

DRILQUIP®

4th Quarter 2018
Supplemental Earnings Information

drilquip.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, bidding and service activity, acquisition opportunities, forecasted supply and demand, liquidity, cost savings, and share repurchases and are based on assumptions, estimates and risk analysis made by management of Dril-Quip in light of its experience and perception of historical trends, current conditions, expected future developments and other factors. No assurance can be given that actual future results will not differ materially from those contained in the forward-looking statements in this presentation.

Although Dril-Quip believes that all such statements contained in this presentation are based on reasonable assumptions, there are numerous variables of an unpredictable nature or outside of Dril-Quip’s control that could affect Dril-Quip’s future results and the value of its shares. Each investor must assess and bear the risk of uncertainty inherent in the forward-looking statements contained in this presentation.

Please refer to Dril-Quip’s filings with the SEC for additional discussion of risks and uncertainties that may affect Dril-Quip’s actual future results. Dril-Quip undertakes no obligation to update the forward-looking statements contained herein.

Use of Non-GAAP Financial Measures

Adjusted Net Income, Adjusted Diluted EPS, Adjusted EBITDA and Free Cash Flow are non-GAAP measures. Adjusted Net Income and Adjusted Diluted EPS are defined as net income (loss) and earnings per share, respectively, excluding the impact of foreign currency gains or losses as well as other significant non-cash items and certain charges and credits. Adjusted EBITDA is defined as net income excluding income taxes, interest income and expense, depreciation and amortization expense, non-cash gains or losses from foreign currency exchange rate changes as well as other significant non-cash items and items that can be considered non-recurring. Free Cash Flow is defined as net cash provided by operating activities less net cash used in the purchase of property, plant and equipment. We believe that these non-GAAP measures enable us to evaluate and compare more effectively the results of our operations period over period and identify operating trends by removing the effect of our capital structure from our operating structure and certain other items including those that affect the comparability of operating results. In addition, we believe that these measures are supplemental measurement tools used by analysts and investors to help evaluate overall operating performance, ability to pursue and service possible debt opportunities and make future capital expenditures. These measures do not represent funds available for our discretionary use and are not intended to represent or to be used as a substitute for net income or net cash provided by operating activities, as measured under U.S. generally accepted accounting principles. Non-GAAP financial information supplements should be read together with, and are not an alternative or substitute for, our financial results reported in accordance with GAAP. Because non-GAAP financial information is not standardized, it may not be possible to compare these financial measures with other companies’ non-GAAP financial measures. Reconciliations of these non-GAAP measures to the most directly comparable GAAP measure can be found on slides 22, 23 and 24.

Dril-Quip Investment Highlights



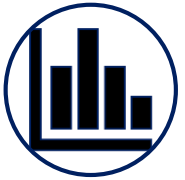
Leading Manufacturer of Highly Engineered Drilling & Production Equipment



Technically Innovative Products & First-class Service



Strong Financial Position



Historically Superior Margins to Peers



Experienced Management Team



Product & Service Offerings

Subsea Equipment

- Subsea Wellheads
- Mudline Suspension Systems
- Specialty Connectors
- Subsea Production Trees
- Subsea Manifolds
- Subsea Control Systems
- Production Risers
- Production Riser Tensioners

Surface Equipment

- Platform Wellheads
- Platform Production Trees

Downhole Tools

- Liner Hangers
- Specialty DH Tools
- Production Packers
- Safety Valves

Offshore Rig Equipment

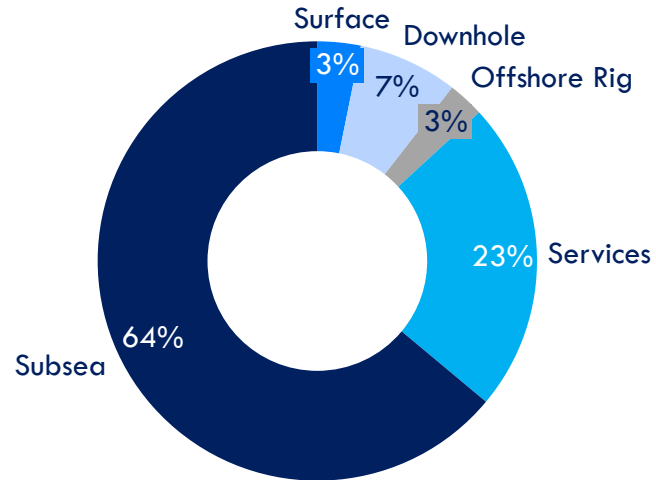
- Wellhead Connectors
- Diverters
- Drilling Risers

Aftermarket Services

- Reconditioning
- Rental Tools
- Technical Advisory

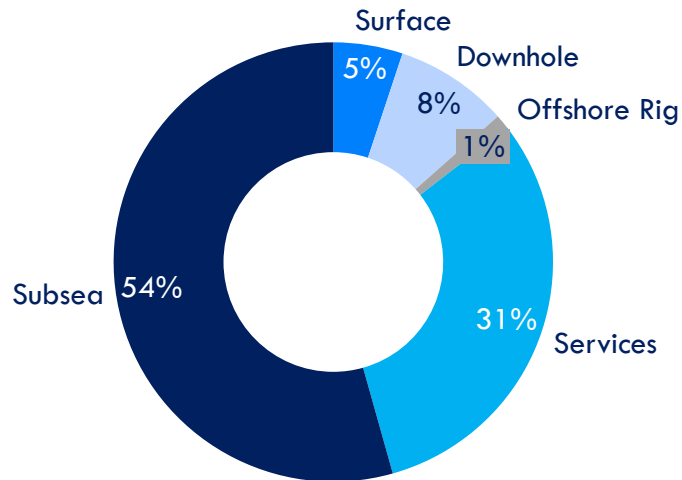
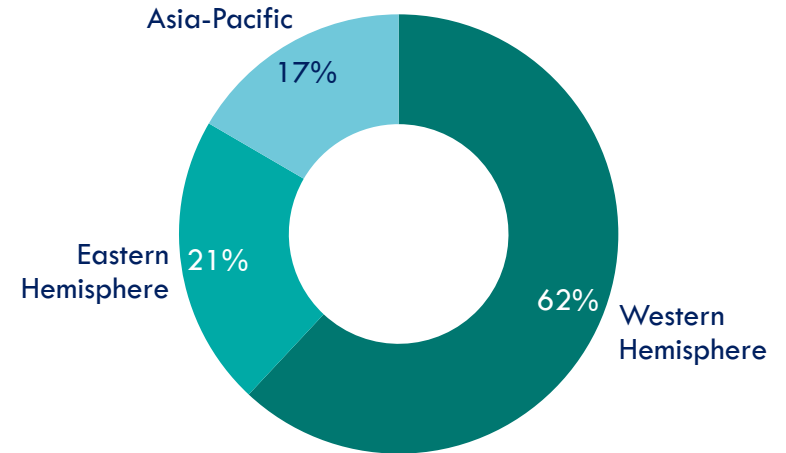
Revenue Mix

