



# Third Quarter 2022 Supplemental Earnings Information

*the power of* 

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# Disclaimer | 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, but are not limited to, 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 ongoing COVID-19 pandemic, the impact of actions taken by the Organization of Petroleum Exporting Countries (OPEC) and non-OPEC nations to adjust their production levels, the general volatility of oil and natural gas prices and cyclical nature of the oil and gas industry, declines in investor and lender sentiment with respect to, and new capital investments in, 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, the impact of our customers and the global energy sector shifting some of their asset allocation from fossil-fuel production to renewable energy resources, 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, 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, stock-based compensation, 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 cash provided by operating activities less 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](http://www.dril-quip.com)) to communicate with investors. It is possible that the financial and other information posted there could be deemed to be material information. 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, Environmentally Responsible Products & First-class Service



Strong Financial Position



Results Driven Management Team

# Q3 2022 | Revenue Breakdown

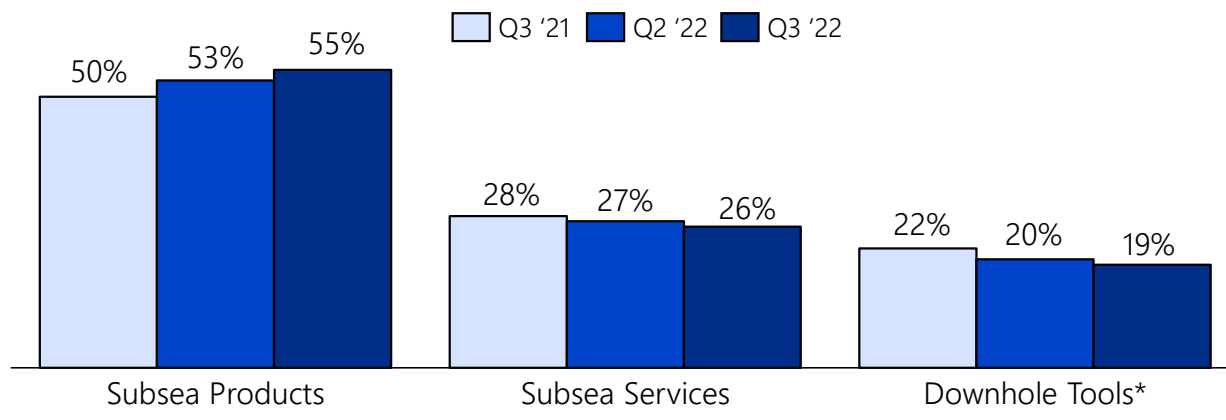


SUBSEA PRODUCTS

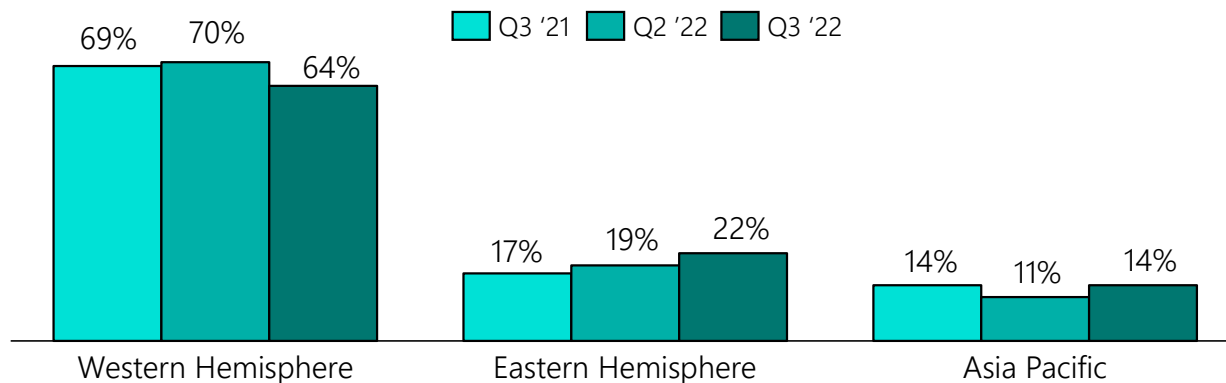
SUBSEA SERVICES

DOWNHOLE TOOLS

Product & Service Revenue Segments



Geographic Revenue Segments



\* Includes downhole tools products, leasing and services

## Q3 2022 | Highlights



- Revenue of \$88.1 million for the third quarter of 2022, a decrease of \$5.8 million from the second quarter of 2022 driven by unfavorable foreign exchange rate impacts, supply chain delays in downhole tools and reduced leasing revenues in subsea service;
