
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 8-K

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

Date of Report (date of earliest event reported): July 30, 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 July 30, 2020, Dril-Quip, Inc. (“Dril-Quip”) reported second quarter 2020 earnings. For additional information regarding Dril-Quip’s second 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 July 30, 2020, Dril-Quip posted the Q2 2020 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 July 30, 2020.
99.2	Q2 2020 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/ Raj Kumar

Raj Kumar

Vice President and Chief Financial Officer

Date: July 30, 2020

DRIL-QUIP, INC. ANNOUNCES SECOND QUARTER 2020 RESULTS

HOUSTON, July 30, 2020 — Dril-Quip, Inc. (NYSE: DRQ), (the “Company” or “Dril-Quip”) today reported operational and financial results for the second quarter of 2020.

Key highlights for the second quarter of 2020 included:

- Generated \$90.4 million of revenue on lower product volumes and leasing revenues, reflecting the continued impacts of the COVID-19 pandemic on global operations;
- Reported second quarter net loss of \$14.1 million, or \$0.40 per share, an improvement of \$5.6 million, or \$0.15 per share, from the first quarter of 2020;
- Recorded adjusted EBITDA of \$6.0 million, or 6.7% of revenue;
- Improved sequential net cash provided by operating activities by \$24.3 million to \$3.0 million increasing cash position to \$345.8 million;
- Completed approximately \$11.5 million of previously announced annualized cost saving actions, with additional savings expected to be captured in the second half of 2020;
- Selling, general and administrative expense declined \$1.3 million in the second quarter compared to the first quarter of 2020;
- Announced strategic collaboration agreement with Proserv for the development and manufacturing of subsea controls

Blake DeBerry, Dril-Quip’s Chief Executive Officer, commented, “Dril-Quip continues to persevere through this difficult and uncertain market environment brought about by the COVID-19 pandemic and the associated disruptions it has caused the global economy. Although these issues remain a headwind to near-term growth, actions we are currently executing will position us to better weather this storm and maintain focus on ensuring the safety of our employees and suppliers while meeting our customer’s needs.”

“Our operations experienced further negative effects from the ongoing pandemic in the second quarter as we were forced to make modifications that reduced our global production output. Adapting to regulatory restrictions, implementing necessary precautions and conforming to guidelines from health administrators led to lower production output and higher costs. We also saw historically low commodity prices and corresponding customer capital spending reductions that resulted in the delay or deferment of customer product delivery and booking decisions. These delays and deferments led to recorded bookings of \$40.5 million during the second quarter. However, even with the sequential decline in bookings, we expect our bookings will be approximately \$200 million for the full year 2020.”

“Despite these circumstances, we continue to improve our manufacturing production output and remediate supply chain interruptions, including the reinstatement of overtime at the majority of our manufacturing facilities towards the end of the quarter. We made significant progress on our cost cutting initiatives which we began executing in the second quarter, achieving \$11.5 million in annualized cost savings, and we are on track to deliver a further \$9.0 million annualized savings in the second half of 2020. Our top priority is to continue to meet these challenges and improve operational and financial results in the second half of 2020.”

“Additionally, we announced an agreement with Proserv to manufacture and supply Dril-Quip with subsea controls systems. This allows us to offer our customers a broader range of cutting-edge technology control systems along with our innovative subsea tree systems and wellheads. The transition of our controls business will be seamless for our existing customers as they will continue to receive the same level of service and support from Proserv going forward. Collaborating with Proserv on controls not only benefits our customers but allows us to avoid an estimated \$8 million to \$10 million per year of research and development and other associated expense over the next three years in order to offer our customers market leading controls.”

“As we look ahead to the second half of 2020, Dril-Quip is well positioned with a strong balance sheet, backlog of customer projects and an action plan to proactively address the current environment. We expect these factors along with the efforts of our dedicated employees will lead to improved financial performance with an emphasis on cash flow generation.”