By Product and Service Segment

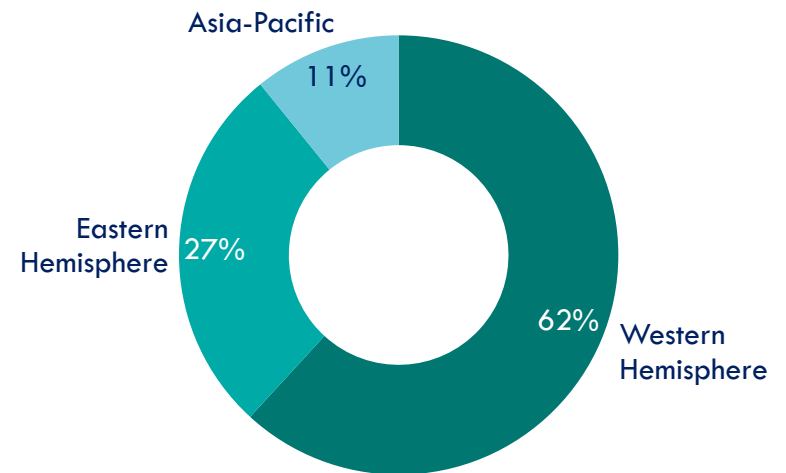


FY 2017
Total Revenue:
\$455 million

By Geographic Area



FY 2018
Total Revenue:
\$385 million



Snapshot

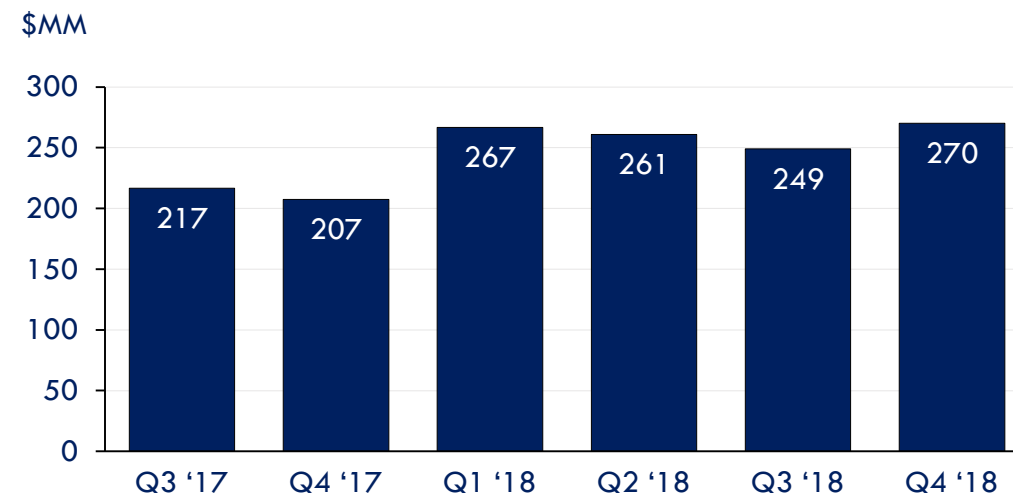
MARKET INFORMATION

Ticker	DRQ
Share Price (2/25/19)	\$37.51
52-Week Range	\$26.62 - \$58.95
YTD Return	-21.4%
Shares Outstanding @ 12/31/18 (mm)	36.3
Market Cap (\$mm)	\$1,360
Enterprise Value (\$mm)	\$942

BALANCE SHEET as of 12/31/2018 (\$MM)

Cash & Cash Equivalents	\$418
PP&E (net)	274
Goodwill	8
Total Assets	\$1,193
ST Debt	-
LT Debt	-
Total Liabilities	\$96
Total Equity	\$1,096

ENDING BACKLOG



BALANCE SHEET METRICS (\$MM)

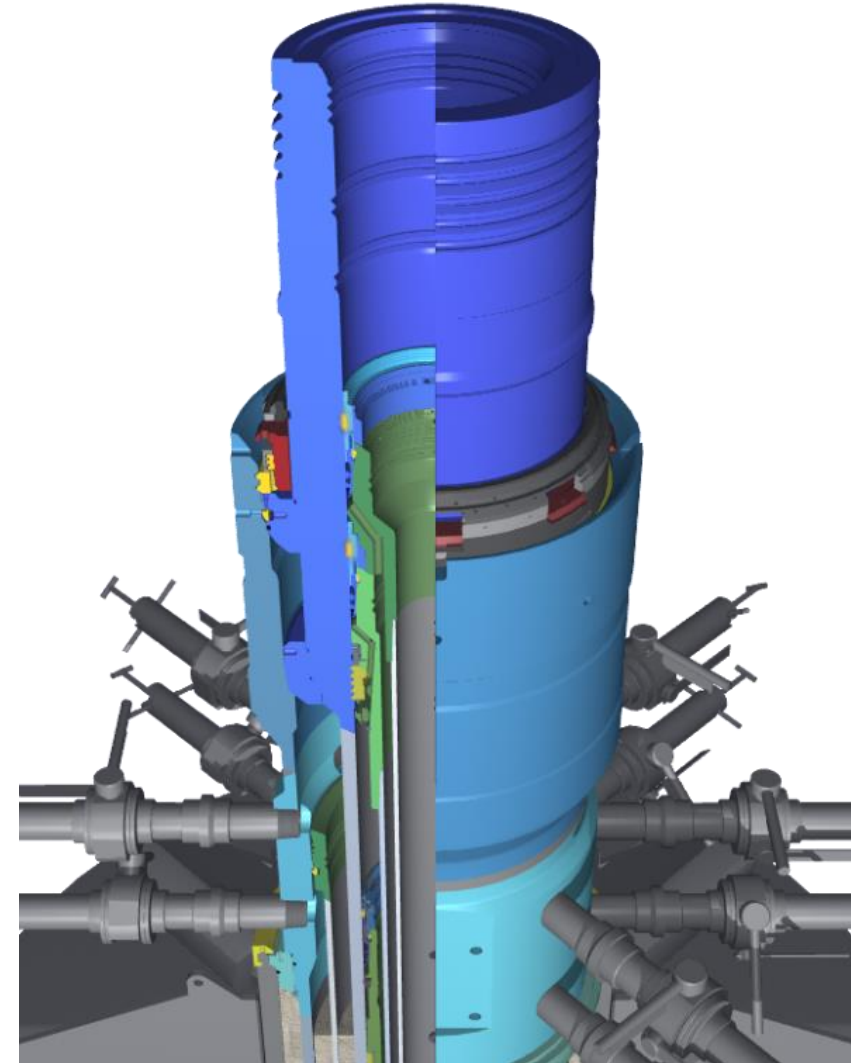
Non-cash Working Capital	\$353
Book Value / Share	\$30.24
Cash / Share	\$11.53
Non-cash WC / Share	\$9.73
Total Debt / Capitalization	0%
2018 Share Repurchases	\$100

Q4 2018 Highlights

- Increased revenue to \$97.3 million, above the high end of guidance range of \$80 - \$90 million
- Recorded strong non-project bookings of \$87 million
- Reported a net loss of \$74.9 million, or \$2.09 loss per diluted share, including impairment and restructuring charges of \$94.2 million
- Generated net cash provided by operating activities of \$12.9 million and free cash flow of \$6.5 million
 - *24th quarter in a row generating positive free cash flow*
- Grew Adjusted EBITDA to \$7.0 million
- Reported cash on hand of \$418.1 million as of December 31, 2018
- Maintained clean balance sheet with no debt as of December 31, 2018
- Achieved \$16 million of targeted \$40 - \$50 million of annualized cost reductions in 2018
- Completed \$100 million share repurchase program in October 2018