- Net income of \$15.2 million, or \$0.45 earnings per share, an improvement of \$20.8 million, or \$0.61 per share compared to the second quarter of 2022, due to the gain on sale of the Houston forge facility, favorable income taxes, and lower restructuring costs in the period;
- Generated adjusted EBITDA of \$7.0 million, or 8.0% of revenue; a decrease of \$2.3 million from the second quarter of 2022;
- Cash and short-term investments ended the quarter at \$315.6 million. Third quarter net cash provided by operating activities of \$1.0 million and free cash flow of negative \$9.2 million, inclusive of \$10.3 million of capital expenditures;
- Closed on the sale of the Houston Forge facility during the third quarter of 2022 driving a net gain on sale of \$17.3 million;
- Booked \$75.0 million of gross new orders during the third quarter of 2022, net of \$13.3 million of cancellations and adjustments, bookings were \$61.7 million;
- Repurchased \$11.1 million of shares at an average price of \$24.35 during the third quarter of 2022. Year-to-date repurchases through the third quarter of 2022 total approx. \$21 million; and
- Received upgraded MSCI ESG rating of an "A" in the quarter.

Adjusted EBITDA and free cash flow are non-GAAP measures. See appendix for reconciliation to GAAP measures.

## Market Environment | Constructive Geographies



- Brazil's plans to drill ~350 wells in coming years highlights importance of our strong relationship with Petrobras
- Saudi Arabia activity increases to continue to drive subsea products and downhole tools growth in 2023 and beyond
- Norway/North Sea represents long-term CCUS potential through our collaboration agreement with Aker Solutions to complement the opportunity in our product and service portfolio

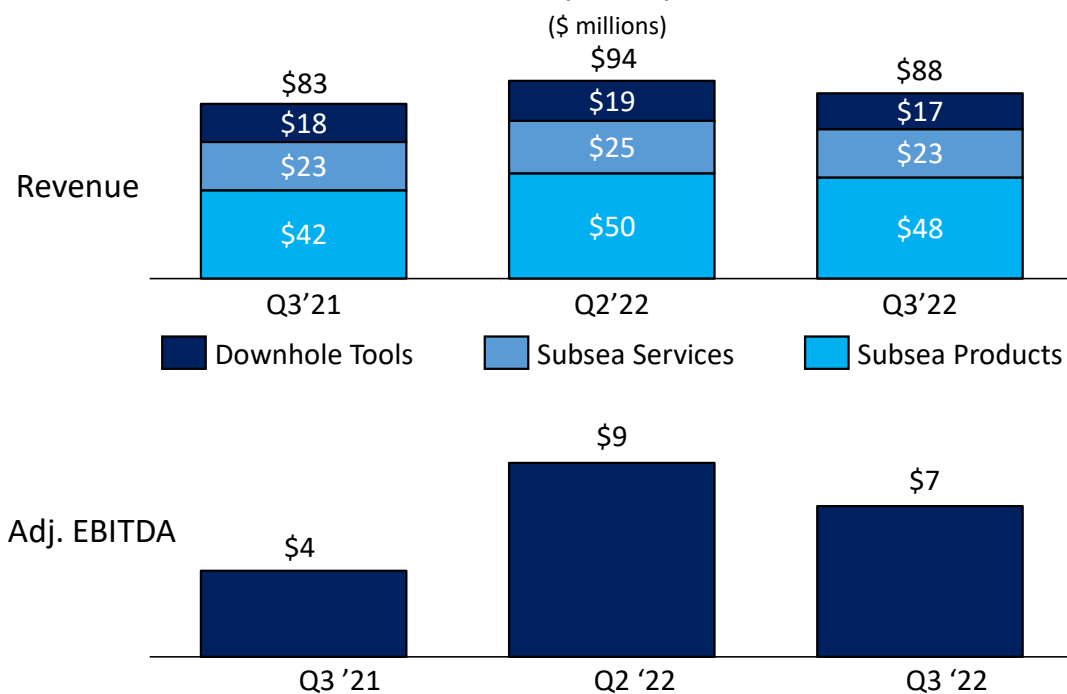


Collaboration agreements to provide tailwinds in improving offshore market.