In conjunction with today’s release, the Company posted a new investor presentation entitled “Second Quarter 2020 Supplemental Earnings Information” to its website, www.dril-quip.com, on the “Events & Presentations” page under the Investors tab. Investors should note that Dril-Quip announces material financial information in Securities and Exchange Commission (“SEC”) filings, press releases and public conference calls. Dril-Quip may use the Investors section of its website (www.dril-quip.com) to communicate with investors. It is possible that the financial and other information posted there could be deemed to be material information. Information on Dril-Quip’s website is not part of this release.

Operational and Financial Results

Revenue, Cost of Sales and Gross Operating Margin

Consolidated revenue for the second quarter of 2020 was \$90.4 million, down \$5.6 million from the first quarter of 2020 and \$13.4 million lower compared to the second quarter of 2019. The decrease in revenue sequentially and year-over-year was driven by negative impacts to production output, delays in rentals related to product installations, customer requests to extend deliveries and supply chain disruptions, all of which were attributed to the COVID-19 pandemic and the associated impacts on the global oil and gas markets.

Cost of sales for the second quarter of 2020 was \$66.9 million, a decrease of \$4.5 million sequentially and a decrease of \$6.9 million compared to the prior year. Gross operating margin for the second quarter of 2020 was 26.0%, an increase from 25.6% in the first quarter of 2020 and a decrease from 28.8% in the second quarter of 2019. The improvement in gross margin sequentially was driven primarily by improved product mix in the Eastern Hemisphere and higher downhole tool products and services revenue in Mexico. The decline in gross margin year-over-year was primarily related to lower production output globally due to increased days off of work and local or Company precautionary workplace restrictions, lower product sales and other increased costs associated with COVID-19 impacts. These factors were partially offset by savings from the 2019 transformation initiative and from leasing our forge facility to AFGlobal Corporation during the fourth quarter of 2019.

Selling, General and Administrative Expenses

Selling, general and administrative (“SG&A”) expenses for the second quarter of 2020 were \$23.3 million, a decrease of \$1.3 million compared to the first quarter of 2020. The sequential decline in SG&A was primarily due to lower corporate overhead from cost saving actions completed in the second quarter, partially offset by higher information technology expenses related to establishing remote workstations for employees as a result of COVID-19 of approximately \$0.9 million. SG&A remained relatively unchanged year-over-year compared to the \$23.1 million for the second quarter of 2019.

Net Loss, Adjusted EBITDA and Free Cash Flow

For the second quarter of 2020, the Company reported a net loss of \$14.1 million, or \$0.40 per share, compared to a net loss of \$19.7 million, or \$0.55 per share, for the first quarter of 2020 and net income of \$1.7 million, or \$0.05 per diluted share, for the second quarter of 2019. The sequential decrease in net loss was a result of improved mix of product revenue and lower restructuring and other charges, partially offset by foreign currency exchange losses of \$0.8 million compared to a foreign currency exchange gains of \$3.2 million in the first quarter of 2020 and the previously noted increase in information technology expenses. The decline in net income year-over-year was driven by decreased product revenues and gross margins caused by decreased production output as a result of COVID-19 related market condition declines, increase in income tax provision and an increase in foreign currency exchange losses.

Adjusted EBITDA totaled \$6.0 million for the second quarter of 2020 compared to \$6.5 million for the first quarter of 2020 and \$13.4 million for the second quarter of 2019. The sequential decrease in adjusted EBITDA is attributed to revenue declines in product deliveries and leasing revenues caused by operational and logistical challenges caused by the global COVID-19 pandemic, partially offset by an improved mix toward higher margin products and increased service revenues in the Western Hemisphere. The decrease in adjusted EBITDA year-over-year was due to fall through from a decline in product and leasing revenues as a result of market declines and higher SG&A costs, primarily from pandemic related information technology spend.

