
**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): April 25, 2019

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

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of each class</u>	<u>Ticker symbol(s)</u>	<u>Name of each exchange on which registered</u>
Common Stock, \$0.01 par value per share	DRQ	New York Stock Exchange

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))

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 April 25, 2019, Dril-Quip, Inc. (“Dril-Quip”) reported first quarter 2019 earnings. For additional information regarding Dril-Quip’s first quarter 2019 earnings, please refer to Dril-Quip’s press release attached to this report as Exhibit 99.1 (the “Press Release”), which Press Release is incorporated by reference herein.

Item 7.01 Regulation FD Disclosure.

On April 25, 2019, Dril-Quip posted the Q1 2019 Supplemental Earnings Information presentation (the “Presentation”) to its website at www.dril-quip.com. The Presentation is attached hereto as Exhibit 99.2.

The information in the Press Release and the Presentation is being furnished, not filed, pursuant to Items 2.02 and 7.01. Accordingly, the information in the Press Release and the Presentation will not be incorporated by reference into any registration statement filed by Dril-Quip under the Securities Act of 1933, as amended, unless specifically identified therein as being incorporated therein by reference.

Item 9.01 Financial Statements and Exhibits.

(d) Exhibits.

The exhibits listed below are being furnished pursuant to Items 2.02 and 7.01 of this Form 8-K:

<u>Exhibit No.</u>	<u>Description</u>
99.1	Press Release issued April 25, 2019.
99.2	Q1 2019 Supplemental Earnings Information Presentation.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

DRIL-QUIP, INC.

By: /s/ Jeffrey J. Bird

Jeffrey J. Bird
Senior Vice President – Production Operations and
Chief Financial Officer

Date: April 25, 2019

Dril-Quip, Inc. Announces First Quarter 2019 Results

HOUSTON – April 25, 2019 / GlobeNewswire - Dril-Quip, Inc. (NYSE: DRQ) today reported operational and financial results for the first quarter 2019.

Key highlights included:

- Recorded first quarter 2019 revenues of \$94.3 million, near the midpoint of the guidance range
- Increased non-project bookings to \$99 million in the first quarter of 2019, which is the second consecutive strong booking quarter
- Received several significant new orders to supply new technology products
- Reported a net loss of \$6.1 million, or \$0.17 loss per diluted share, which included restructuring charges of \$2.4 million
- Generated net cash provided by operating activities of \$0.8 million and negative free cash flow of \$2.7 million, which includes \$5 million of payments related to restructuring. Excluding these payments, free cash flow was positive \$2.3 million
- Grew Adjusted EBITDA to \$9.3 million in the first quarter of 2019
- Captured \$8 million in additional annualized cost savings in the first quarter of 2019; increasing total annualized savings to approximately \$24 million
- Reported cash on hand of \$414.8 million and maintained a clean balance sheet with no debt as of March 31, 2019

Blake DeBerry, Dril-Quip's President and Chief Executive Officer, commented, "We continue to build on our recent successes. In the first quarter of 2019, we recorded strong revenue of \$94.3 million and increased Adjusted EBITDA to \$9.3 million. We also experienced another strong non-project bookings quarter, and our backlog grew to \$303.7 million. We are seeing international drilling activity continue to increase as well as our quote activity. In 2019, we have seen new orders placed for several of our new technology products which allow our customers to reduce their total installed cost. In the second quarter, we received a new order from a major integrated oil company, which combines several of our new technology products, including our 20k BigBore IIe™ system including the DXe™ profile and our

Badger™ specialty connector system. These new product bookings of our award-winning R&D systems are positive steps toward our goal of \$100 million in new product revenue by 2021. As we look to the future, we will continue to leverage our technologically innovative products, first-class service and strong balance sheet to provide the equipment and support to our valued customers around the world.”

“Our cash position remained strong at over \$414 million at the end of the first quarter, and our balance sheet remains debt-free. We will remain keenly focused on implementing our cost savings initiatives to maximize margins, and in the first quarter, we captured \$8 million in additional annualized cost savings. The Company continues to focus on free cash flow and delivered close to \$1 million in cash flow from operations in the first quarter. This was impacted by costs related to our restructuring initiatives that totaled approximately \$5 million and the purchase of long-lead items related to new customer orders. We will continue to use our cash position and strong, debt-free balance sheet to support the recent increase in order demand. Although we expect some short-term variability in cash flow, we are targeting to be free cash flow positive for the full year.”

“Looking ahead to the second quarter, we expect revenues to be at the high end of the previously indicated range of \$90 to \$100 million. We are also increasing our expectations for bookings in the second quarter to between \$75 and \$95 million. We remain cautiously optimistic about bookings in the back half of the year but do not have clear visibility due to shortened lead times. Dril-Quip is poised financially and operationally to fund working capital in an improving market and deliver profitable growth and meaningfully add value to our shareholders.”

In conjunction with today’s release, the Company posted a new investor presentation entitled “First Quarter 2019 Supplemental Earnings Information” to its website, www.dril-quip.com, on the “Events & Presentations” page under the Investors tab. Investors should note that Dril-Quip announces material financial information in 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.

New Orders

During the first quarter of 2019, Dril-Quip received an order from BP to supply subsea wellhead systems valued at approximately \$25-\$35 million. Delivery of these systems is expected to begin in the fourth quarter of 2019 and continue into the first half of 2021. The order was placed under the Global Agreement between BP and Dril-Quip for supply of equipment and services established in 2013 and recently extended until 2023. The extended Global Agreement includes optionality for BP to order the BigBore IIe™ wellhead system, which includes an integral two million pound high-capacity casing hanger lockdown that can eliminate the need for drilling/production lockdown equipment and can eliminate up to five trips into the well.

