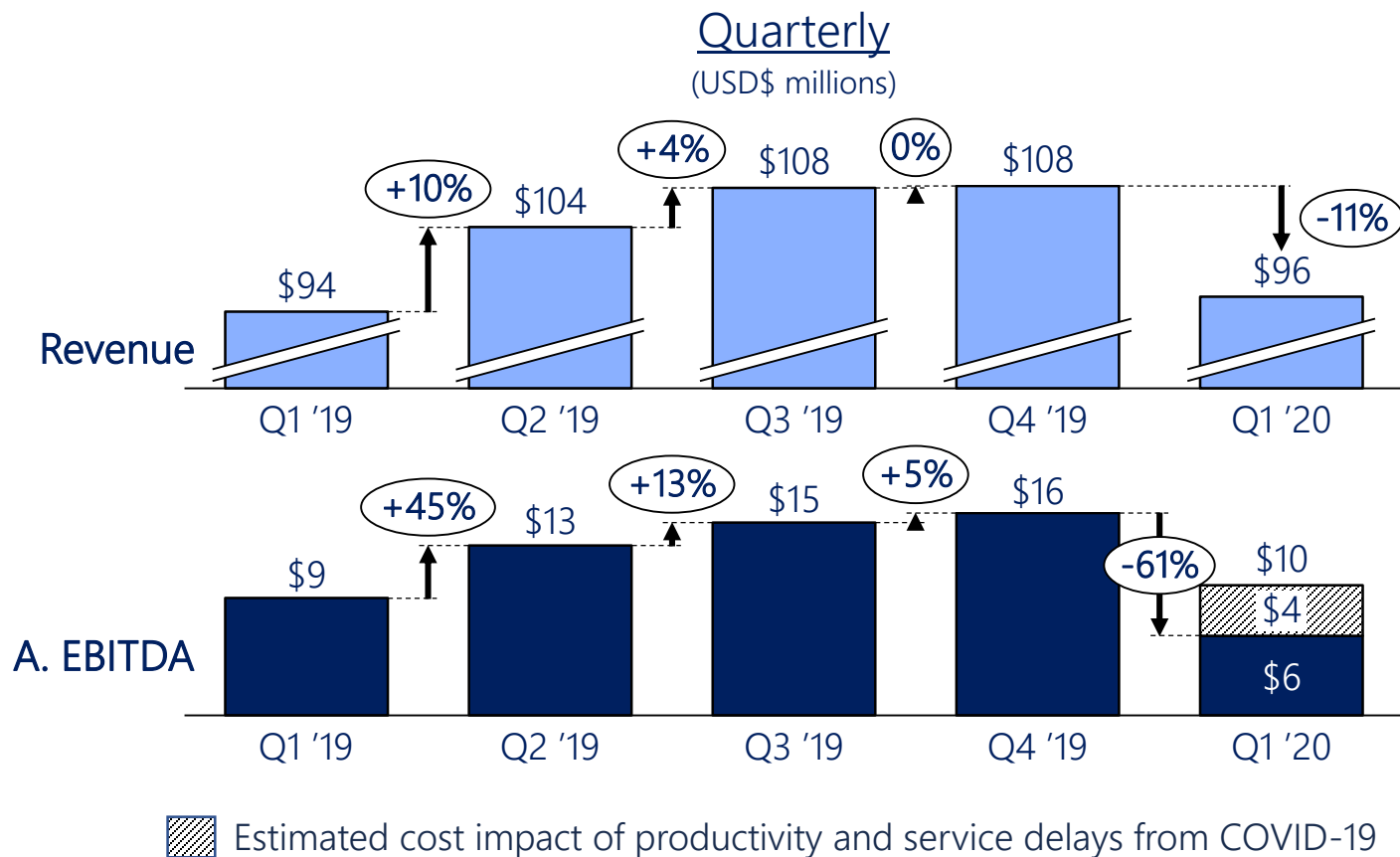
Initiated planning for the potential of longer lead times on materials and third party service; maintaining service technician support