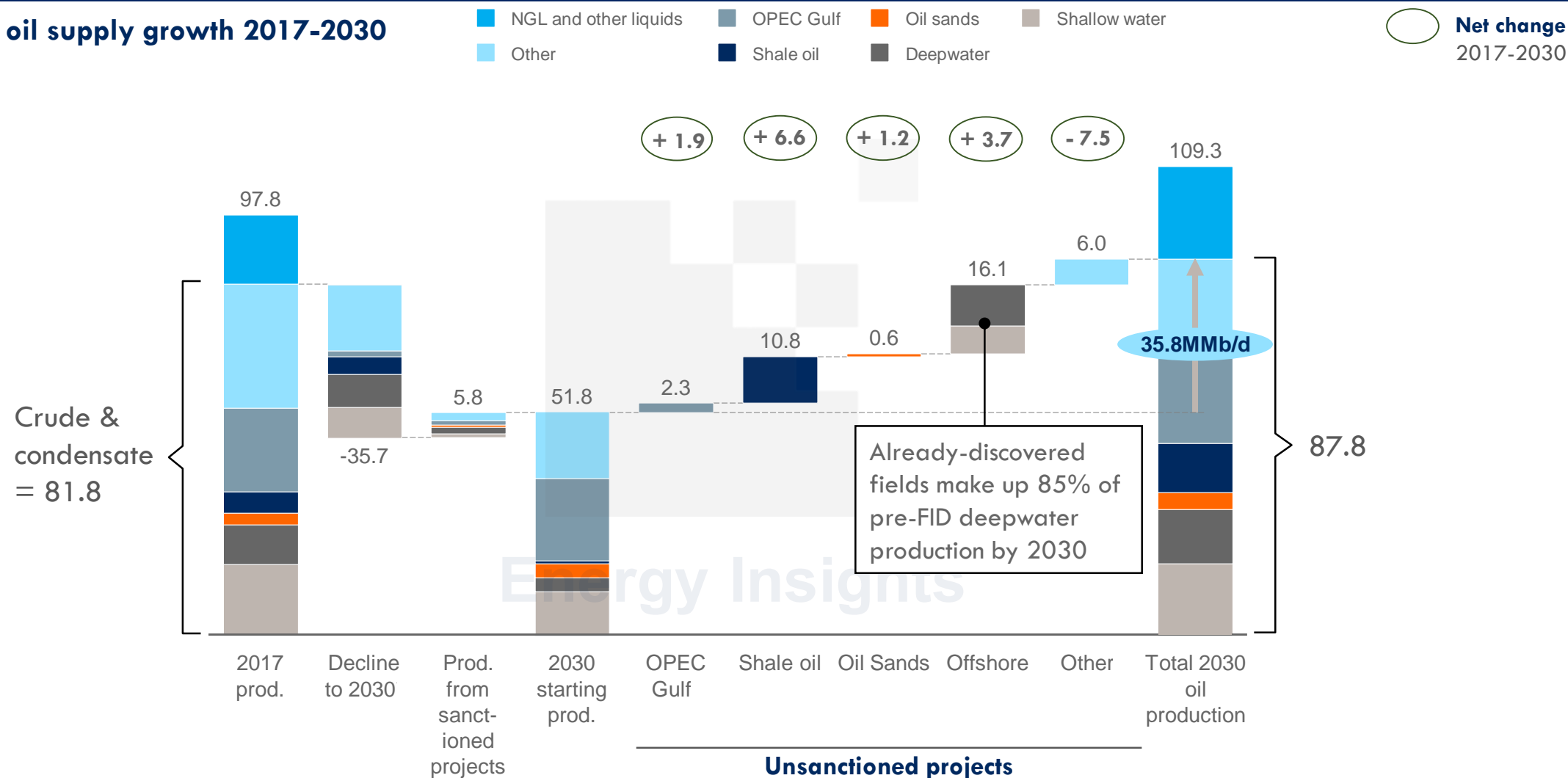
Market Update

- Q4 2018 produced the strongest non-project bookings quarter in 4 years
- Signs of increased bidding and service activity; oil price & rig environments improving but remain uncertain
- Signed frame agreement in Q4 2018 with a current estimated value of \$207 million with Premier Oil for the subsea production equipment for Sea Lion Phase I
- Repsol's Ca Rong Do (CRD) project continues to experience delays – Letter of Award extended through March 2019



Global Supply & Demand Through 2030

Global oil supply growth 2017-2030
mmb/d



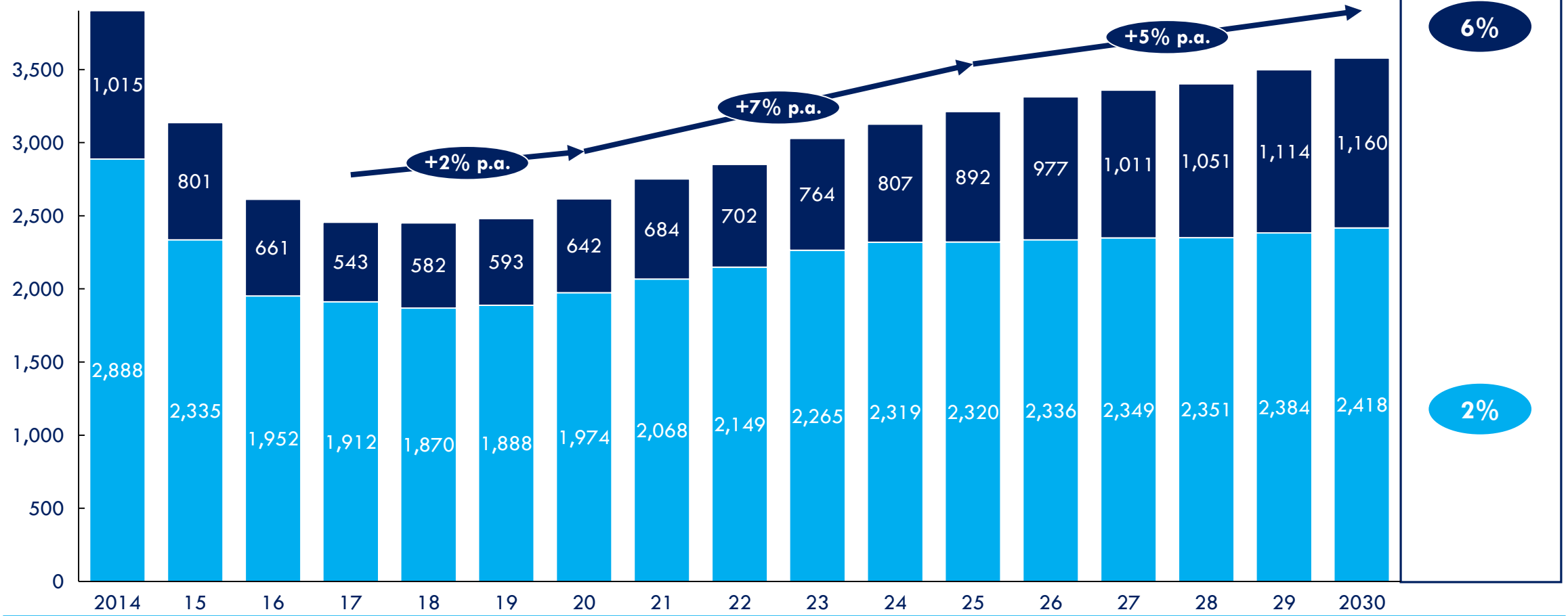
New Deepwater Project Sanctions Necessary to Satisfy Long-Term Demand