Following the end of the first quarter, the Company received an initial order to supply four 20K BigBore IIe™ subsea wellhead systems from another major integrated oil company. This order is not included in the first quarter bookings and delivery of these systems is expected to occur in the first quarter of 2021. This order combines several of Dril-Quip's new technology products which allow its customers to reduce their total installed cost. The order also includes the Company's Badger™ specialty casing connector which provides an improved make-up that saves time and reduces personnel while also meeting customers' highest specifications with gas-tight metal seal integrity. The customer also elected to utilize the DXe™ profile on these wellhead systems which will allow the option to select Dril-Quip's DXe™ wellhead connector that provides high-fatigue, high-load capacity with no bolts in the load path and has been validated and tested beyond the latest industry requirements.

In relation to the previously announced contract award to supply top tensioned riser (TTR) systems and related services for the development of the Ca Rong Do Project located offshore Vietnam operated by Repsol, Dril-Quip entered into an amendment with Repsol to extend that letter of award until December 31, 2019. This contract award remains in the Company's backlog but the Company does not include this project in its 2019 revenue guidance provided in its fourth quarter 2018 earnings release and the Company does not expect this project to impact its 2019 revenue due to the continued delays in the project.

Operational and Financial Results

Revenue, Cost of Sales and Gross Operating Margin

Consolidated revenue for the first quarter of 2019 was \$94.3 million, a decrease of \$3.0 million compared to the fourth quarter of 2018, driven by a decrease in product revenues of \$0.6 million, services of \$1.0 million and leasing of \$1.5 million. Western Hemisphere revenue for the first quarter of 2019 decreased from the prior quarter by \$6.4 million, or 11%, primarily driven by lower activity levels. Eastern Hemisphere revenue was consistent with the prior quarter. Asia-Pacific revenue increased sequentially by \$3.6 million, or 30%, due primarily to increased product sales.

Cost of sales for the first quarter of 2019 was \$69.4 million, a decrease of \$4.1 million compared to the prior quarter. Gross operating margin for the first quarter of 2019 was 26.4%, an increase from 24.6% in the fourth quarter of 2018. The improved gross margin was mainly due to favorable product mix in both the U.S. and Asia-Pacific. These margins also reflect the Company's new realignment of costs as a result of the restructuring and the early stages of the ongoing cost savings initiatives.

Selling, General and Administrative Expenses

Selling, general and administrative ("SG&A") expenses for the first quarter of 2019 were \$24.5 million, essentially flat with the fourth quarter of 2018. The flat quarter-over-quarter results are primarily due to the continued execution of the first phase of Dril-Quip's restructuring initiative that was partially offset by employee compensation market adjustments.

Net Income, Adjusted EBITDA and Free Cash Flow

For the first quarter of 2019, Dril-Quip reported a net loss of \$6.1 million, or \$0.17 loss per diluted share. During the quarter, the Company recorded restructuring charges totaling \$2.4 million comprised of severance and implementation expenses associated with its cost savings initiatives.

Adjusted net loss for the first quarter was \$4.2 million (\$0.12 loss per diluted share), after excluding \$0.05 per share related to restructuring charges and the impact of foreign currency. Adjusted EBITDA totaled \$9.3 million for the first quarter of 2019, compared to \$7.0 million in the fourth quarter of 2018. Dril-Quip generated \$0.8 million in net cash provided by operating activities after disbursing cash severance and related costs totaling approximately \$5.0 million in conjunction with the restructuring efforts. Free cash flow for the first quarter was negative \$2.7 million after approximately \$3.5 million in capital expenditures. Excluding the restructuring payments, free cash flow was positive \$2.3 million.

Cost Saving Initiatives

In 2018, Dril-Quip began the implementation of a full business transformation centered around a structured approach to improve cost performance across the entire Company. The sustainable cost-saving initiatives are focused on optimizing and improving the Company's infrastructure across manufacturing, supply chain, SG&A, engineering and R&D and is expected to result in continuing Adjusted EBITDA improvements of \$40 to \$50 million annually. This reorganization will allow Dril-Quip to maintain its global presence in key markets, while supporting an integrated supply chain model which will create more flexibility in meeting the needs of its customers. Some examples of the progress made to date include labor workforce reductions, supplier renegotiations, reducing and rationalizing global footprints, and optimizing operational activities. During the first quarter of 2019, Dril-Quip achieved an additional \$8 million of annualized costs savings, bringing the total annualized savings to approximately \$24 million. The Company will continue to provide updates on its progress throughout 2019.

Balance Sheet

Dril-Quip's cash on hand as of March 31, 2019 was \$414.8 million, which together with the asset-based lending (ABL) facility, resulted in approximately \$455 million of available liquidity. This strong liquidity position provides both financial and operational flexibility and allows the Company to quickly capitalize on opportunities as market conditions improve. This robust cash position also allows the Company to continue to execute on Dril-Quip's long-term strategy of investing in research and development, supporting an upturn, opportunistically returning cash to shareholders, and pursuing complementary acquisitions.

Share Repurchases

On February 26, 2019, the Board of Directors authorized a share repurchase plan under which the Company can repurchase up to \$100 million of its common stock. The repurchase plan has no set expiration date and any repurchased shares are expected to be cancelled. For the three-month period ended March 31, 2019, the Company purchased 28,078 shares under the share repurchase plan at an average price of approximately \$39.74 per share totaling approximately \$1.1 million and retired such shares. The Company continues to evaluate current market conditions on an ongoing basis as it relates to executing its share buyback program.

About Drill-Quip

Drill-Quip is a leading manufacturer of highly engineered drilling and production equipment for use onshore and offshore, which is particularly well suited for use in deep-water, harsh environments and severe service applications.