Net cash provided by operations was \$3.0 million and free cash flow was approximately negative \$1.1 million for the second quarter of 2020. The improvement in net cash provided by operations of \$24.3 million compared to the first quarter of 2020 was primarily driven by improved collections of receivables and successful negotiation of extended supplier payment terms, partially offset by increases in stocking program inventory in anticipation of product sales growth in the Eastern Hemisphere and timing of deliveries due to logistical impacts caused by the global pandemic. Capital expenditures in the second quarter of 2020 were approximately \$4.1 million, the majority of which was related to rental tools for our downhole tools business as well as machinery and equipment related to consolidating our Aberdeen manufacturing operations into Houston.

Proserv Collaboration Agreement

On June 24, 2020, the Company announced an agreement with Proserv, a subsea controls technology company, for the manufacture and supply of subsea controls systems. The arrangement allows for the consolidation of the development and supply of the Company's subsea controls systems. The agreement also establishes a framework where Proserv and Dril-Quip may pursue joint marketing and collaboration efforts, with Dril-Quip providing subsea trees and Proserv providing subsea controls. As part of the collaboration, Proserv will assume the service and support for the existing subsea controls customer base from Dril-Quip.

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 second quarter, the Company executed on approximately \$11.5 million of these annualized cost saving actions and plans to complete the remainder of the full \$20 million in annualized cost savings in the second half of 2020.

Balance Sheet and Liquidity

Dril-Quip's cash on hand as of June 30, 2020 was \$345.8 million, which, together with amounts available under the asset-based lending (ABL) facility, resulted in approximately \$383.8 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 an expected cash tax benefit as a result of the CARES Act, we expect to achieve a neutral year-end cash balance in 2020 compared to 2019.

Share Repurchases

For the three-month period ended June 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 six months ended June 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 cyclicity 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 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, 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

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

	Three months ended		
	June 30, 2020	March 31, 2020	June 30, 2019
(In thousands, except per share data)			
Revenues:			
Products	\$ 63,133	\$ 67,558	\$ 77,233
Services	20,750	18,814	16,575
Leasing	6,563	9,626	10,000
Total revenues	<u>90,446</u>	<u>95,998</u>	<u>103,808</u>
Costs and expenses:			
Cost of sales	66,937	71,414	73,867
Selling, general and administrative	23,331	24,658	23,068
Engineering and product development	5,364	5,525	5,157
Impairment	—	7,719	—
Restructuring and other charges	1,587	32,713	1,019
Gain on sale of assets	(85)	(467)	(1,190)
Foreign currency transaction (gains) and losses	817	(3,242)	(233)
Total costs and expenses	<u>97,951</u>	<u>138,320</u>	<u>101,688</u>
Operating income (loss)	(7,505)	(42,322)	2,120
Interest income	653	1,206	2,680
Interest expense	(209)	(191)	—
Income tax provision (benefit)	7,081	(21,609)	3,119
Net income (loss)	<u>\$ (14,142)</u>	<u>\$ (19,698)</u>	<u>\$ 1,681</u>
Earnings (loss) per share			
Basic	<u>\$ (0.40)</u>	<u>\$ (0.55)</u>	<u>\$ 0.05</u>
Diluted	<u>\$ (0.40)</u>	<u>\$ (0.55)</u>	<u>\$ 0.05</u>
Depreciation and amortization	<u>\$ 7,940</u>	<u>\$ 8,873</u>	<u>\$ 8,495</u>
Capital expenditures	<u>\$ 4,131</u>	<u>\$ 4,187</u>	<u>\$ 1,071</u>
Weighted Average Shares Outstanding			
Basic	35,023	35,695	35,967
Diluted	35,023	35,695	36,210