Evolving View of Timeline for Deepwater Recovery

Global offshore wells drilled

Number of wells

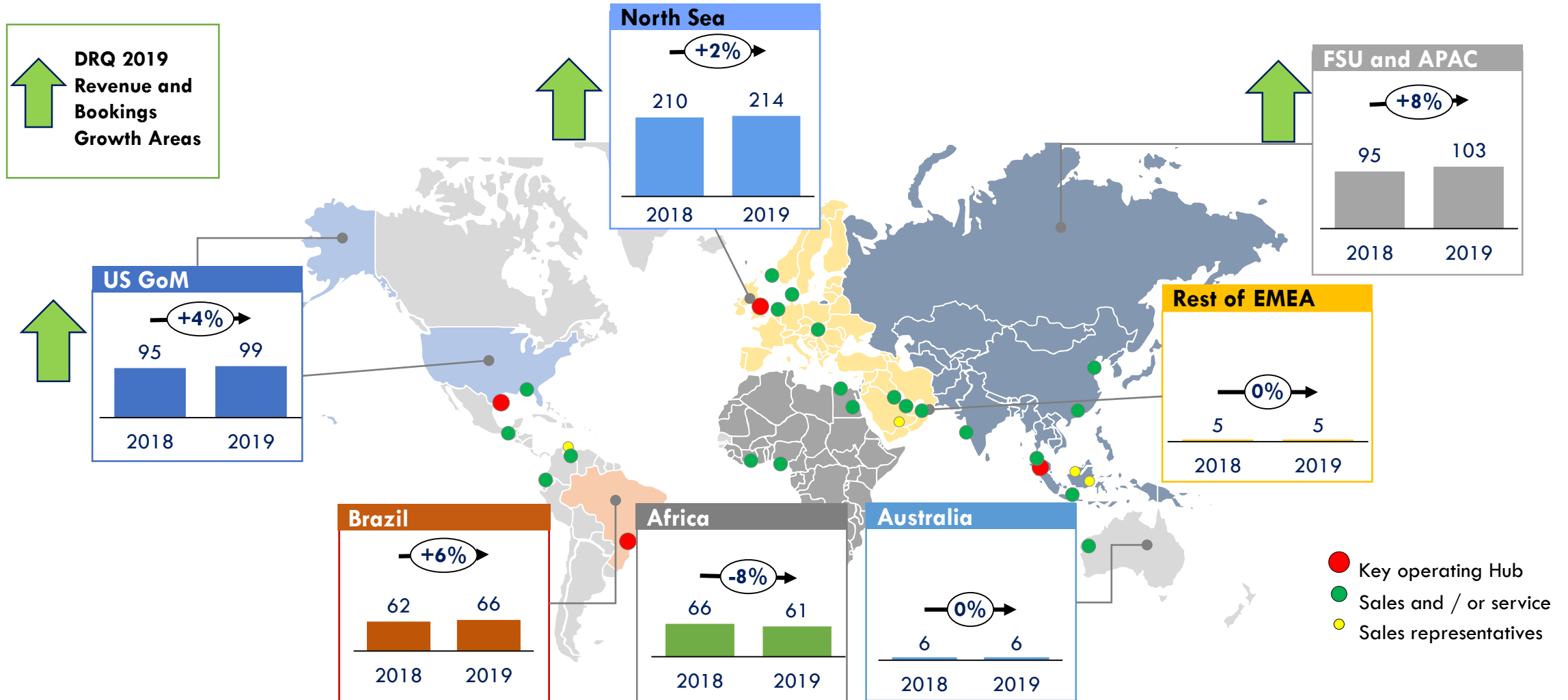
% Deepwater well CAGR ■ Deepwater ■ Shallow water



Deepwater Market Recovery Expected to be Gradual Until 2020

Well-Positioned to Serve Offshore Markets

Deepwater wells drilled by region (number of wells)



Executing Our Strategy

Commercial Excellence

- Leverage Product Differentiation
- Pursue Value & Solution Selling
- Expand Existing Market Share
- Capture New Product and New Customer Revenue

Organization Optimization

- Champion Cost-Effective Operating Model
- Focus on Operational Excellence
- Streamline Organization Structure

Integrated Supply Chain

- Develop Centralized Model
- Achieve Scalability
- Reduce Fixed Cost Base
- Adopt Best Source Approach

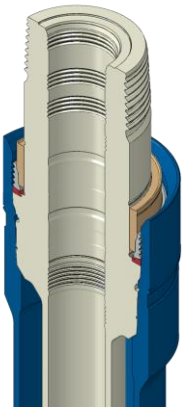
LEAN Implementation & Advanced Product Quality Planning (APQP)

Research & Development

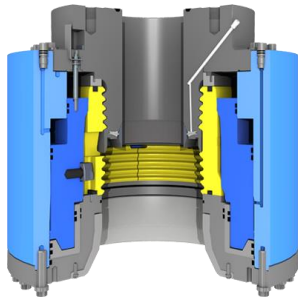
R&D is Key to Achieving Commercial Excellence

- Developing innovative products that structurally reduce total cost of ownership
- Expanding product portfolio to increase markets and market share
- Presented with *OTC Spotlight on New Technology* award for BigBore-Ile Wellhead System, DXe Wellhead Connector, and HFRé Hands-Free Drilling Riser

BigBore-Ile
Wellhead



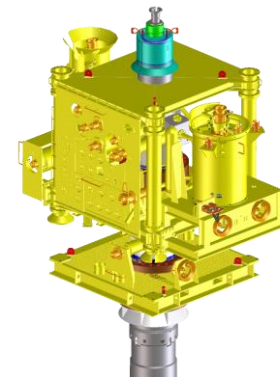
DXe Wellhead
Connector



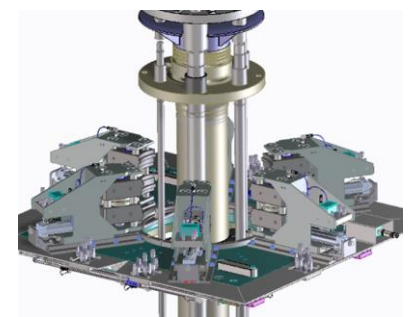
HorizontalBore
Subsea Tree



Concentric
Monobore Tree



HFRé Hands-Free
Drilling Riser



Executing on Commercial Excellence

❖ Targeting \$100 million in new product revenue by 2021

Subsea Production Systems

- R&D efforts served as key element for Sea Lion LOI

DXe Connector

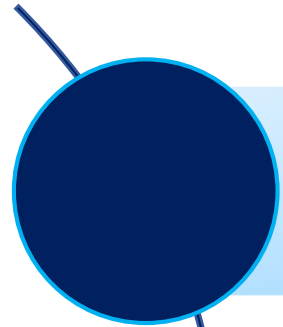
- Emerging as the standard profile for HPHT wellhead connectors
- Connector profile licensed to three large peers

BigBore IIe

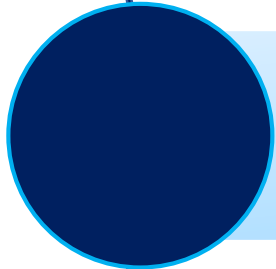
- Large customer standardizing on BB-IIe wellhead with DXe profile