Forward-Looking Statements

Statements contained herein relating to future operations and financial results that are forward-looking statements, including those related to market conditions, anticipated project bookings, expected timing of completing the strategic restructuring, anticipated timing of delivery of new orders, anticipated revenues, costs, cost synergies and savings, possible acquisitions, new product offerings and related revenues, share repurchases and expectations regarding operating results, are based upon certain assumptions and analyses made by the management of the Company in light of its experience and perception of historical trends, current conditions, expected future developments and other factors. These statements are subject to risks beyond the Company's control, including, but not limited to, the volatility of oil and natural gas prices and cyclical nature of the oil and gas industry, project terminations, suspensions or scope adjustments to contracts, uncertainties regarding the effects of new governmental regulations, the Company's international operations, operating risks, and other factors detailed in the Company's public filings with the Securities and Exchange Commission. 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.

See tables 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 should be read together with, and are not an alternative or substitute for, the Company's financial results reported in accordance with GAAP. Because non-GAAP financial information is not standardized, it may not be possible to compare these financial measures with other companies' non-GAAP financial measures.

SOURCE: Dril-Quip, Inc.

Raj Kumar, Vice President of Finance, (713) 939-7711

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

	Three months ended		
	March 31, 2019	December 31, 2018	March 31, 2018
(In thousands, except per share data)			
Revenues:			
Products	\$ 65,434	\$ 66,042	\$ 71,045
Services	18,476	19,411	17,463
Leasing	10,407	11,882	10,665
Total revenues	<u>94,317</u>	<u>97,335</u>	<u>99,173</u>
Costs and expenses:			
Cost of sales	69,376	73,436	73,485
Selling, general and administrative	24,544	24,380	27,547
Engineering and product development	3,617	5,173	4,418
Impairment, restructuring and other charges	2,396	94,257	—
Gain on sale of assets	(13)	(1,085)	—
Total costs and expenses	<u>99,920</u>	<u>196,161</u>	<u>105,450</u>
Operating income (loss)	(5,603)	(98,826)	(6,277)
Interest income	2,006	2,075	1,797
Interest expense	(121)	254	(2)
Income tax provision (benefit)	2,333	(21,585)	2,901
Net income (loss)	<u>\$ (6,051)</u>	<u>\$ (74,912)</u>	<u>\$ (7,383)</u>
Earnings (loss) per share	<u>\$ (0.17)</u>	<u>\$ (2.09)</u>	<u>\$ (0.20)</u>
Depreciation and amortization	<u>\$ 8,356</u>	<u>\$ 9,346</u>	<u>\$ 8,241</u>
Capital expenditures	<u>\$ 3,527</u>	<u>\$ 5,378</u>	<u>\$ 10,571</u>

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

	<u>March 31, 2019</u>	<u>December 31, 2018</u>
	(In thousands)	
Assets:		
Cash and cash equivalents	\$ 414,808	\$ 418,100
Other current assets	428,532	434,881
PP&E, net	270,424	274,123
Other assets	69,965	65,406
Total assets	<u>1,183,729</u>	<u>1,192,510</u>
Liabilities and Stockholders' Equity:		
Current liabilities	\$ 70,729	\$ 82,258
Long-term debt	—	—
Deferred taxes	2,332	2,466
Other long-term liabilities	15,263	11,624
Total liabilities	88,324	96,348
Stockholders' equity	1,095,405	1,096,162
Total liabilities and stockholders' equity	<u>\$ 1,183,729</u>	<u>\$ 1,192,510</u>

Unaudited Non-GAAP Financial Measures

Adjusted Net Income and EPS:	Three months ended					
	March 31, 2019	December 31, 2018		March 31, 2018		
	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)	\$ (6,051)	\$ (0.17)	\$ (74,912)	\$ (2.09)	\$ (7,383)	\$ (0.20)
Adjustments (after tax)						
Reverse the effect of foreign currency	(556)	(0.02)	(156)	—	1,059	0.03
Add back impairment and other charges	—	—	67,569	1.88	—	—
Restructuring costs, including severance	2,396	0.07	6,894	0.19	474	0.01
Gain on sale of assets	(13)	(0.00)	(857)	(0.02)	—	—
Adjusted net income (loss)	<u>\$ (4,224)</u>	<u>\$ (0.12)</u>	<u>\$ (1,462)</u>	<u>\$ (0.04)</u>	<u>\$ (5,850)</u>	<u>\$ (0.16)</u>
Adjusted EBITDA:						
		March 31, 2019	Three months ended December 31, 2018		March 31, 2018	
			(In thousands)			
Net Income (Loss)		\$ (6,051)	\$ (74,912)	\$ (7,383)		
Add:						
Interest (income) expense		(1,885)	(2,329)	(1,795)		
Income tax expense (benefit)		2,333	(21,585)	2,901		
Depreciation and amortization expense		8,356	9,346	8,241		
Restructuring costs, including severance		2,396	8,726	600		
Long-lived asset, inventory and goodwill impairments		—	85,531	—		
Gain on sale of assets		(13)	(1,085)	—		
Foreign currency loss (gain)		(704)	(197)	1,304		
Stock compensation expense		4,862	3,509	3,974		
Adjusted EBITDA (1)		<u>\$ 9,294</u>	<u>\$ 7,004</u>	<u>\$ 7,842</u>		

Free Cash Flow:

	Three months ended		
	March 31, 2019	December 31, 2018	March 31, 2018
Net cash provided by operating activities	\$ 838	\$ 12,896	\$ 11,388
Less:		(In thousands)	
Purchase of property, plant and equipment	(3,527)	(6,394)	(10,571)
Free Cash Flow	<u>\$ (2,689)</u>	<u>\$ 6,502</u>	<u>\$ 817</u>

DRIL-QUIP

First Quarter 2019 Supplemental Earnings Information

dril-quip.com | NYSE: DRQ

Cautionary Statement

Forward-Looking Statements

The information furnished in this presentation contains "forward-looking statements" within the meaning of the federal securities laws. Forward-looking statements include goals, projections, estimates, expectations, market outlook, forecasts, plans and objectives, including revenue and new product revenue and other projections, project bookings, bidding and service activity, acquisition opportunities, forecasted supply and demand, 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.

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.