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

	<u>June 30, 2020</u>	<u>December 31, 2019</u>
	(In thousands)	
Assets:		
Cash and cash equivalents	\$ 345,808	\$ 398,946
Other current assets	502,404	481,543
PP&E, net	243,796	258,497
Other assets	55,683	67,579
Total assets	<u>\$ 1,147,691</u>	<u>\$ 1,206,565</u>
Liabilities and Equity:		
Current liabilities	\$ 113,711	\$ 96,940
Deferred Income taxes	3,609	4,150
Other long-term liabilities	14,984	14,774
Total liabilities	<u>132,304</u>	<u>115,864</u>
Total stockholders equity	<u>1,015,387</u>	<u>1,090,701</u>
Total liabilities and equity	<u>\$ 1,147,691</u>	<u>\$ 1,206,565</u>

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

Adjusted Net Income and EPS:

	<u>June 30, 2020</u>		<u>Three months ended</u>		<u>June 30, 2019</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)	\$ (14,142)	\$ (0.40)	\$ (19,698)	\$ (0.55)	\$ 1,681	\$ 0.05
Adjustments (after tax):						
Reverse the effect of foreign currency	646	0.02	(2,561)	(0.07)	(184)	(0.01)
Add back impairment and other charges	—	—	6,098	0.17	—	—
Restructuring costs, including severance	1,254	0.04	25,843	0.72	805	0.02
Gain on sale of assets	(67)	—	(369)	(0.01)	(940)	(0.03)
Adjusted net income (loss)	<u>\$ (12,309)</u>	<u>\$ (0.34)</u>	<u>\$ 9,313</u>	<u>\$ 0.26</u>	<u>\$ 1,362</u>	<u>\$ 0.03</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>June 30, 2020</u>	<u>March 31, 2020</u> (In thousands)	<u>June 30, 2019</u>
Net cash provided (used) by operating activities	\$ 3,046	\$ (21,237)	\$ 9,812
Less:			
Purchase of property, plant and equipment	(4,131)	(4,187)	(1,071)
Free cash flow	<u>\$ (1,085)</u>	<u>\$ (25,424)</u>	<u>\$ 8,741</u>

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

<u>Adjusted EBITDA:</u>	<u>Three months ended</u>		
	<u>June 30, 2020</u>	<u>March 31, 2020</u> (In thousands)	<u>June 30, 2019</u>
Net income (loss)	\$ (14,142)	\$ (19,698)	\$ 1,681
Add:			
Interest income, net	(444)	(1,015)	(2,680)
Income tax expense (benefit)	7,081	(21,609)	3,119
Depreciation and amortization expense	7,940	8,873	8,495
Impairments	—	7,719	—
Restructuring costs, including severance	1,587	32,713	1,019
Gain on sale of assets	(85)	(467)	(1,190)
Foreign currency loss (gain)	817	(3,242)	(233)
Stock compensation expense	3,282	3,176	3,221
Adjusted EBITDA	<u>\$ 6,036</u>	<u>\$ 6,450</u>	<u>\$ 13,432</u>

DRIL-QUIP

SECOND QUARTER 2020 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 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, EBITDA, 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) 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