Reduced R&D and Cut Non-essential Capital Expenditures

Eliminated incremental R&D spend, reduced CAPEX to maintenance levels

Focused on employee safety, customer needs and controlling costs

FINANCIAL PERFORMANCE



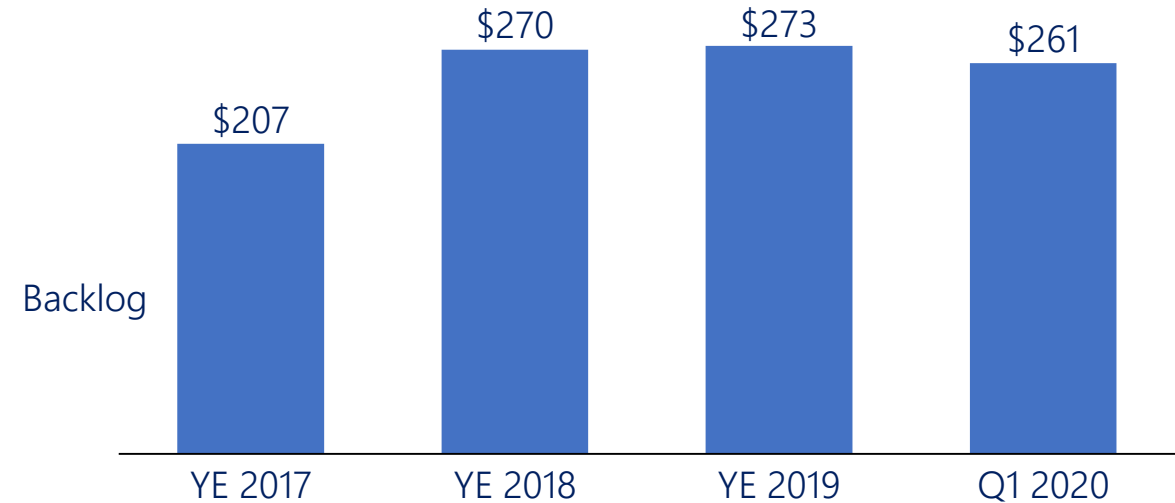
- Revenue down near Q1 2019 levels primarily from market decline, delays and disruptions from COVID-19
- Higher Adjusted EBITDA decremental margins from COVID-19 related lower productivity and service delays of ~\$4 million
- Estimated ~\$3 million impact to adjusted EBITDA margin due to product mix

Using Transformation Playbook to Execute 2020 Cost Takeout

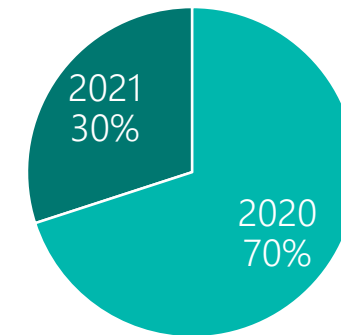
COMMERCIAL UPDATE

- Backlog of \$261 million as of 3/31/2020 after recording \$58 million of product bookings in Q1 2020
- Backlog should help mitigate unfavorable market conditions, but likely to decline in an extended downturn
- Delays, deferrals and potentially cancellations could impact timing of conversion and total amount of backlog

Historical Backlog Trends (\$M)