## Q3 2022 | Financial Performance



### Quarterly Comparisons



- Revenue down \$5.8 million sequentially due to unfavorable foreign exchange rate impacts, supply chain delays in downhole tools and reduced leasing revenues in subsea service
- Revenue increased year-over-year due to higher subsea wellhead product sales primarily in Asia-Pacific and Europe
- Adjusted EBITDA was approximately \$7.0 million, down sequentially due to lower revenues
- Year-over-year increase in adjusted EBITDA driven primarily by increased revenue and reductions in administrative and engineering expense.

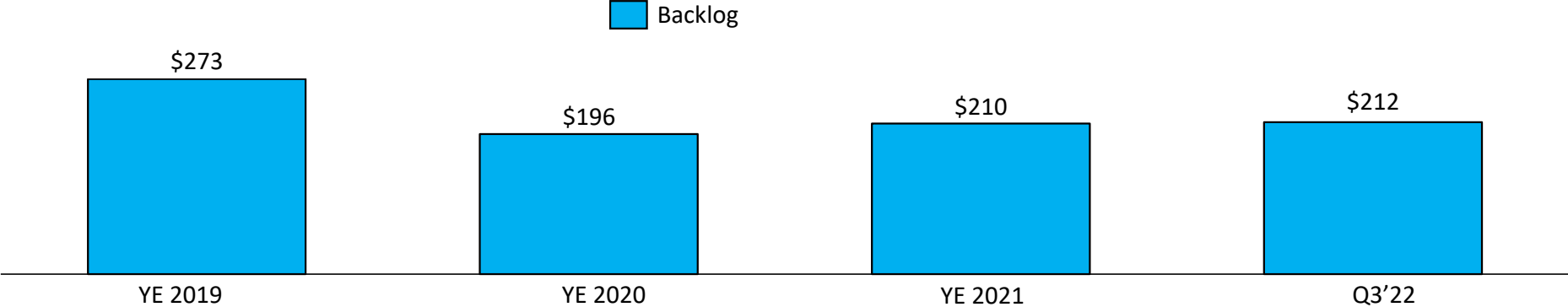
**Strong incremental margins compared to prior year. Decline in sequential revenue mitigated by cost reduction efforts.**

Note: Sum of components may not foot due to rounding. Adjusted EBITDA is a non-GAAP measure. See appendix for reconciliation to GAAP measure.

# Commercial Update | Bookings



Historical Backlog Trends (\$M)