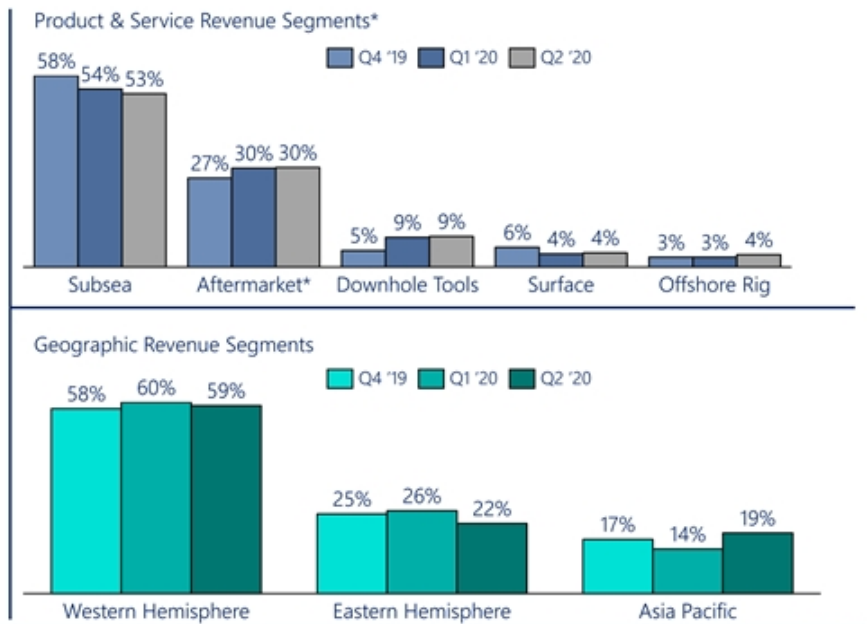
SUBSEA EQUIPMENT

SURFACE EQUIPMENT

DOWNHOLE TOOLS

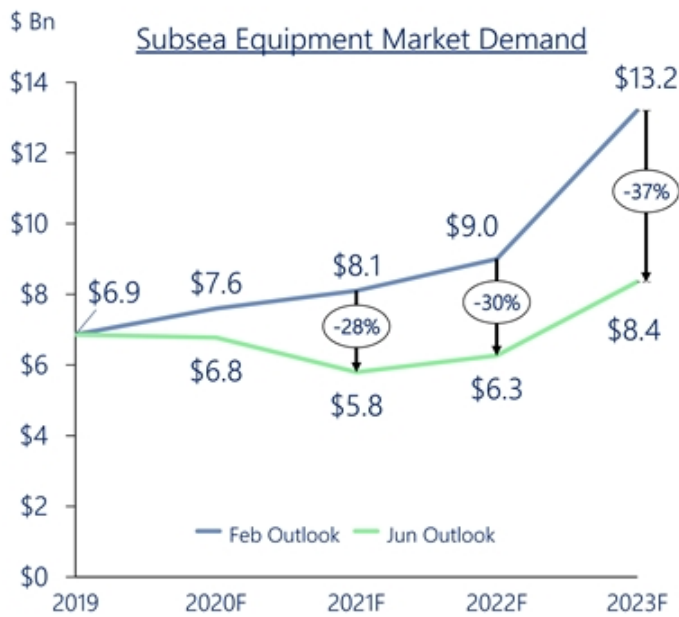
OFFSHORE RIG EQUIPMENT

AFTERMARKET SERVICES

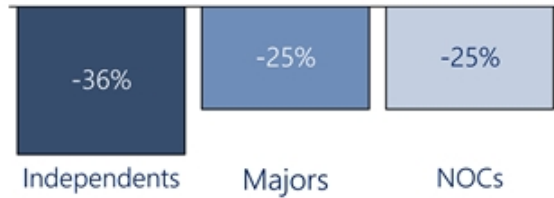


*Aftermarket revenue includes both Services and Leasing revenue

GLOBAL MARKET ENVIRONMENT

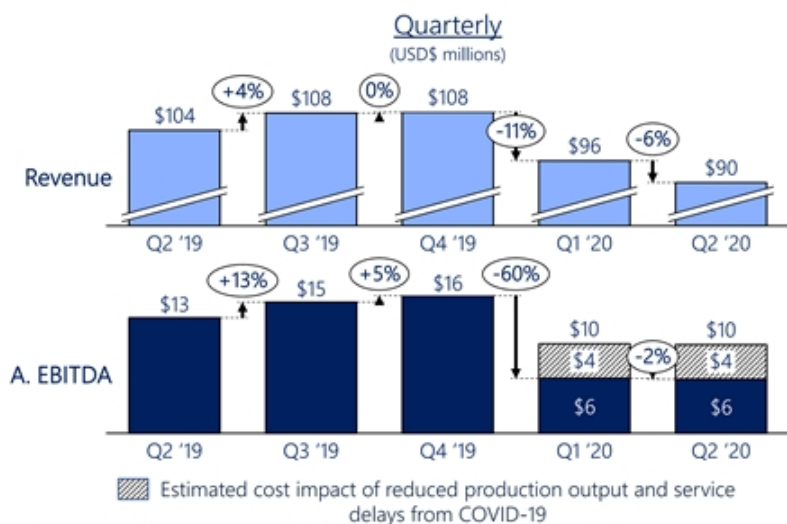


Average 2020 Capex Cut by Customer Type



- Subsea equipment market demand outlook remains depressed, but new and differentiated offerings present opportunity to gain market share
- 2020 brought more extensive capex cuts for independent E&P companies leading to increased delays and deferrals

FINANCIAL PERFORMANCE



- Revenue declined sequentially due to disruptions to operations and market activity declines
- Adjusted EBITDA margins were flat sequentially due to improved product mix and higher service revenue in the Western Hemisphere
- Estimated ~\$10 million impact to revenue and ~\$4 million to adjusted EBITDA due to COVID-19 related reduced production output and service delays in Q2 2020

COVID-19 related impacts still being felt in Q2 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.



Q2 2020 HIGHLIGHTS

- Generated \$90.4 million of revenue on lower product volumes and leasing revenues, reflecting the continued impacts of the COVID-19 pandemic on global operations;
- Reported second quarter net loss of \$14.1 million, or \$0.40 per share, an improvement of \$5.6 million, or \$0.15 per share, from the first quarter of 2020;
- Recorded adjusted EBITDA of \$6.0 million, or 6.7% of revenue;
- Improved sequential net cash provided by operating activities by \$24.3 million to \$3.0 million increasing cash position to \$345.8 million;
- Completed approximately \$11.5 million of previously announced annualized cost saving actions, with additional savings expected to be captured in the second half of 2020;
- Selling, general and administrative expense declined \$1.3 million in the second quarter compared to the first quarter of 2020;
- Announced strategic collaboration agreement with Proserv for the development and manufacturing of subsea controls

2020 TRANSFORMATION UPDATE