Award-Winning R&D Efforts Driving New Product Revenue

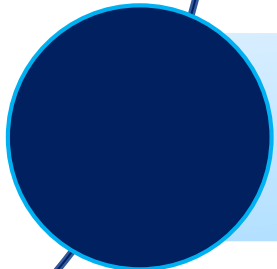
Overview of the Business Transformation



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



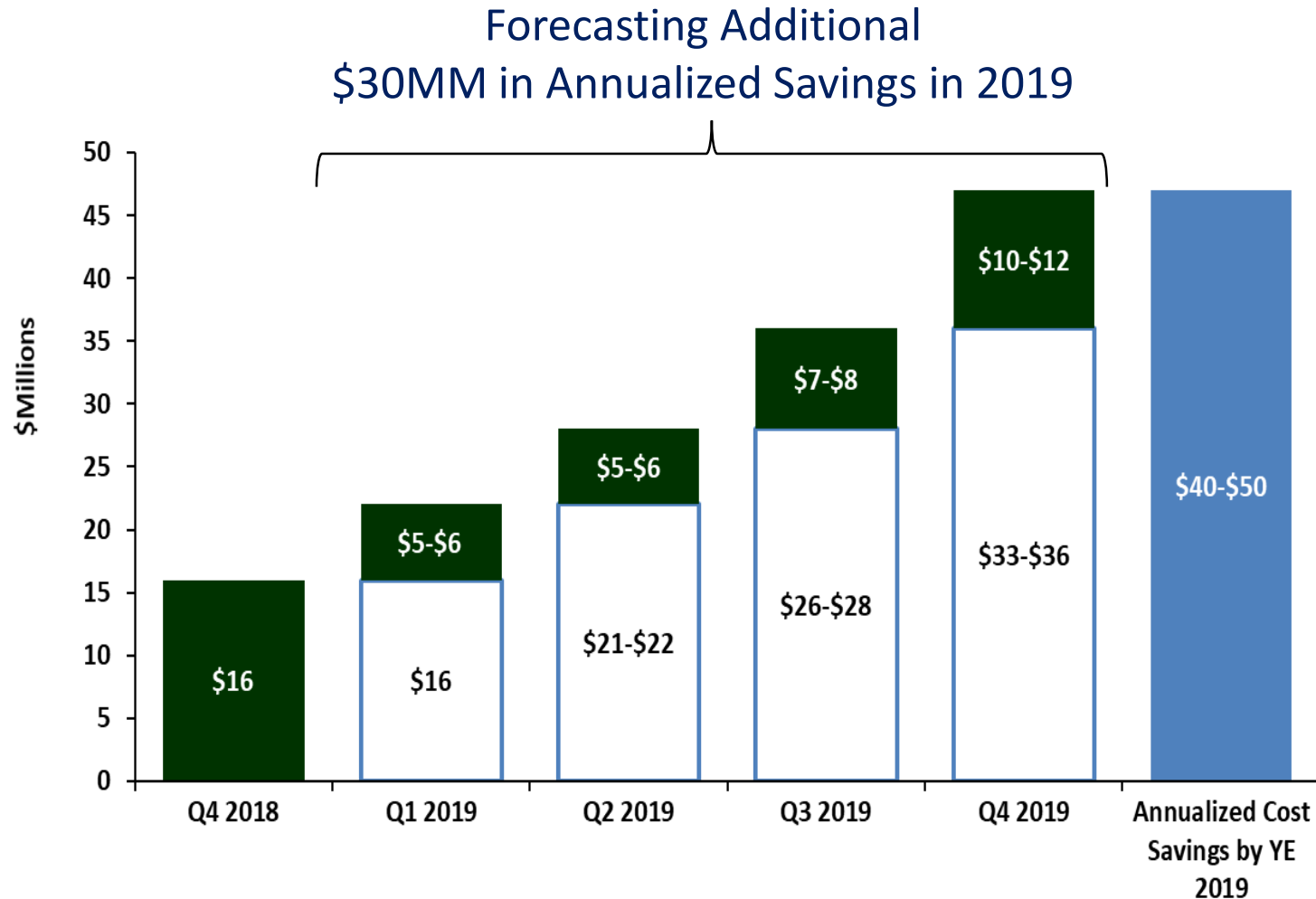
Broad Workforce Engagement – including distributed initiative ownership and frontline idea generation



Organized Transformation Infrastructure – systematically optimizing all cost elements with broad workforce engagement

Structured Approach to Improve Cost Performance Across All Areas

Expanding Annualized Cost Savings in 2019



- **Building on 2018 annualized savings of \$16 million**
 - Q4'18 focused on quick win initiatives
 - Q1'19 and Q2'19 focused on additional organizational realignment
 - Q3'19 and Q4'19 focused on footprint rationalization and supplier optimization
- **2020+ focused on integrated supply chain and procurement realignment projects; additional savings above the \$40 - \$50 million expected**

Sustainable Cost-Saving Initiatives

Business transformation workstreams and example focus areas (not comprehensive list)