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

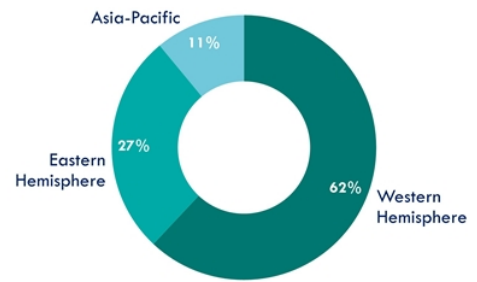
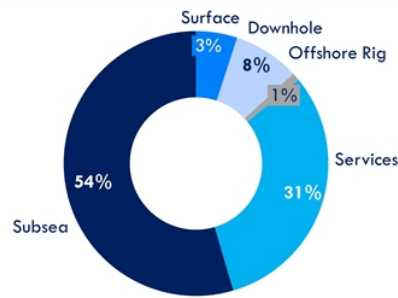
- Reconditioning
- Rental Tools
- Technical Advisory

Revenue Mix

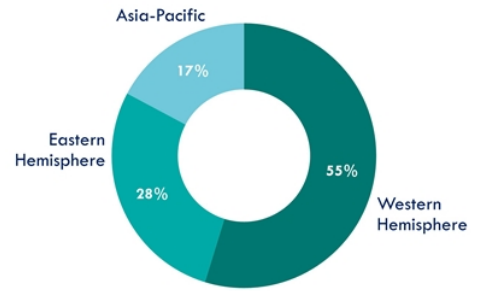
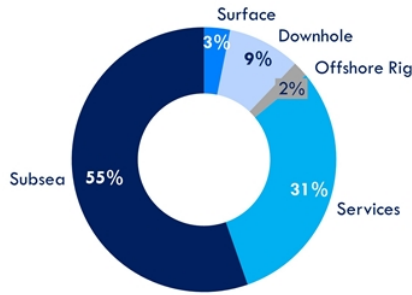
By Product and Service Segment

By Geographic Area

FY 2018
Total Revenue:
\$385 million



Q1 2019
Total Revenue:
\$94 million



Snapshot

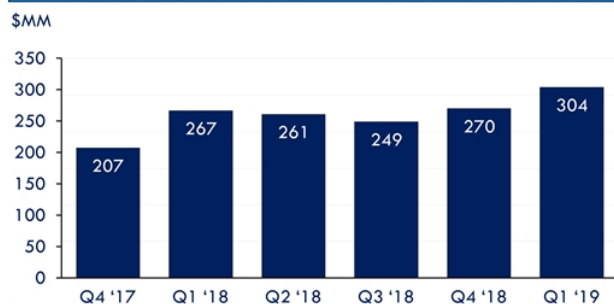
MARKET INFORMATION

Ticker	NYSE: DRQ
Share Price (4/24/19)	\$44.45
52-Week Range	\$26.62 - \$58.95
YTD Return	48.0%
Shares Outstanding @ 4/25/19 (mm)	36.2
Market Cap (\$mm)	\$1,610
Enterprise Value (\$mm)	\$1,196

BALANCE SHEET as of 3/31/2019 (\$MM)

Cash & Cash Equivalents	\$415
PP&E (net)	270
Goodwill	8
Total Assets	\$1,184
ST Debt	-
LT Debt	-
Total Liabilities	\$88
Total Equity	\$1,095

ENDING BACKLOG



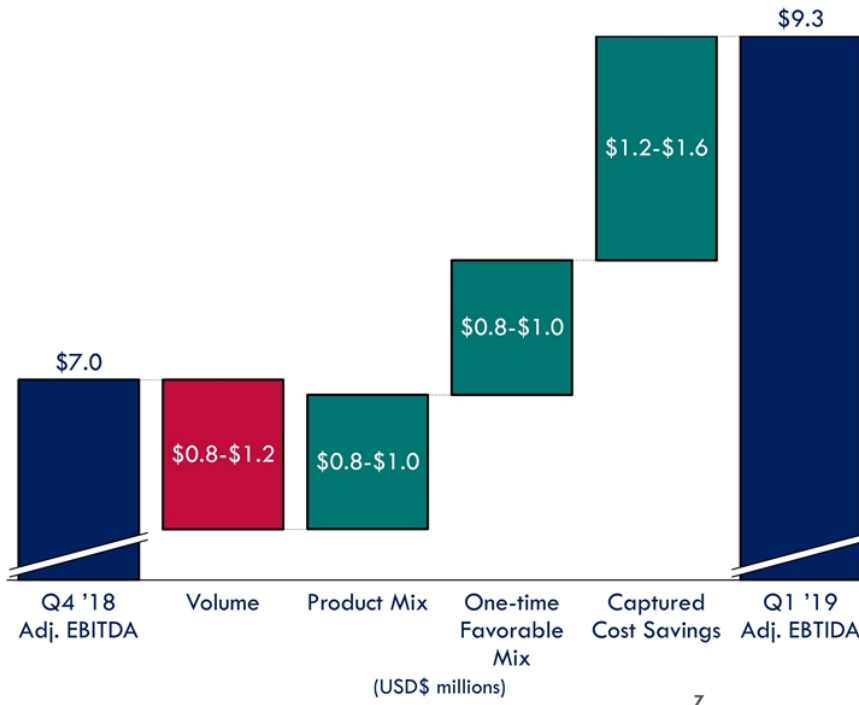
BALANCE SHEET METRICS (\$MM)

Non-cash Working Capital	\$358
Book Value / Share	\$30.24
Cash / Share	\$11.45
Non-cash WC / Share	\$9.88
Total Debt / Capitalization	0%
Total Share Repurchases 2019 to Date	\$1.1

Q1 2019 Highlights

- Recorded revenue of \$94.3 million, near the midpoint of the guidance range of \$90 – \$100 million
- Increased non-project bookings to \$99 million, which is the second consecutive quarter of strong bookings
- Received several significant new orders to supply new technology products
- Generated net cash provided by operating activities of \$0.8 million and negative free cash flow of \$2.7 million, which includes \$5 million of payments related to restructuring. Exclusive of these payments, free cash flow was positive \$2.3 million
- Grew Adjusted EBITDA to \$9.3 million
- Captured \$8 million of additional annualized cost reductions in Q1 2019, increasing total annualized savings to ~\$24 million