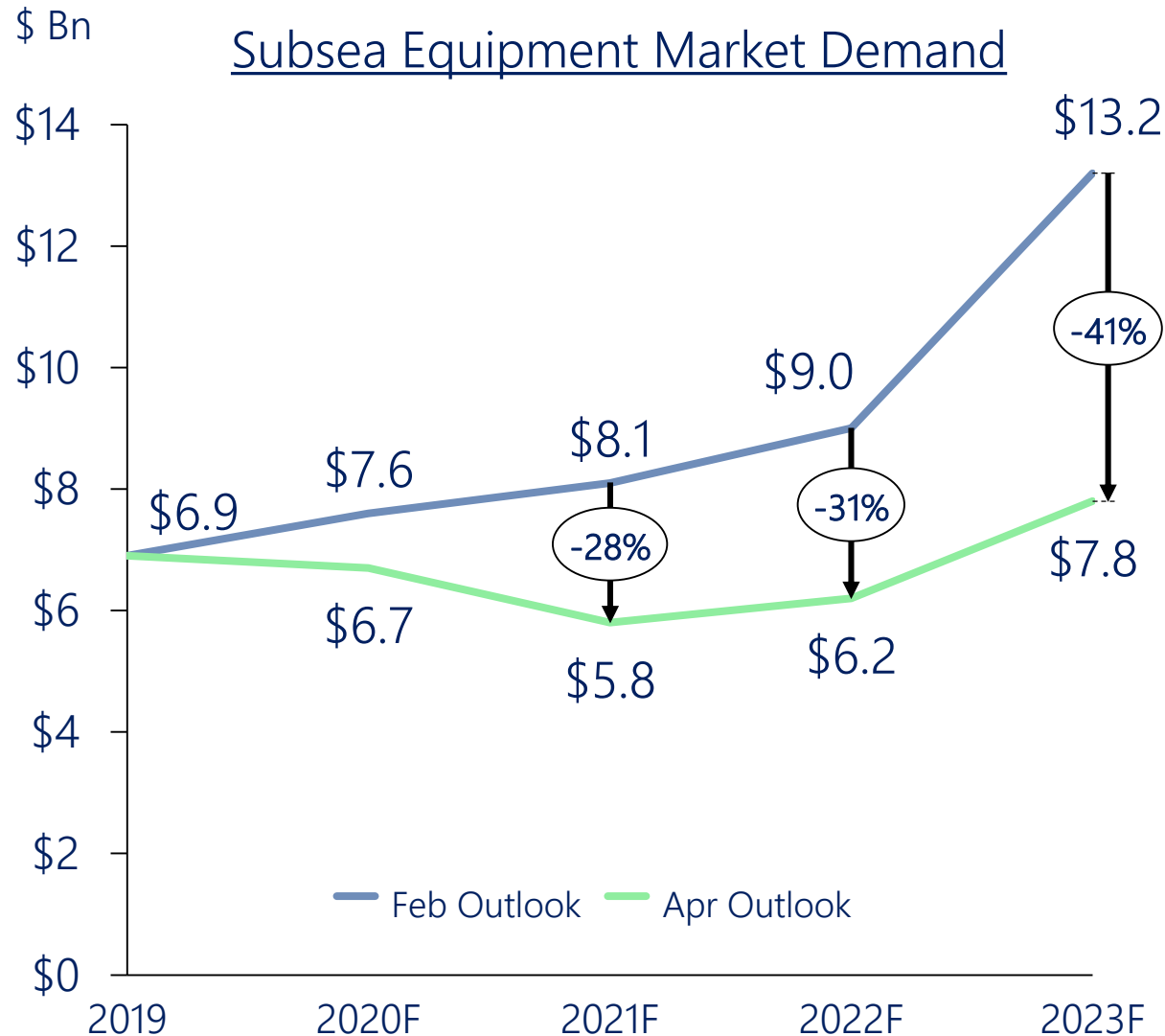


Estimated Backlog Conversion to Revenue
as of Q1 '20

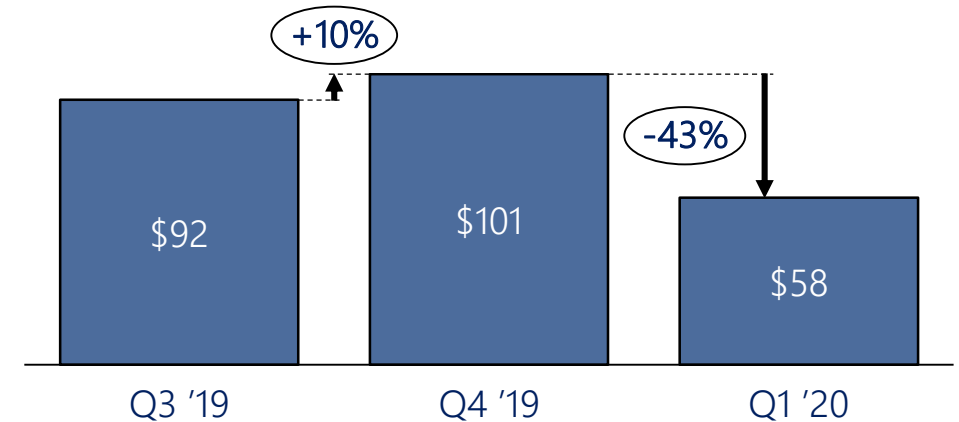


GLOBAL MARKET ENVIRONMENT

Subsea Equipment Market Demand



Product Bookings (\$M)