Manufacturing

- Optimize footprint
- Implement lean practices
- Improve operational discipline

Supply chain

- Improve sourcing practices
- Consolidate supply base

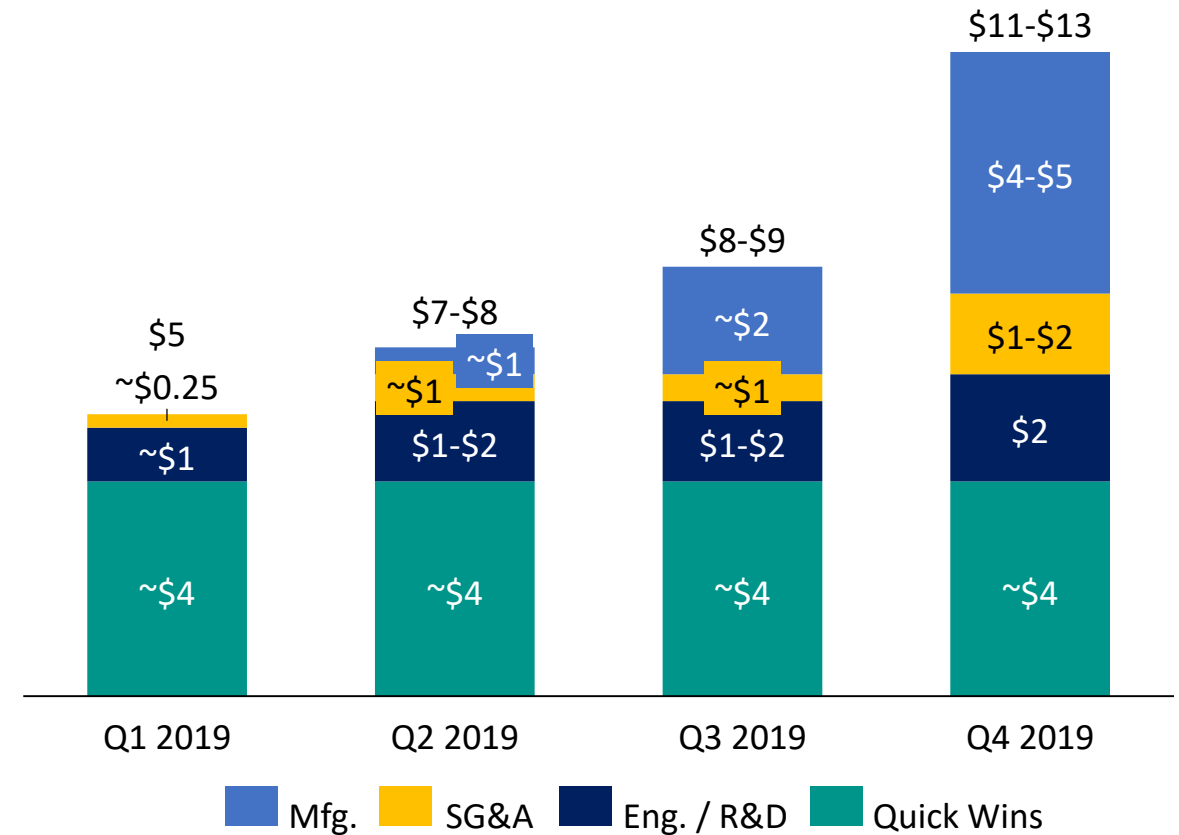
SG&A

- Optimize G&A functions
- Leverage global footprint

Engineering and R&D

- Rationalize structure and support levels

Cumulative Transformation Impact: Workstream By Quarter (\$mm)



Q42019 quarterly savings ~\$12 million, meeting annualized goal of ~\$50 million

On Track to Realize Additional \$30+ Million Annualized Savings in 2019

Liquidity Allocation Strategy

SOURCES

(\$ millions)

Internal Cash	\$418
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ABL Credit Facility Capacity	52
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Available Liquidity	470
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Notes

- Balances as of December 31, 2018
- ABL put in place on February 23, 2018
- Shelf registration statement filed on February 27, 2018 for general planning purposes
- New share repurchase plan approved by Board on February 26, 2019

POTENTIAL USES

(\$ millions)

New Share Repurchase Plan	\$100
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Fund Upturn & Key Projects	150 – 200
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Pursue Complementary Technology Tuck-in Acquisitions	50 – 100
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Liquidity in Place to Support Increased Activity During Upturn

2019 Outlook & Targeted Cost Savings

Est. Q1 2019 Revenue:
\$90 - \$100 million

Est. Full-year
2019 Revenue:
\$360 - \$400 million

Adj. EBITDA Growth
Benefiting from
Cost Savings Actions

Projecting Continued
Positive Free Cash Flow
in 2019

Realized Cost
Savings Expected
in 2019:
\$30 million

Targeted Annualized
Cost Savings by Year-
End 2019:
\$40 - \$50 million

Streamlining Structural Cost Base for Current and Future Environments



The image is a 3D digital rendering of an offshore oil and gas field. The upper portion shows a wide view of the ocean with several large industrial platforms. These platforms are complex structures with cranes, storage tanks, and various piping. They are situated on a dark, flat sea surface under a sky with soft, orange and blue hues, suggesting dawn or dusk. The lower portion of the image provides a detailed, cutaway view of the seabed. It reveals the intricate network of infrastructure beneath the water, including numerous vertical risers, horizontal pipelines, and smaller processing units. The seabed itself is depicted with realistic geological textures, showing layers of sediment and rock. The overall scene conveys a sense of large-scale industrial engineering in a remote marine environment.

Appendix

Income Statement

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

	Three months ended		Twelve months ended	
	December 31, 2018	September 30, 2018	December 31, 2018	December 31, 2017
	(In thousands, except per share data)			
Revenues:				
Products	\$ 66,042	\$ 63,246	\$ 265,052	\$ 351,132
Services	19,411	17,541	72,414	61,945
Leasing	11,882	12,470	47,160	42,392
Total revenues	97,335	93,257	384,626	455,469
Costs and expenses:				
Cost of sales	68,675	65,630	271,499	305,394
Selling, general and administrative	25,025	31,566	104,039	116,251
Engineering and product development	9,289	10,159	39,422	42,160
Impairment, restructuring and other charges	94,257	0	98,602	60,968
Gain on sale of assets	(1,085)	(14)	(6,198)	(168)
Total costs and expenses	196,161	107,341	507,364	524,605
Operating income (loss)	(98,826)	(14,084)	(122,738)	(69,136)
Interest income	2,075	1,893	8,040	3,564
Interest expense	254	(195)	(291)	(72)
Income tax provision (benefit)	(21,585)	(2,028)	(19,294)	34,995
Net income (loss)	\$ (74,912)	\$ (10,358)	\$ (95,695)	\$ (100,639)
Earnings (loss) per share	\$ (2.09)	\$ (0.28)	\$ (2.58)	\$ (2.69)
Depreciation and amortization	\$ 9,346	\$ 8,724	\$ 35,312	\$ 40,974
Capital expenditures	\$ 5,378	\$ 8,059	\$ 32,061	\$ 27,622
Weighted Average Shares Outstanding	35,891	36,923	37,075	37,457

Balance Sheet

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

	December 31, 2018	September 30, 2018	December 31, 2017
	(In thousands)		
Assets:			
Cash and cash equivalents	\$ 418,100	\$ 424,053	\$ 493,180
Other current assets	434,881	473,397	515,369
PP&E, net	274,123	292,677	284,247
Other assets	65,406	102,632	107,009
Total assets	<u>\$ 1,192,510</u>	<u>\$ 1,292,759</u>	<u>\$ 1,399,805</u>
Liabilities and Stockholders' Equity:			
Current liabilities	\$ 82,258	\$ 68,262	\$ 99,911
Long-term debt	0	0	0
Deferred taxes	2,466	3,211	3,432
Other long-term liabilities	11,624	30,030	2,001
Total liabilities	<u>96,348</u>	<u>101,503</u>	<u>105,344</u>
Stockholders' equity	1,096,162	1,191,256	1,294,461
Total liabilities and stockholders' equity	<u>\$ 1,192,510</u>	<u>\$ 1,292,759</u>	<u>\$ 1,399,805</u>

Non-GAAP Financial Measures

Adjusted Net Income and EPS:

	Three months ended					
	December 31, 2018		September 30, 2018		December 31, 2017	
	Effect on net income (after-tax) (1)	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)	\$ (74,912)	\$ (2.09)	\$ (10,358)	\$ (0.28)	\$ (71,492)	\$ (1.90)
Adjustments (after tax)						
Reverse the effect of foreign currency	(156)	0.00	32	0.00	3,505	0.10
Add back impairment and other charges	67,569	1.88	0	0.00	0	0.00
Less one-time tax adjustments	0	0.00	0	0.00	66,622	1.77
Restructuring costs, including severance	6,894	0.19	2,959	0.08	1,598	0.04
Gain on sale of assets	(857)	(0.02)	(11)	(0.00)	0	0.00
Adjusted net income (loss)	\$ (1,462)	\$ (0.04)	\$ (7,378)	\$ (0.20)	\$ 233	\$ 0.01

Adjusted Net Income and EPS:

	Twelve months ended December 31,					
	2018		2017		2016	
	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
Net income (loss)	\$ (95,695)	\$ (2.58)	\$ (100,639)	\$ (2.69)	\$ 93,221	\$ 2.47
Adjustments (after tax)						
Reverse the effect of foreign currency	(796) \$	(0.02)	6,733	0.18	(25,555)	(0.68)
Add back impairment and other charges	67,569 \$	1.82	39,629	1.06	0	0.00
Less one-time tax adjustments	0 \$	0.00	60,547	1.62	0	0.00
Restructuring costs, including severance	10,326 \$	0.28	3,548	0.09	5,094	0.14
Gain on sale of assets	(4,896) \$	(0.13)	0	0.00	0	0.00
Adjusted net income (loss)	\$ (23,491)	\$ (0.63)	\$ 9,818	\$ 0.26	\$ 72,760	\$ 1.93