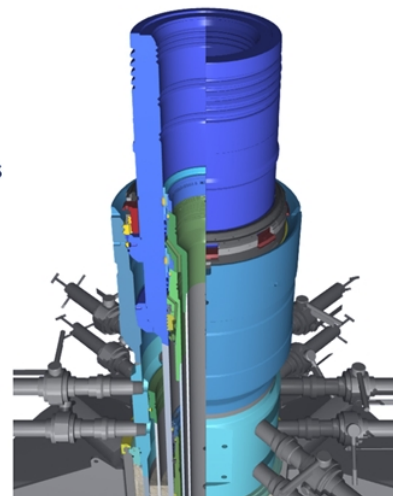
Adjusted EBITDA Analysis



- Quarter-over-quarter increase in Adjusted EBITDA partially due to favorable product mix
- Transformation efforts resulted in additional cost savings in Q1 '19
 - Achieved annualized savings of \$8 million in Q1 '19
 - Full effect of these savings to be realized in Q2 '19

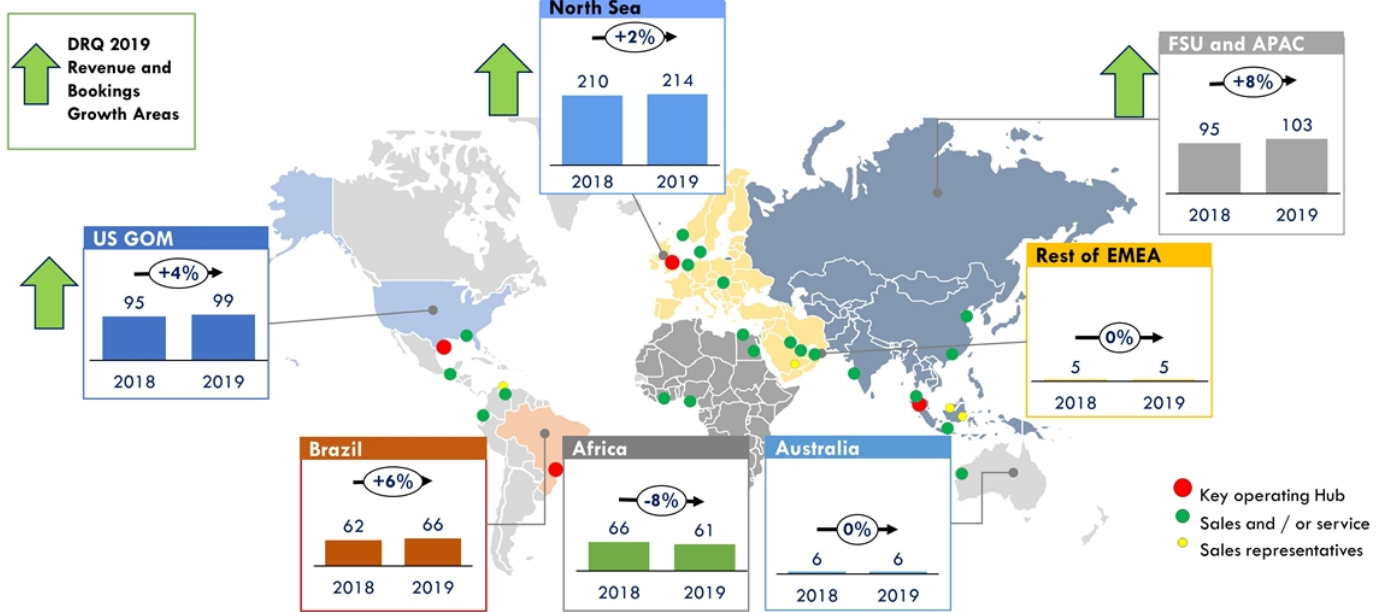
Market Update

- Q1 2019 was the strongest non-project bookings quarter since 2014
- Encouraging signs of bidding and service activity
- Grew backlog to \$304 million as of 3/31/19
- Q2 2019 product bookings expected to be between \$75 - 95 million
- Received \$25 to \$35 million order from BP to supply subsea wellhead systems with optionality around BigBore IIe™ wellhead system
- In early Q2 2019, received an initial order for a 20K development in the GOM that combines several new technology products, including the BigBore IIe™ wellhead system, Badger™ connector system and DXe™ profile
- Extended the Ca Rong Do (CRD) Letter of Award with Repsol to 12/31/2019
 - CRD remains in backlog but not included in 2019 revenue guidance
- Backlog excludes Sea Lion Phase I, which is estimated at >\$200 million