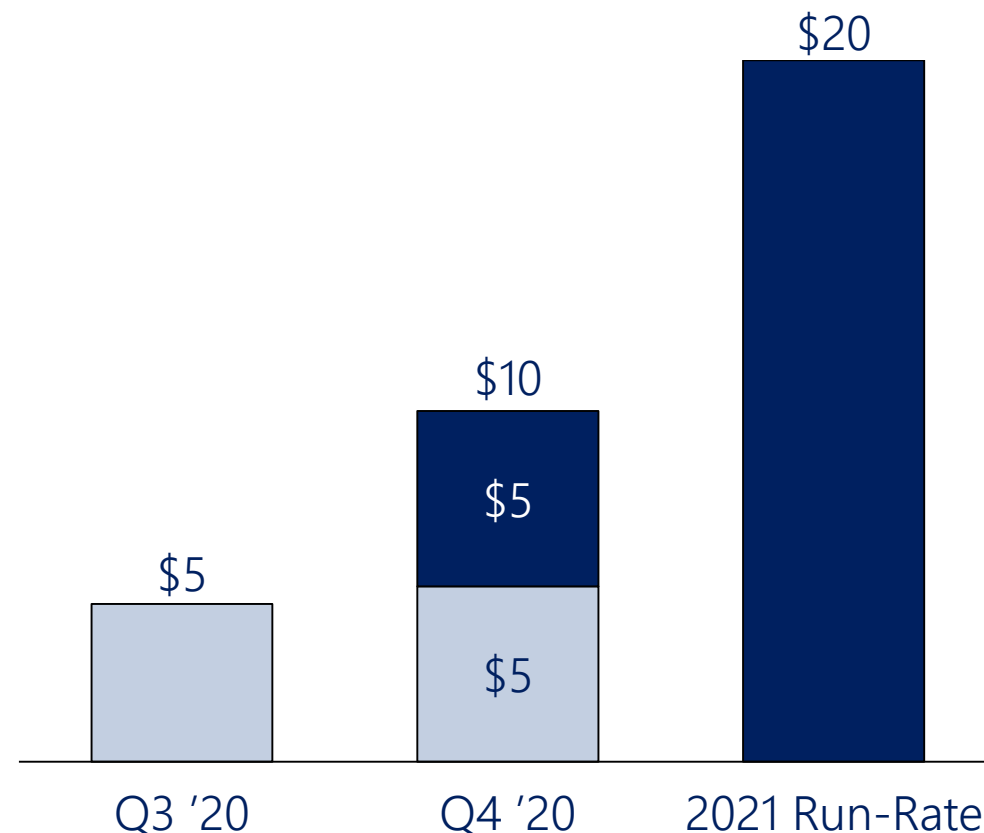


Substantial declines in the expected demand for subsea equipment over the next several years following escalation of COVID-19 and production oversupply impacts

FOLLOW-ON RESPONSE & FURTHER TRANSFORMATION

- Adjust personnel resources to address an extended period of lower offshore market activity
- Realign manufacturing footprint for improved efficiency
- Partner, “Warm Stack” or exit certain product lines still requiring extensive R&D investment

Expected New Operational Transformation
Cumulative Annual Cost Savings (\$M)



Position Dril-Quip for Annual Free Cash Flow Generation through the Cycle

CAPITAL ALLOCATION PRIORITIES



Daily Operations

- \$100M - \$150M required to support daily operations with plans to lower range



Capital Expenditures

- 2020 CAPEX to be primarily maintenance capex of \$10M - \$15M, flat year-over-year



R&D

- Re-prioritizing R&D projects to focus on ready to commercialize "Quick Wins"
- Reduced or deferred \$10 million total of R&D spending



Monitor Strategic Acquisitions

- Evaluate targets or partnerships that complement offering with a focus on technology



Share Repurchase

- Approximately \$50M remaining under \$100M share repurchase plan approved by Board in Q1 2019
- Limit share repurchase amounts to annual free cash flow generation

Strong Balance Sheet with Liquidity to Achieve Strategic Objectives

KEYS TO EXECUTION OF PLAN

Manufacturing Capacity Consolidation

- Reallocate manufacturing equipment and personnel to improve plant utilization
- Lease, mothball or divest excess capacity, as necessary, to align with long-term outlook

Capital Expenditure and Discretionary Spend Discipline

- Eliminated bonus compensation and merit increases for 2020
- Reduce capital purchases to maintenance levels that ensure customer demand is met