Non-GAAP Financial Measures

Adjusted EBITDA:

	Three months ended		
	December 31, 2018	September 30, 2018	December 31, 2017
	(In thousands)		
Net Income (Loss)	\$ (74,912)	(10,358)	(71,492)
Add:			
Interest (income) expense	(2,329)	(1,698)	(572)
Income tax expense (benefit)	(21,585)	(2,028)	66,955
Depreciation and amortization expense	9,346	8,724	8,743
Restructuring costs, including severance	8,726	3,745	2,130
Long-lived asset, inventory and goodwill impairments	85,531	0	0
Gain on sale of assets	(1,085)	(14)	0
Foreign currency loss (gain)	(197)	41	4,327
Stock compensation expense	3,509	2,366	3,793
Adjusted EBITDA	\$ 7,004	\$ 778	13,884

Adjusted EBITDA:

	Year ended		
	December 31, 2018	December 31, 2017	December 31, 2016
	(In thousands)		
Net Income (Loss)	\$ (95,695)	\$ (100,639)	\$ 93,221
Add:			
Interest (income) expense	(7,749)	(3,492)	(3,009)
Income tax expense (benefit)	(19,294)	34,995	22,647
Depreciation and amortization expense	35,312	40,974	31,857
Restructuring costs, including severance	13,071	5,170	5,476
Long-lived asset, inventory and goodwill impairments	85,531	60,968	0
Gain on sale of assets	(6,198)	0	0
Foreign currency loss (gain)	(1,007)	8,292	(31,764)
Stock compensation expense	13,459	14,270	12,217
Adjusted EBITDA	\$ 17,430	\$ 60,538	\$ 130,645

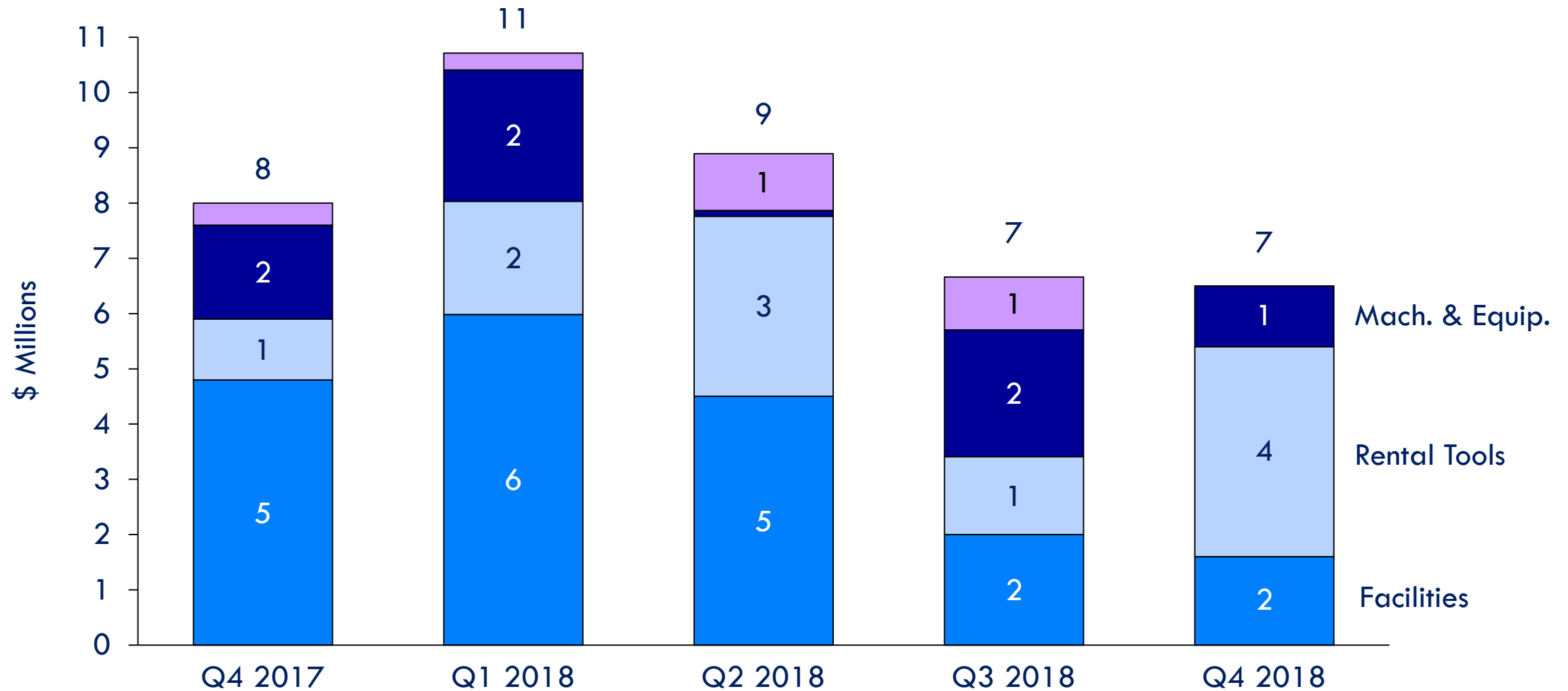
Non-GAAP Financial Measures

Free Cash Flow:

	Three months ended		
	December 31, 2018	September 30, 2018	December 31, 2017
	(In thousands)		
Net cash provided by operating activities	\$ 12,896	\$ 9,141	\$ 33,258
Less:			
Purchase of property, plant and equipment	(6,394)	(6,002)	(8,059)
Free Cash Flow	<u>\$ 6,502</u>	<u>\$ 3,139</u>	<u>\$ 25,199</u>

	Year ended December 31,		
	2018	2017	2016
	(In thousands)		
Net cash provided by operating activities	\$ 45,503	\$ 107,993	\$ 246,522
Less:			
Purchase of property, plant and equipment	(32,061)	(27,622)	(25,763)
Free Cash Flow	<u>\$ 13,442</u>	<u>\$ 80,371</u>	<u>\$ 220,759</u>