- Western Hemisphere and Asia Pacific workforce adjustments completed in Q2 2020
- Aberdeen manufacturing transition underway in second half of 2020
- Subsea controls exit through Proserv collaboration
- Actions taken in Q2 2020 represented \$11.5 million in annualized savings

Expected Operational Transformation
Cumulative Annualized Cost Savings (\$M)



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

PROSERV COLLABORATION AGREEMENT

- Ability to offer customers a broader selection of technology-leading controls with Dril-Quip subsea trees
- Avoids investing an estimated \$8 to \$10 million in research and development costs and other associated expense, per year, over a three year period to bring a comparable best-in-class controls offering to market
- Aligns with further transformation strategy to partner, "warm stack" or exit product lines requiring extensive investment to improve competitive position
- Allows for the pursuit of joint marketing and collaboration efforts with new or underserved customers and markets
- Proserv will assume service and support of existing subsea controls customer base from Dril-Quip

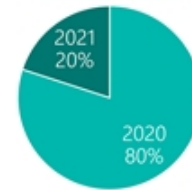


COMMERCIAL UPDATE

- Backlog of \$238 million as of 6/30/2020 after recording \$40.5 million of product bookings in Q2 2020
- Bookings expected to increase sequentially and to be approximately \$200 million in total for the full year 2020
- Visibility into timing of new orders remains challenging as customers look for commodity price and economic stability
- Booking green shoots in Eastern Hemisphere and with nationally owned or large integrated oil companies



Estimated Backlog Conversion to Revenue as of Q2 '20

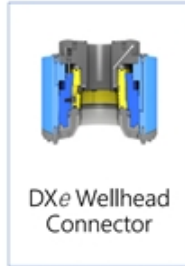


TECHNOLOGY UPDATE - VIRTUAL OTC EXHIBITION

- Held more than 50 online presentations on the Dril-Quip "e Series" product line and the 2020 award winning VXTe Vertical Subsea Tree System
- More than 593 customer representatives from 37 different companies attended a session during the months of May and June
- Led to numerous in bound inquiries on "e Series" and VXTe technologies – exploring alternative ways to monetize VXTe and improve market penetration