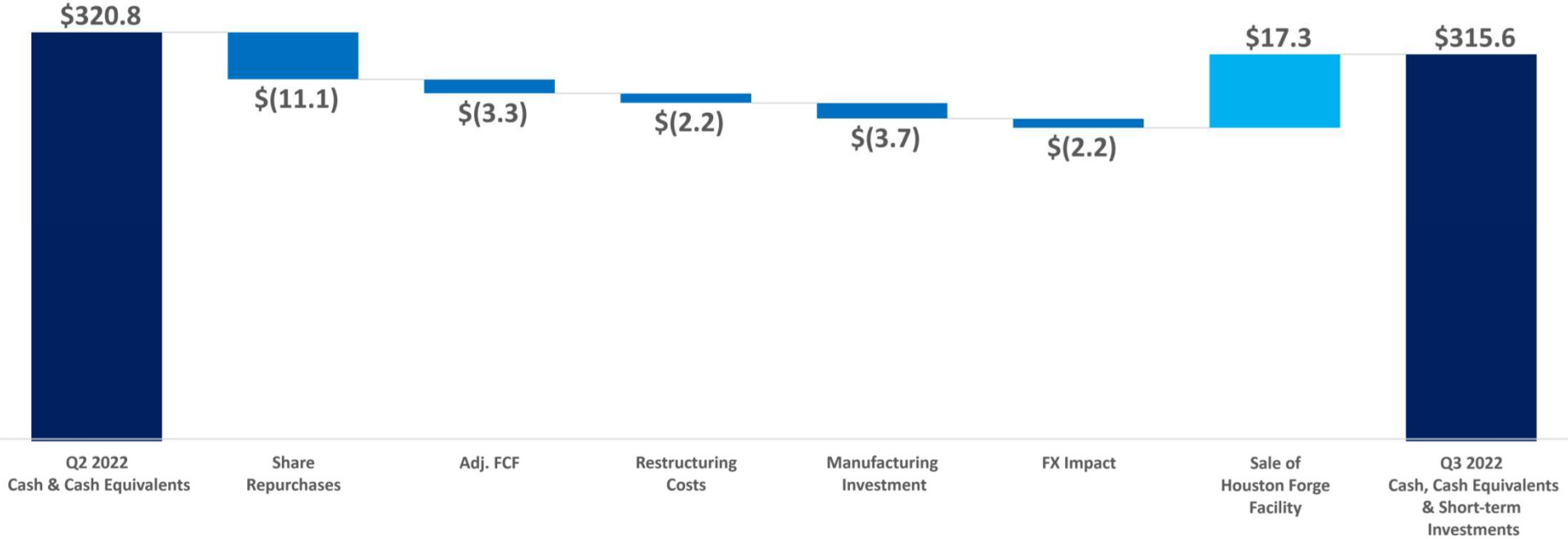


Historical Booking Trends (\$M)





# Q3 2022 | Cash, Cash Equivalents & Short-term Investments

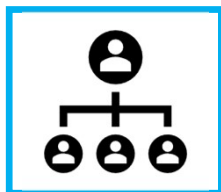


Note: Adj FCF is Free Cash Flow less restructuring costs and the manufacturing investment



### Strategic Growth Pillars

- Continue to execute on collaboration agreements, downhole tools growth and e-Series technology expansion



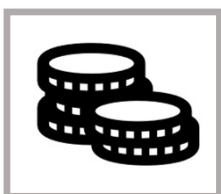
### Organizational Alignment

- Streamlined operations and leadership around more focused and integrated product and service lines



### Optimized Footprint

- Further transformation of our operational footprint to improve efficiency and reduce excess capacity



### Capital Allocation

- Disciplined deployment of capital to generate attractive returns on capital employed

## Subsea Products

### Wellheads, Connectors & SPS

- Remain Tier 1 wellhead provider
- Execute collaboration & license agreements
- Increase shallow water tree share
- Grow deepwater presence through VXTe monetization

BB11e Wellhead



## Downhole Tools

### Liner Hangers and Services

- Continue share gains in key markets
- Convert from conventional to expandable liner hangers
- Expand through current and future collaborations
- Increase test & assembly in local markets



XPak De

## Subsea Services

### Technical Service, Rentals and Rework

- Highly reactive support for equipment installation
- Global network of trained technicians and specialized tooling
- Dedicated facilities for refurbishment and rework

## Energy Transition

### Expansion into Decarbonization Opportunities

- Wellhead and tree injection offering for CCUS
- Collaborations with integrated providers (i.e. Aker Solutions)
- New technology introduction

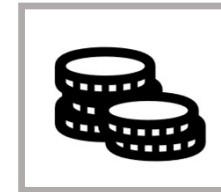


SBTe XT



### Footprint Optimization

- ✓ Closed on the sale of the Forge facility at the Houston, TX campus netting \$17.3 million gain on sale
- ✓ Terms being negotiated for two additional properties at Houston, TX campus
- ✓ Total proceeds from two additional sales expected to be in the \$20-\$30 million range, net of expenses



### Capital Allocation

- ✓ Initial cash outlay for manufacturing investment of \$3.7M. Additional \$18.3M remaining on authorization in coming twelve months
- ✓ Capex range for the year of \$15 million - \$17 million
- ✓ \$11.1M of stock repurchased in Q3
  - ✓ Year-to-date, inclusive of Q3, \$20.8M of cash returned to shareholders

### Capex / Internal

- Fund high return internal investments
- Targeted investments for franchise products
- Manufacturing, IT Systems, etc.