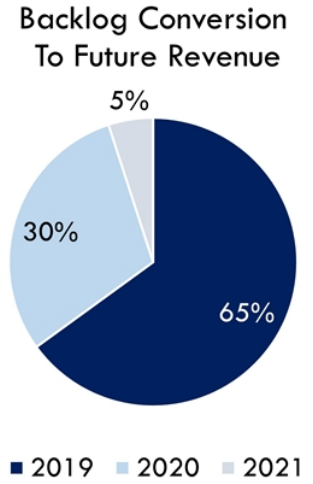
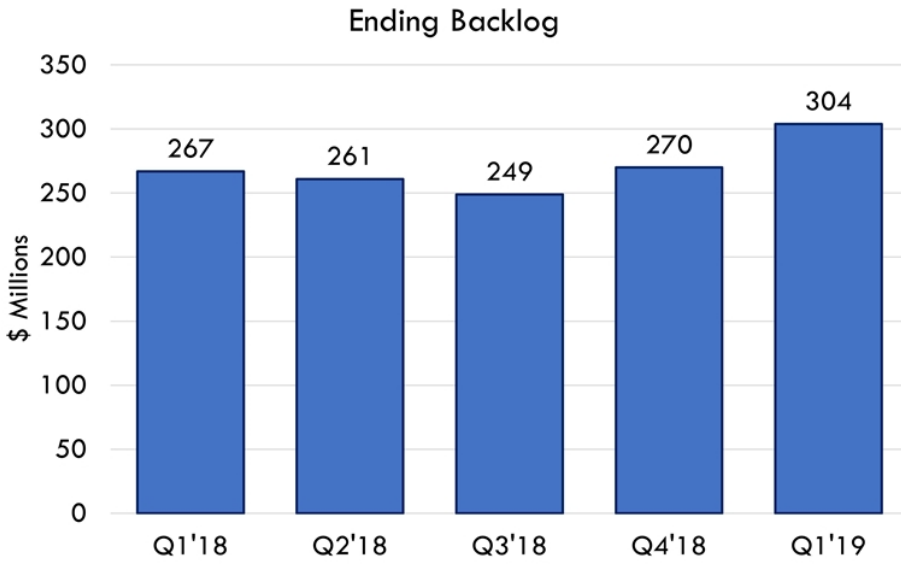
Well-Positioned to Serve Offshore Markets

Deepwater wells drilled by region (number of wells)



Source: McKinsey Energy Insights

Improving Backlog



Increased Q1'19 Non-Project Bookings to \$99 million, the Highest Level Since 2014

Note: The backlog data shown above includes all bookings as of March 31, 2019, including contract awards and signed purchase orders for which the contracts would not be considered enforceable under ASC 606.

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)

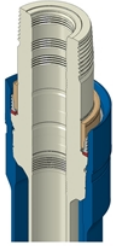
Research & Development

R&D is Key to Achieving Commercial Excellence

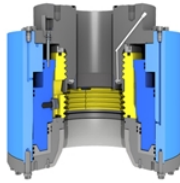
- Developing innovative products that structurally reduce total cost of ownership
- Expanding product portfolio to increase markets and market share
- Presented with *OTC Spotlight on New Technology* award for new products:
 - 2017 – BigBore Ile Wellhead System (BB Ile) & DXe Wellhead Connector
 - 2018 – HFRe Hands-Free Drilling Riser
 - 2019 – *Double Expansion XPak Liner Hanger*

SpotlightSM
on new
TECHNOLOGY

BigBore Ile
Wellhead



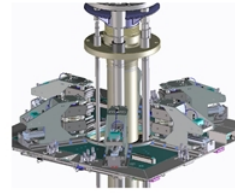
DXe Wellhead
Connector



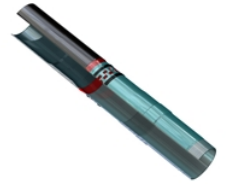
Concentric Monobore
& HorizontalBore Trees