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TECHNOLOGY
2017



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2017



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2019



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2020

CAPITAL ALLOCATION PRIORITIES



Daily Operations

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



Cash Flow Generation

- Continue collection efforts, supplier negotiations and inventory management
- Limit share repurchase amounts to annual free cash flow



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



Capital Expenditures / Divestitures

- 2020 CAPEX to be primarily maintenance capex of \$10M - \$15M, flat year-over-year
- Optimize operational footprint with strategic facility sales

Managing toward Positive Free Cash Flow and Cash Neutrality Year-over-Year in 2020

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



Taking steps to further consolidate footprint to improve operational efficiency

APPENDIX

dril-quip.com | NYSE: DRQ

MARKET PERFORMANCE

MARKET INFORMATION

Ticker	NYSE: DRQ		
Share Price (at close: 7/29/20)	\$36.05		
52-Week Range	\$23.91 - \$56.71		
Performance:	DRQ	OSX	SPX
Since Q1 Filing (5/7/20)	35%	32%	13%
Year-to-Date	-23%	-52%	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		
	June 30, 2020	March 31, 2020	June 30, 2019
(In thousands, except per share data)			
Revenues:			
Products	\$ 63,133	\$ 67,558	\$ 77,233
Services	20,750	18,814	16,575
Leasing	6,563	9,626	10,000
Total revenues	90,446	95,998	103,808
Costs and expenses:			
Cost of sales	66,937	71,414	73,867
Selling, general and administrative	23,331	24,658	23,068
Engineering and product development	5,364	5,525	5,157
Impairment	-	7,719	-
Restructuring and other charges	1,587	32,713	1,019
Gain on sale of assets	(85)	(467)	(1,190)
Foreign currency transaction (gains) and losses	817	(3,242)	(233)
Total costs and expenses	97,951	138,320	101,688
Operating income (loss)	(7,505)	(42,322)	2,120
Interest income	653	1,206	2,680
Interest expense	(209)	(191)	-
Income tax provision (benefit)	7,081	(21,609)	3,119
Net income (loss)	\$ (14,142)	\$ (19,698)	\$ 1,681
Earnings (loss) per share			
Basic	\$ (0.40)	\$ (0.55)	\$ 0.05
Diluted	\$ (0.40)	\$ (0.55)	\$ 0.05
Depreciation and amortization	\$ 7,940	\$ 8,873	\$ 8,495
Capital expenditures	\$ 4,131	\$ 4,187	\$ 1,071
Weighted Average Shares Outstanding			
Basic	35,023	35,695	35,967
Diluted	35,023	35,695	36,210

BALANCE SHEET

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

	June 30, 2020	December 31, 2019
	(In thousands)	
Assets:		
Cash and cash equivalents	\$ 345,808	\$ 398,946
Other current assets	502,404	481,543
PP&E, net	243,796	258,497
Other assets	55,683	67,579
Total assets	\$ 1,147,691	\$ 1,206,565
Liabilities and Equity:		
Current liabilities	\$ 113,711	\$ 96,940
Deferred income taxes	3,609	4,150
Other long-term liabilities	14,984	14,774
Total liabilities	132,304	115,864
Total stockholders equity	1,015,387	1,090,701
Total liabilities and equity	\$ 1,147,691	\$ 1,206,565

NON-GAAP FINANCIAL MEASURES

Dril-Quip, Inc.