Reprioritize & Right-Size Organization

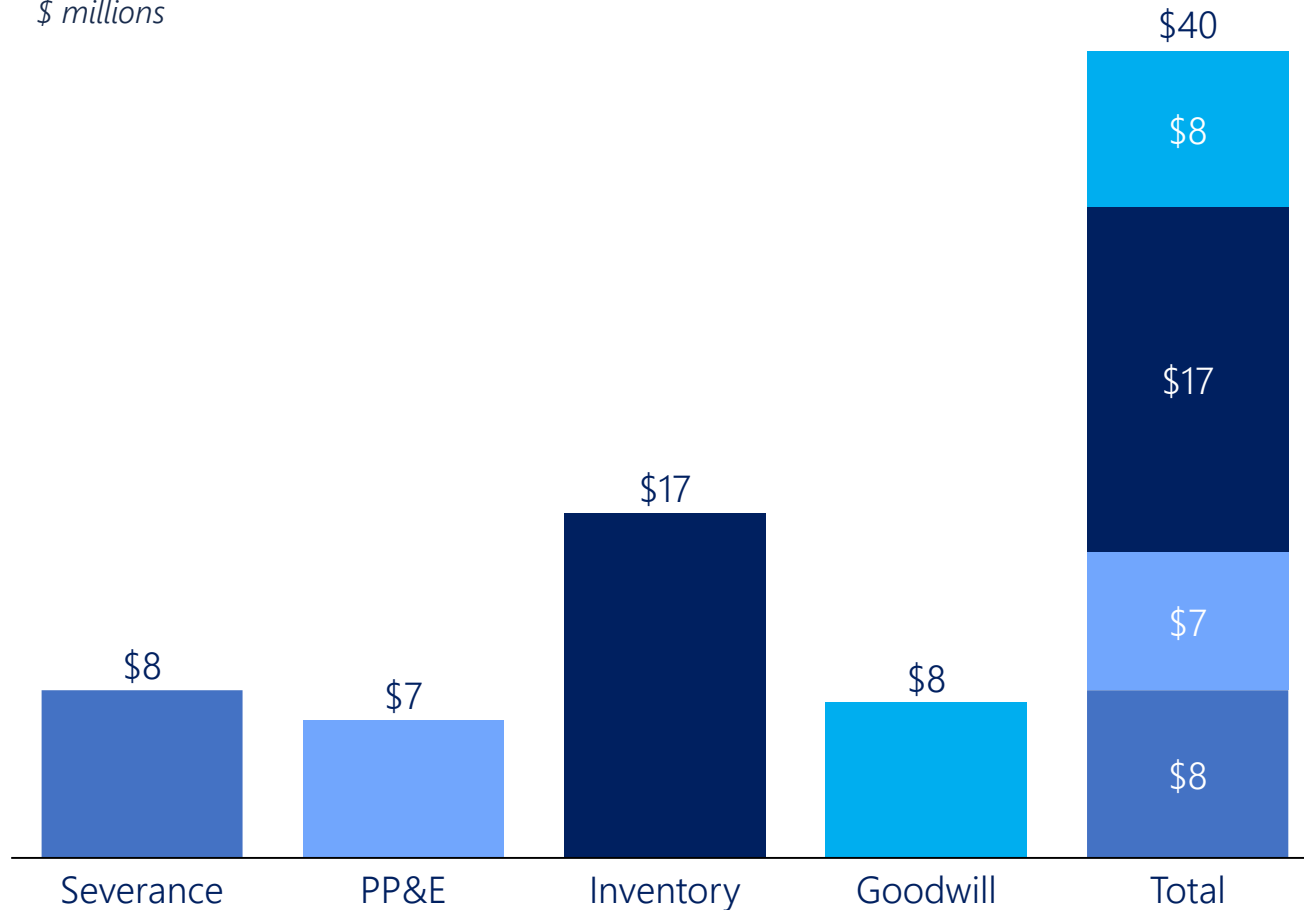
- Assess alternative methods for monetizing certain differentiated technologies
- Rationalize spending to focus on highest return projects in current environment
- Streamline commercial function for maximum customer engagement