HFRe Hands-Free
Drilling Riser

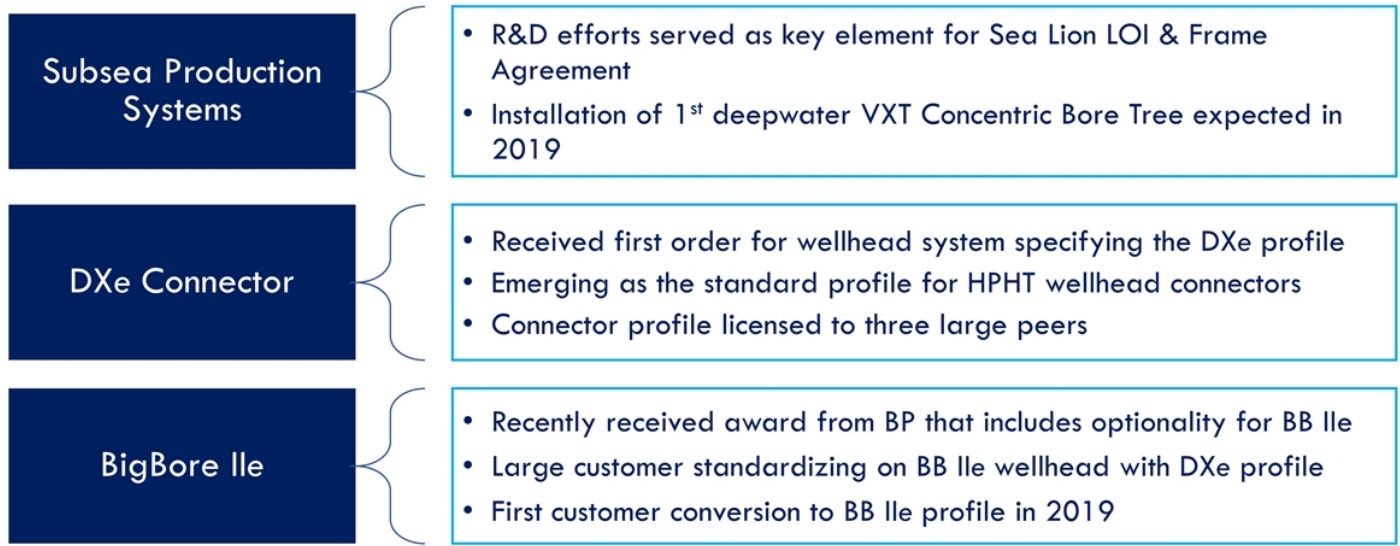


Double Expansion
XPAK Liner Hanger



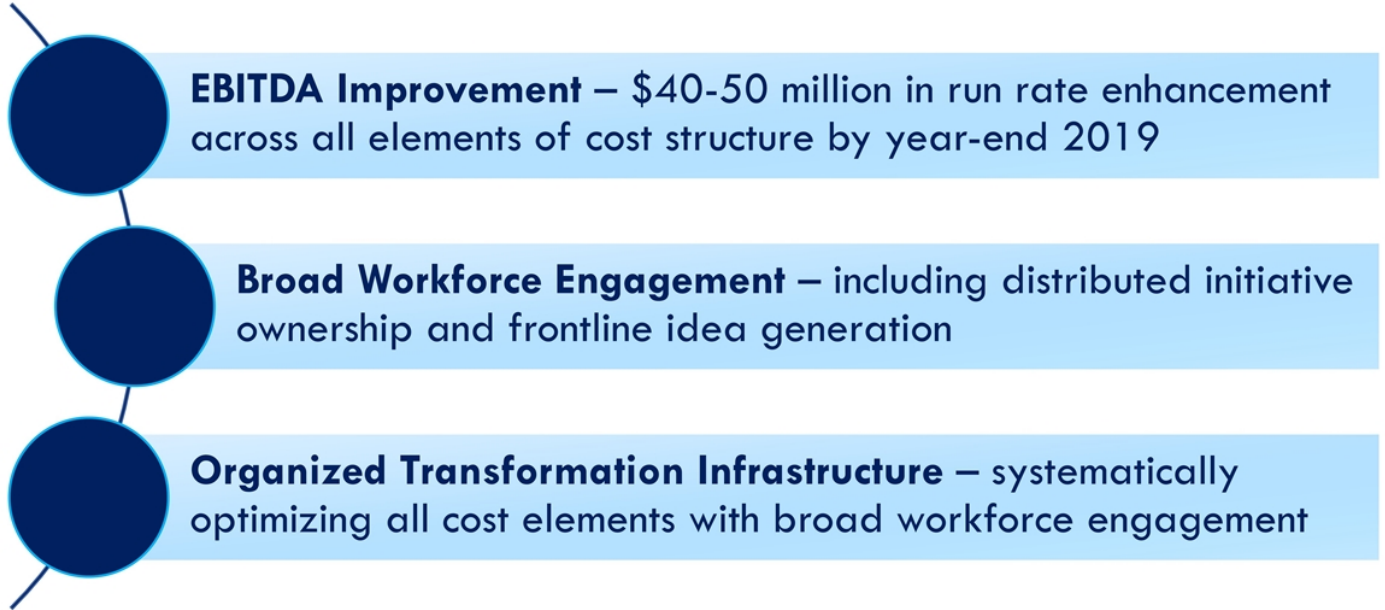
Executing on Commercial Excellence

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



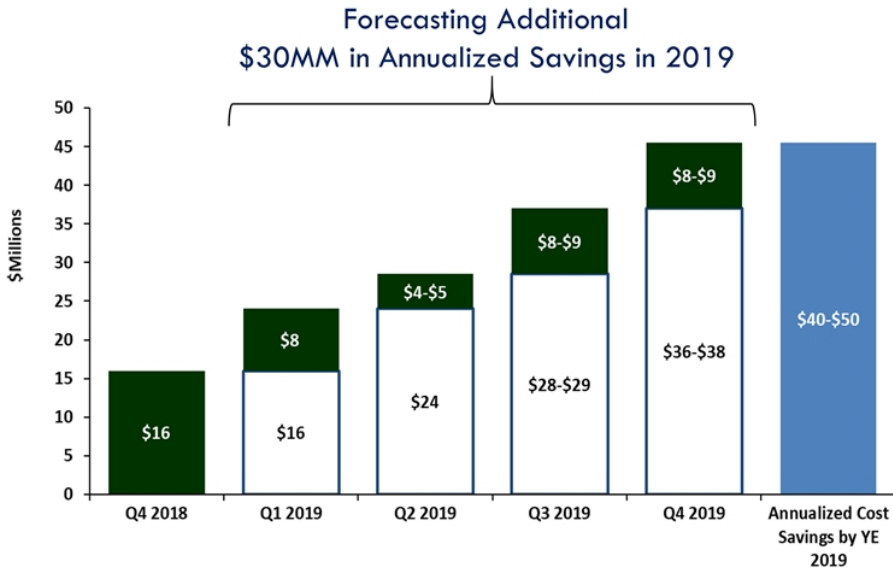
Award-Winning R&D Efforts Driving New Product Revenue

Overview of the Business Transformation



Structured Approach to Improve Cost Performance Across All Areas

Accelerating Annualized Cost Savings in 2019



- **Building on 2018 annualized savings of \$16 million**
 - Q1'19 additional savings of \$8 million
 - Q2'19 focused on additional organizational realignment
 - Q3'19 and Q4'19 focused on footprint rationalization and supplier optimization
 - Mid to late Q3'19 rationalization of Forge
- **2020+ focused on integrated supply chain and procurement realignment projects; additional savings above the \$40 - \$50 million expected**

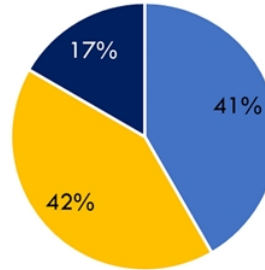
Annualized Cost Savings Captured to Date Exceeding Expectations

Sustainable Cost-Saving Initiatives

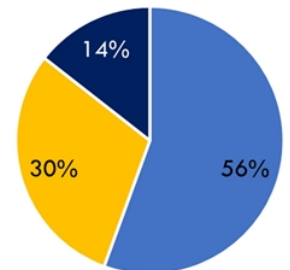
Business transformation workstreams and example focus areas (not comprehensive list)

Manufacturing	<ul style="list-style-type: none"> Optimize footprint Implement lean practices Improve operational discipline
Supply chain	<ul style="list-style-type: none"> Improve sourcing practices Consolidate supply base Realization begins in 2020
SG&A	<ul style="list-style-type: none"> Optimize G&A functions Leverage global footprint
Engineering and R&D	<ul style="list-style-type: none"> Rationalize structure and support levels