### Acquisition Growth

- Selective opportunities (energy and energy adjacent)

### Share Repurchase

- Returning excess cash to shareholders

Priority to organic growth, then attractive acquisitions that drive size and scale

## 2022 Outlook | Updated Financial Outlook



2022 Estimated  
Product Bookings  
Up 15% - 20% from  
2021

2022 Estimated  
Revenue:  
Up ~10% from 2021  
levels

2022 Estimated Adj.  
EBITDA: 30% to 40%  
Incremental margins

2022 Estimated  
Capex of  
\$15M to \$17M

Targeting Break-Even  
2022 Free Cash Flow\*  
Margin

\*Free Cash Flow = Operating Cash Flow less Capital Expenditures and does not include potential real estate divestures

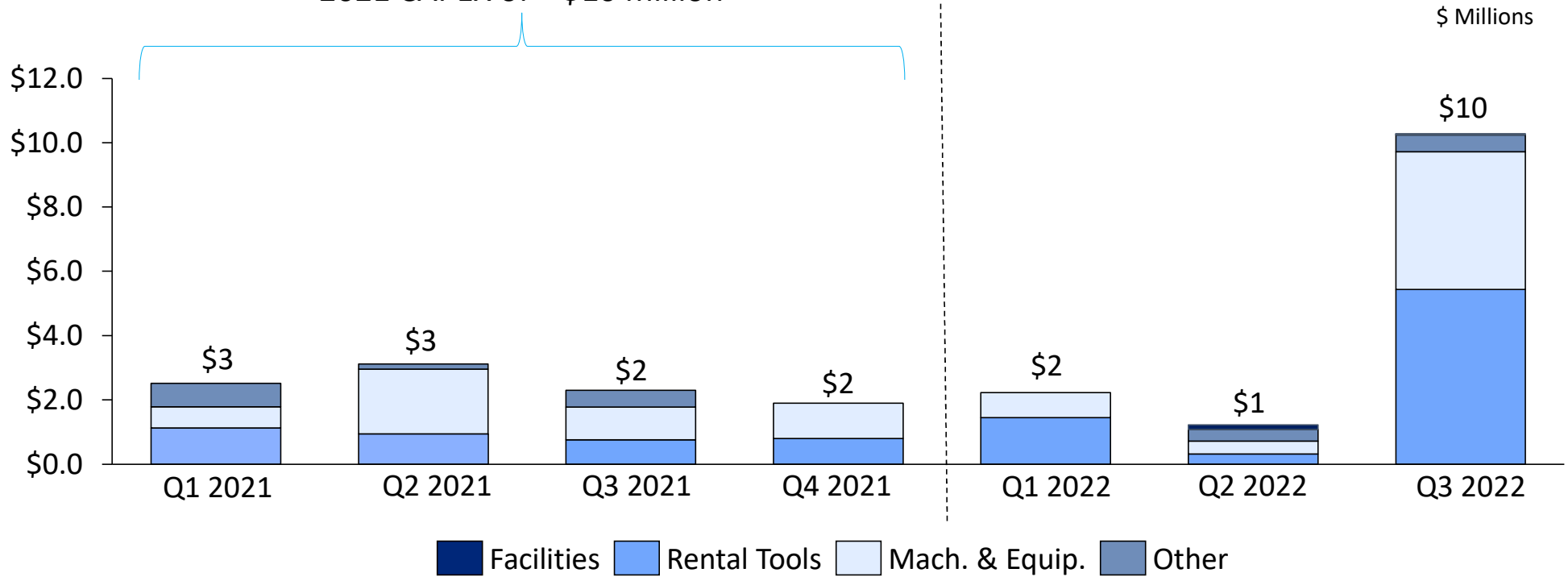
# Appendix

[dril-quip.com](http://dril-quip.com) | NYSE: DRQ

## Q3 2022 | Capital Expenditures



2021 CAPEX of ~\$10 million



Capital expenditures in 2022 are expected to be \$15 to \$17 million driven by investments in manufacturing, rental tools and information technology upgrades to support growth.