Targeting Positive Free Cash Flow for the Full Year 2020

APPENDIX

SUMMARY OF IMPAIRMENTS, RESTRUCTURING & OTHER CHARGES

\$ millions



- Severance of ~\$8 million related to right-sizing of workforce to market conditions
- PP&E of ~\$7 million associated with excess capacity and equipment
- Inventory of ~\$17 million in raw materials and finished goods from warm stacking of certain product lines
- Goodwill of ~\$8 million reflecting depressed market conditions

Estimated cash impact of charges: ~\$8 million

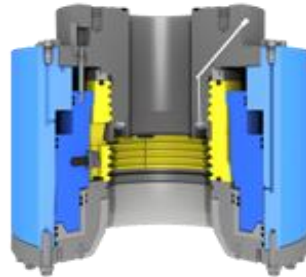
R&D DRIVING BOOKINGS AND NEW CUSTOMERS

- 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 the past four years



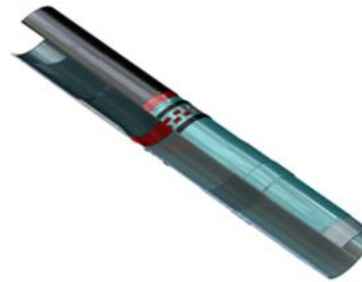
BigBore II
Wellhead

Spotlight
on new
TECHNOLOGY
2017



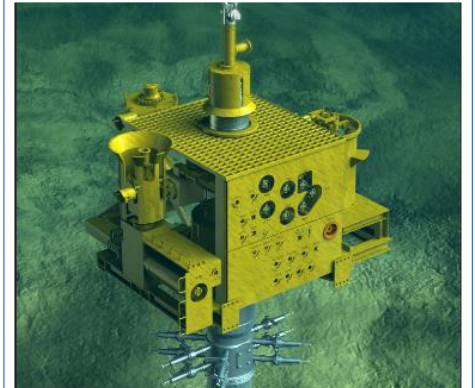
DXe Wellhead
Connector

Spotlight
on new
TECHNOLOGY
2017



Double Expansion
XPAK Liner Hanger

Spotlight
on new
TECHNOLOGY
2019



VXTe Vertical Subsea
Tree System

Spotlight
on new
TECHNOLOGY
2020

MARKET PERFORMANCE

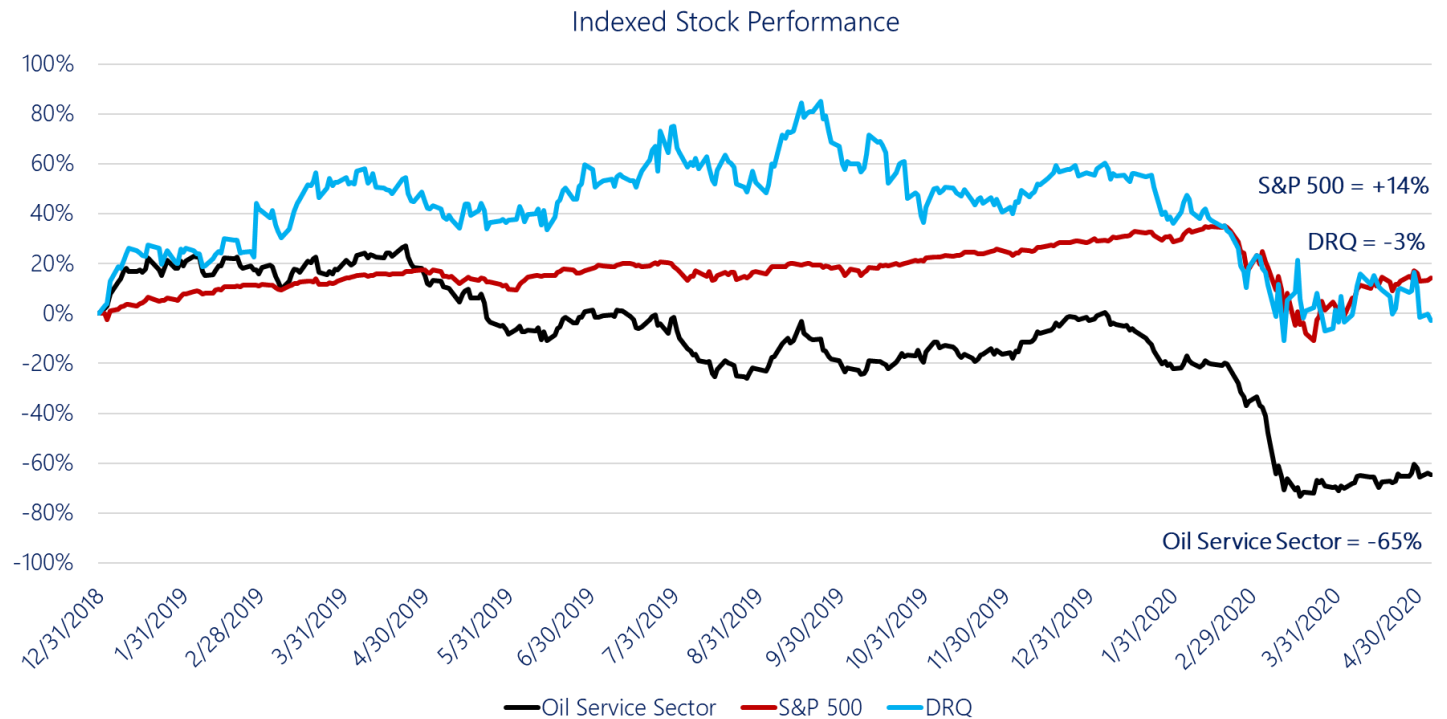
MARKET INFORMATION

Ticker NYSE: DRQ

Share Price (at close: 5/5/20) \$29.18

52-Week Range \$23.91 - \$56.71

Performance:	DRQ	OSX	SPX
Since Q4 Filing (2/27/20)	-12%	-44%	-4%
Year-to-Date	-38%	-64%	-11%



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		
	March 31, 2020	December 31, 2019	March 31, 2019
(In thousands, except per share data)			
Revenues:			
Products	\$ 67,558	\$ 78,762	\$ 65,434
Services	18,814	19,082	18,476
Leasing	9,626	10,610	10,407
Total revenues	95,998	108,454	94,317
Costs and expenses:			
Cost of sales	71,414	75,741	69,376
Selling, general and administrative	21,416	21,444	24,544
Engineering and product development	5,525	4,798	3,617
Impairment	7,719	435	-
Restructuring and other charges	32,713	-	2,396
Gain on sale of assets	(467)	(28)	(13)