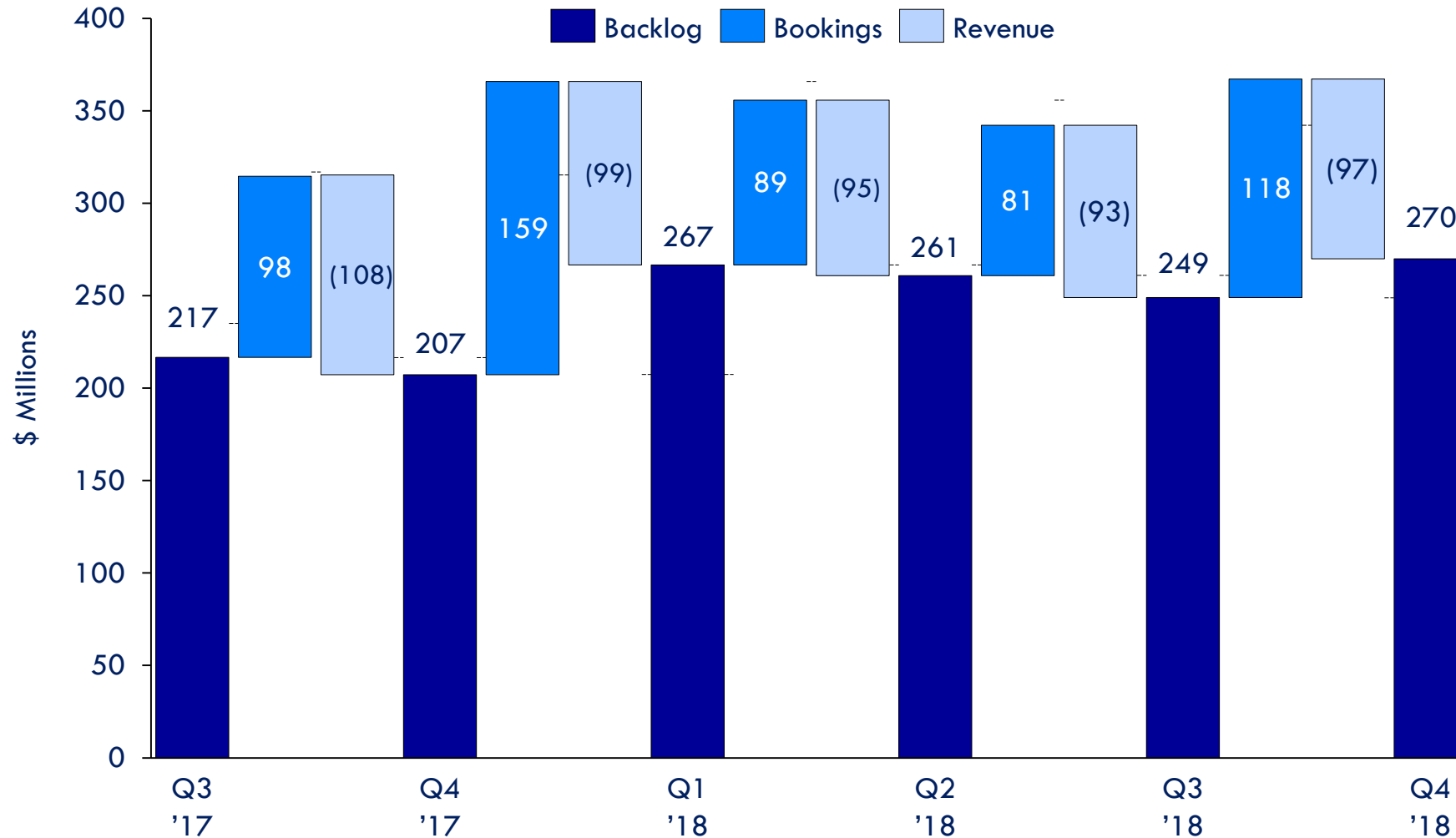
Capital Expenditures



Annual Maintenance Capex ~\$15 - \$20 million

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

Backlog

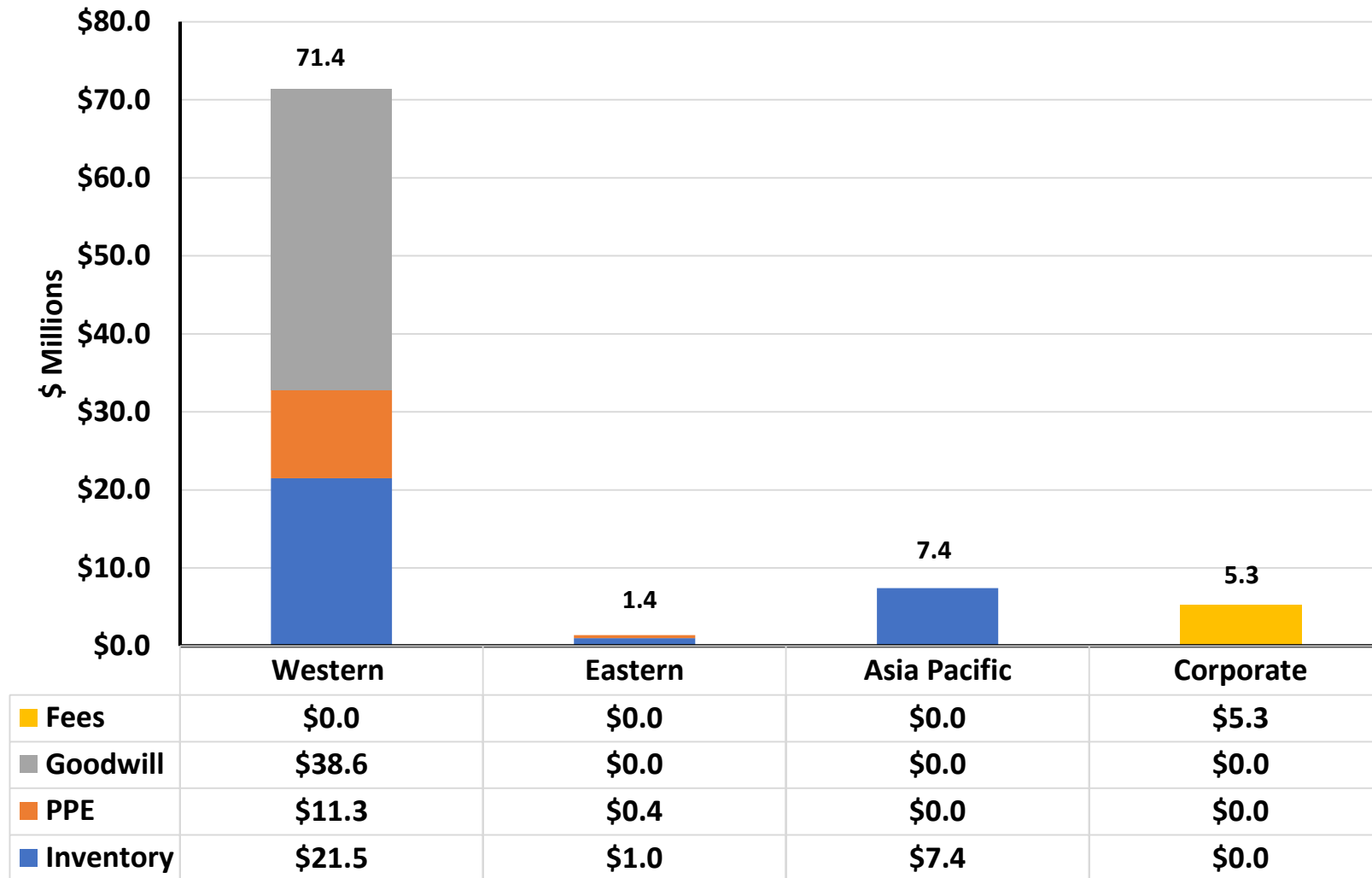


- 70% – 80% of year-end 2017 backlog expected to convert to revenue in twelve months or less
- Bookings require shorter lead times due to available capacity and inventory on hand

Note: The backlog data shown above includes all bookings as of December 31, 2018, including contract awards and signed purchase orders for which the contracts would not be considered enforceable under ASC 606.

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

Summary of Impairment Charges



As part of the strategic transformation project:

- Certain inventory, plant, property and equipment have been identified as not part of DRQ's future
- Aligning book values with expected future organizational structure
- Goodwill, PPE and Inventory charges are non-cash

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)