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

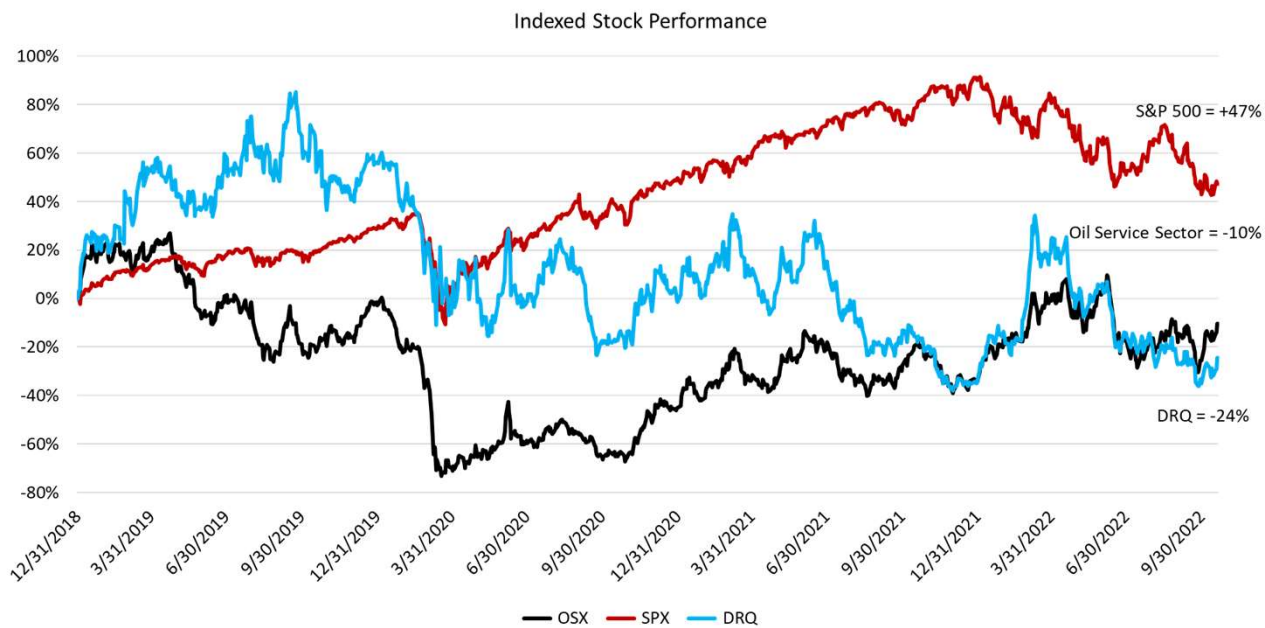


# Dril-Quip | Market Performance



## MARKET INFORMATION

Ticker	NYSE: DRQ		
Share Price (at close: 10/19/22)	\$22.70		
52-Week Range	\$18.17 - \$41.23		
Cash per Share (as of 9/30/2022)	\$ 9.30		
Performance:	DRQ	OSX	SPX
Since Q2 Filing (7/28/22)	-35%	99%	14%
Year-to-Date	15%	37%	-22%



Source: FactSet, Market data as of 10/19/2022

# Financial Statements | Income Statement



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

	Three months ended		
	September 30, 2022	June 30, 2022	September 30, 2021
	(In thousands, except per share data)		
<b>Revenues:</b>			
Products	\$ 58,508	\$ 61,979	\$ 53,622
Services	20,443	19,596	19,560
Leasing	9,190	12,403	9,815
<b>Total revenues</b>	<b>88,141</b>	<b>93,978</b>	<b>82,997</b>
<b>Costs and expenses:</b>			
Cost of sales	65,710	69,663	62,834
Selling, general and administrative	22,431	22,498	25,265
Engineering and product development	2,645	2,720	3,510
Restructuring and other charges	2,180	5,765	-
Gain on sale of property, plant and equipment	(17,276)	(380)	(13)
Foreign currency transaction gains	(1,901)	(2,419)	(1,663)
<b>Total costs and expenses</b>	<b>73,789</b>	<b>97,847</b>	<b>89,933</b>
Operating income (loss)	14,352	(3,869)	(6,936)
Interest income	379	573	188
Interest expense	(131)	(99)	(94)
Income tax provision (benefit)	(610)	2,175	4,301
<b>Net income (loss)</b>	<b>\$ 15,210</b>	<b>\$ (5,570)</b>	<b>\$ (11,143)</b>
<b>Income (Loss) per share</b>			
Basic	\$ 0.45	\$ (0.16)	\$ (0.31)
Diluted	\$ 0.44	\$ (0.16)	\$ (0.31)
Depreciation and amortization	\$ 7,123	\$ 7,670	\$ 7,899
Capital expenditures	\$ 10,283	\$ 1,363	\$ 2,303
<b>Weighted Average Shares Outstanding</b>			
Basic	33,948	34,476	35,387
Diluted	34,232	34,476	35,387