Total costs and expenses	138,320	102,390	99,920
Operating income (loss)	(42,322)	6,064	(5,603)
Interest income	1,206	1,347	2,006
Interest expense	(191)	(166)	(121)
Income tax provision (benefit)	(21,609)	(155)	2,333
Net income (loss)	\$ (19,698)	\$ 7,400	\$ (6,051)
Earnings (loss) per share			
Basic	\$ (0.55)	\$ 0.21	\$ (0.17)
Diluted	\$ (0.55)	\$ 0.21	\$ (0.17)
Depreciation and amortization	\$ 8,873	\$ 8,865	\$ 8,356
Capital expenditures	\$ 4,187	\$ 2,881	\$ 3,527
Weighted Average Shares Outstanding			
Basic	35,695	35,873	35,559
Diluted	35,695	36,101	35,559

BALANCE SHEET

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

	<u>March 31, 2020</u>	<u>December 31, 2019</u>
	(In thousands)	
Assets:		
Cash and cash equivalents	\$ 343,472	\$ 398,946
Other current assets	482,819	481,543
PP&E, net	244,495	258,497
Other assets	65,324	67,579
Total assets	<u>\$ 1,136,110</u>	<u>\$ 1,206,565</u>
Liabilities and Equity:		
Current liabilities	\$ 93,446	\$ 96,940
Deferred Income taxes	3,495	4,150
Other long-term liabilities	14,968	14,774
Total liabilities	<u>111,909</u>	<u>115,864</u>
Total stockholders equity	1,024,201	1,090,701
Total liabilities and equity	<u>\$ 1,136,110</u>	<u>\$ 1,206,565</u>

NON-GAAP FINANCIAL MEASURES

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

Adjusted EBITDA:

	Three months ended		
	March 31, 2020	December 31, 2019	March 31, 2019
	(In thousands)		
Net income (loss)	\$ (19,698)	\$ 7,400	\$ (6,051)
Add:			
Interest income, net	(1,015)	(1,181)	(1,885)
Income tax expense (benefit)	(21,609)	(155)	2,333
Depreciation and amortization expense	8,873	8,865	8,356
Impairments	7,719	435	-
Restructuring costs, including severance	32,713	-	2,396
Gain on sale of assets	(467)	(28)	(13)
Foreign currency loss (gain)	(3,242)	449	(704)
Stock compensation expense	3,176	(25)	4,862
Adjusted EBITDA	<u>\$ 6,450</u>	<u>\$ 15,760</u>	<u>\$ 9,294</u>