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

Adjusted Net Income and EPS:

	Three months ended					
	June 30, 2020		March 31, 2020		June 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)	\$ (14,142)	\$ (0.40)	\$ (19,698)	\$ (0.55)	\$ 1,681	\$ 0.05
Adjustments (after tax):						
Reverse the effect of foreign currency	646	0.02	(2,561)	(0.07)	(184)	(0.01)
Add back impairment and other charges	-	-	6,098	0.17	-	-
Restructuring costs, including severance	1,254	0.04	25,843	0.72	805	0.02
Gain on sale of assets	(67)	-	(369)	(0.01)	(940)	(0.03)
Adjusted net income (loss)	\$ (12,309)	\$ (0.34)	\$ 9,313	\$ 0.26	\$ 1,362	\$ 0.03

NON-GAAP FINANCIAL MEASURES

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

Adjusted EBITDA:	Three months ended		
	June 30, 2020	March 31, 2020	June 30, 2019
	(In thousands)		
Net income (loss)	\$ (14,142)	\$ (19,698)	\$ 1,681
Add:			
Interest income, net	(444)	(1,015)	(2,680)
Income tax expense (benefit)	7,081	(21,609)	3,119
Depreciation and amortization expense	7,940	8,873	8,495
Impairments	-	7,719	-
Restructuring costs, including severance	1,587	32,713	1,019
Gain on sale of assets	(85)	(467)	(1,190)
Foreign currency loss (gain)	817	(3,242)	(233)
Stock compensation expense	3,282	3,176	3,221
Adjusted EBITDA	\$ 6,036	\$ 6,450	\$ 13,432

NON-GAAP FINANCIAL MEASURES

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>June 30, 2020</u>	<u>March 31, 2020</u>	<u>June 30, 2019</u>
	(In thousands)		
Net cash provided (used) by operating activities	\$ 3,046	\$ (21,237)	\$ 9,812
Less:			
Purchase of property, plant and equipment	(4,131)	(4,187)	(1,071)
Free cash flow	\$ (1,085)	\$ (25,424)	\$ 8,741

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

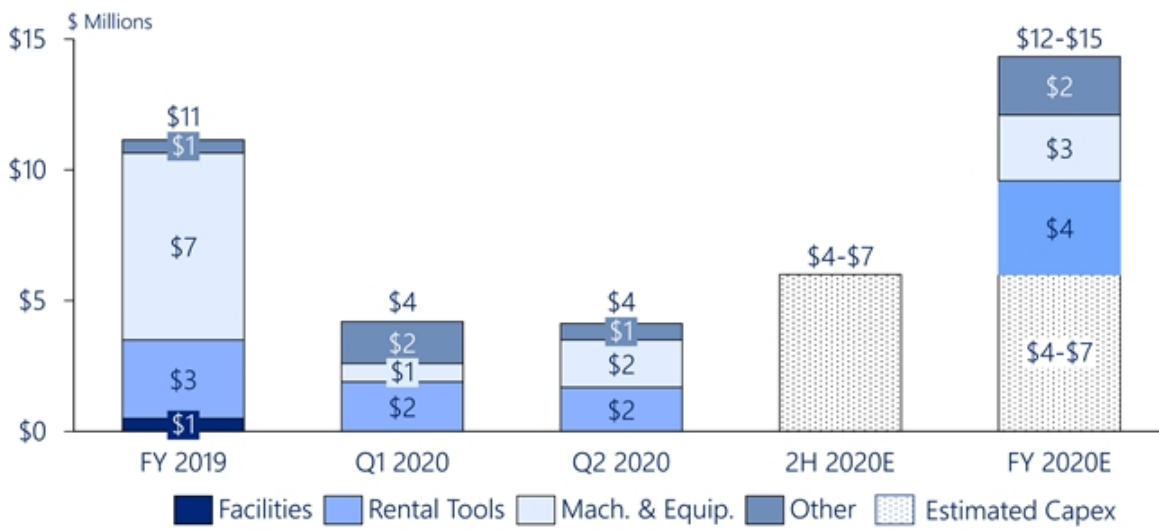
- Eliminated bonus compensation and merit increases for 2020
- Reduce capital purchases to maintenance levels that ensure customer demand is met

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

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)