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

	September 30, 2022	December 31, 2021
(In thousands)		
<b>Assets:</b>		
Cash and cash equivalents	\$ 290,279	\$ 355,451
Short-term investments	25,287	-
Other current assets	430,192	390,098
PP&E, net	181,359	216,200
Other assets	43,407	48,677
<b>Total assets</b>	<b>\$ 970,524</b>	<b>\$ 1,010,426</b>
<b>Liabilities and Equity:</b>		
Current liabilities	\$ 89,287	\$ 93,663
Deferred Income taxes	3,918	3,925
Other long-term liabilities	12,482	15,730
<b>Total liabilities</b>	<b>105,687</b>	<b>113,318</b>
<b>Total stockholders equity</b>	<b>864,837</b>	<b>897,108</b>
<b>Total liabilities and equity</b>	<b>\$ 970,524</b>	<b>\$ 1,010,426</b>

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

**Adjusted Net Income (Loss) and EPS:**

	Three months ended					
	September 30, 2022		June 30, 2022		September 30, 2021	
	Effect on net income (loss) (after-tax)	Impact on diluted earnings (loss) per share	Effect on net income (loss) (after-tax)	Impact on diluted earnings (loss) per share	Effect on net income (loss) (after-tax)	Impact on diluted earnings (loss) per share
	(In thousands, except per share amounts)					
Net income (loss)	\$ 15,210	\$ 0.44	\$ (5,570)	\$ (0.16)	\$ (11,143)	\$ (0.31)
Adjustments (after tax):						
Reverse the effect of foreign currency transaction gains	(1,502)	(0.04)	(1,911)	(0.06)	(1,314)	(0.04)
Restructuring and other costs, including severance	1,722	0.05	4,554	0.13	-	-
Gain on sale of property, plant and equipment	(13,648)	(0.40)	(300)	(0.01)	(10)	-
Adjusted net income (loss)	\$ 1,782	\$ 0.05	\$ (3,227)	\$ (0.10)	\$ (12,467)	\$ (0.35)

## Financial Statements | Non-GAAP Financial Measures



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

<u>Adjusted EBITDA:</u>	<u>Three months ended</u>		
	<u>September 30, 2022</u>	<u>June 30, 2022</u>	<u>September 30, 2021</u>
	<u>(In thousands)</u>		
Net income (loss)	\$ 15,210	\$ (5,570)	\$ (11,143)
Add:			
Interest (income) expense, net	(248)	(474)	(94)
Income tax provision (benefit)	(610)	2,175	4,301
Depreciation and amortization expense	7,123	7,670	7,899
Restructuring and other costs, including severance	2,180	5,765	1,400
Gain on sale of property, plant and equipment	(17,276)	(380)	(13)
Foreign currency transaction gains	(1,901)	(2,419)	(1,663)
Stock compensation expense	2,569	2,573	3,276
Adjusted EBITDA	<u>\$ 7,047</u>	<u>\$ 9,340</u>	<u>\$ 3,963</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>September 30, 2022</u>	<u>June 30, 2022</u>	<u>September 30, 2021</u>
	<u>(In thousands)</u>		
Net cash provided (used) by operating activities	\$ 1,042	\$ (9,281)	\$ 9,323
Less:			
Purchase of property, plant and equipment	(10,283)	(1,363)	(2,303)
Free cash flow	<u>\$ (9,241)</u>	<u>\$ (10,644)</u>	<u>\$ 7,020</u>

## Financial Metrics | 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 & Short-Term Investments / 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)

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