NON-GAAP FINANCIAL MEASURES

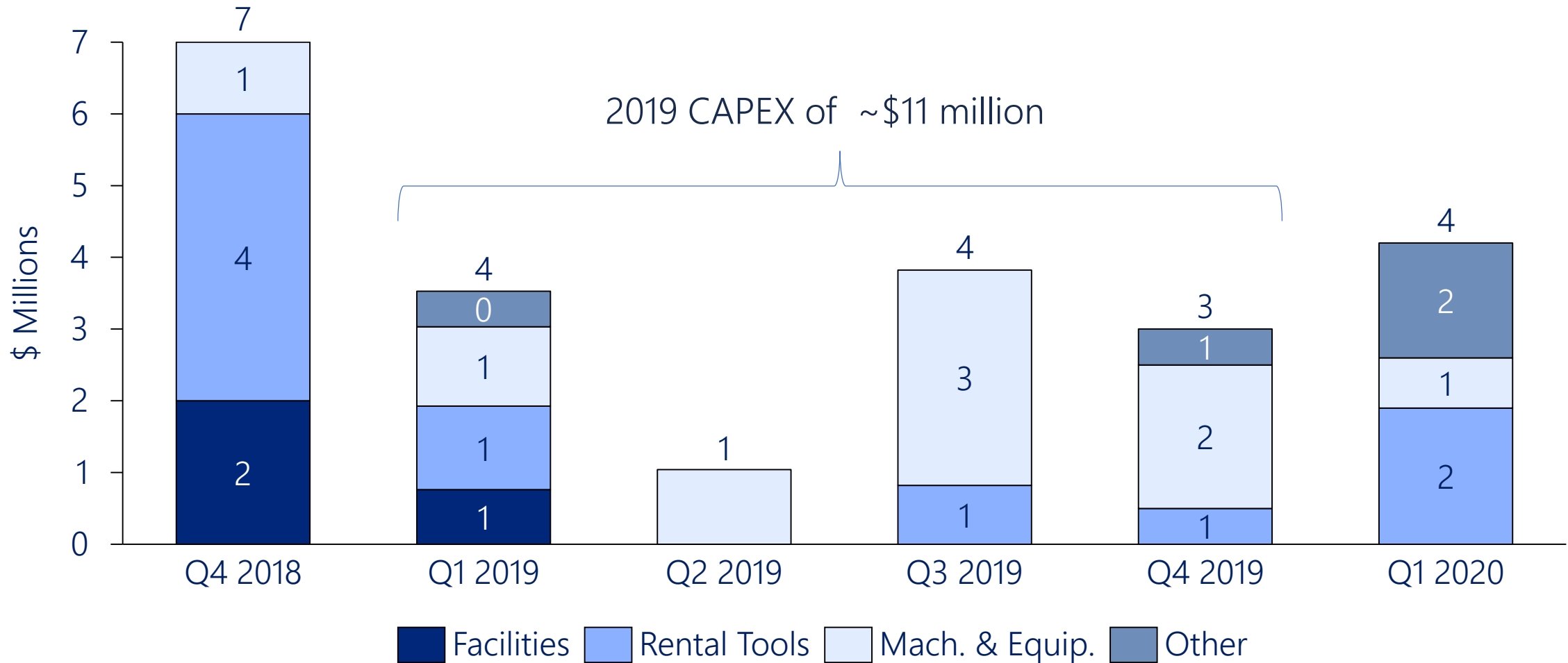
Dril-Quip, Inc.

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

Free Cash Flow:

	Three months ended		
	March 31, 2020	December 31, 2019	March 31, 2019
	(In thousands)		
Net cash provided (used) by operating activities	\$ (21,237)	\$ 8,054	\$ 838
Less:			
Purchase of property, plant and equipment	(4,187)	(2,881)	(3,527)
Free cash flow	\$ (25,424)	\$ 5,173	\$ (2,689)

QUARTERLY CAPITAL EXPENDITURES



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

FINANCIAL METRIC DEFINITIONS

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