**Q4'18 - Q1'19
Captured \$24MM
Annualized Savings**



**Beginning 2020
Forecasting \$40 - \$50MM
Annualized Savings**



■ Mfg ■ SG&A ■ Eng / R&D

Note: Charts above depict the percent of stated annualized savings

On Track to Realize Annualized Savings Target for 2019

Liquidity Allocation Strategy

SOURCES

(\$ millions)

Internal Cash	\$415
ABL Credit Facility Capacity	40
Available Liquidity	\$455

Notes

- Balances as of March 31, 2019
- 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; \$1.1 million in repurchases year-to-date

POTENTIAL USES

(\$ millions)

New Share Repurchase Plan	\$100
Fund Upturn & Key Projects (Increasing Order Trend)	150 – 200
Pursue Complementary Technology Tuck-in Acquisitions	50 – 100
Restructuring Charges	10 – 15

**Liquidity in Place to Support Increased Activity,
Despite Growing Cash Demands – Targeting Full-Year Free Cash Flow Positive**

2019 Outlook & Targeted Cost Savings

Est. Q2 2019
Revenue:
\$90 - \$100 million
(at high-end of range)

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

Adj. EBITDA Growth
Benefiting from
Cost Savings Actions

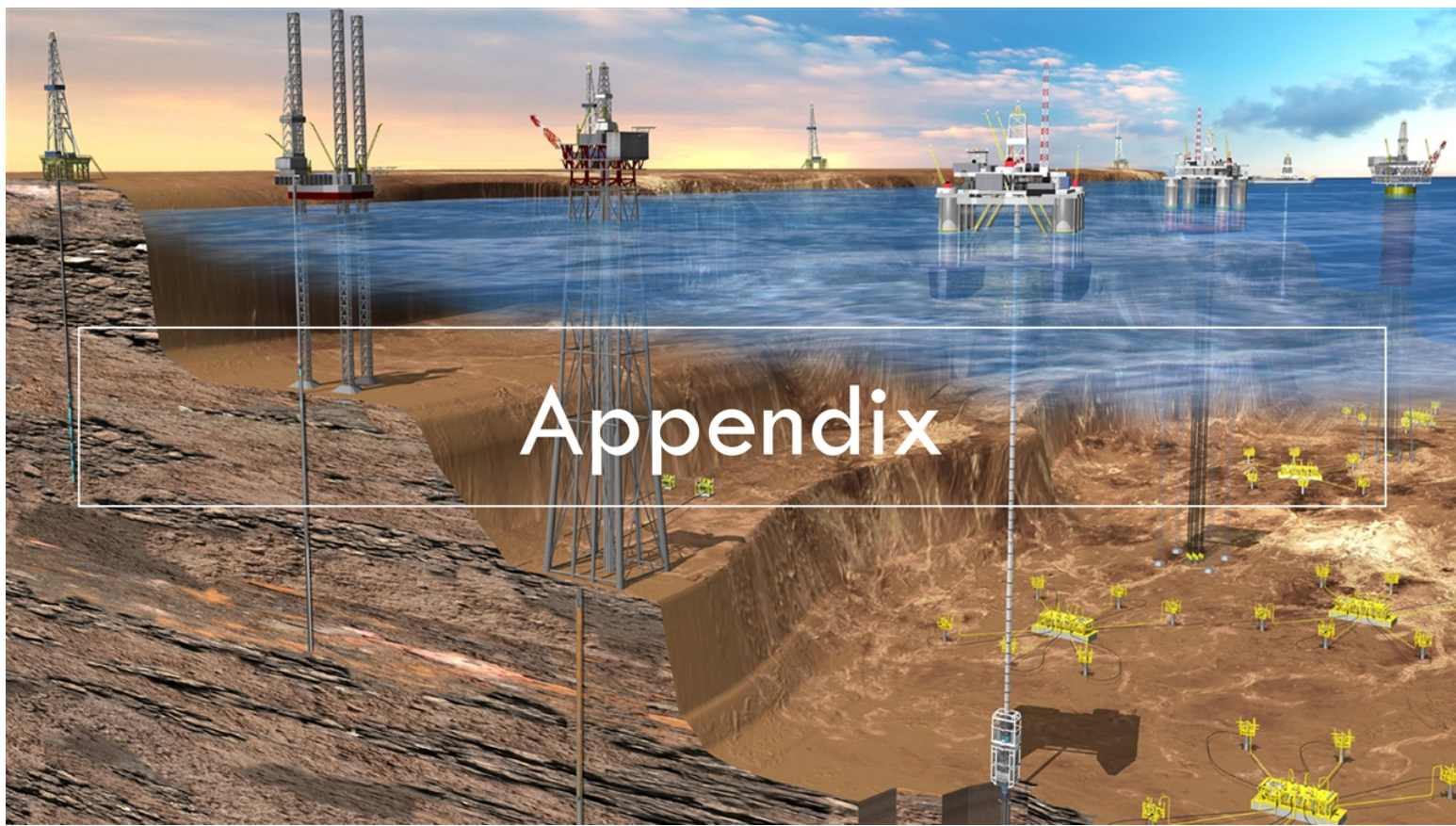
Est. Q2 2019
Bookings:
\$75 - \$95 million

Cost
Savings Expected
in 2019:
\$30 million

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

Targeting Positive
Full-Year Free Cash
Flow

Streamlining Structural Cost Base for Current and Future Environments



Appendix

Income Statement

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

	Three months ended		
	March 31, 2019	December 31, 2018	March 31, 2018
	(In thousands, except per share data)		
Revenues:			
Products	\$ 65,434	\$ 66,042	\$ 71,045
Services	18,476	19,411	17,463
Leasing	10,407	11,882	10,665
Total revenues	<u>94,317</u>	<u>97,335</u>	<u>99,173</u>
Costs and expenses:			
Cost of sales	69,376	73,436	73,485
Selling, general and administrative	24,544	24,380	27,547
Engineering and product development	3,617	5,173	4,418
Impairment, restructuring and other charges	2,396	94,257	-
Gain on sale of assets	(13)	(1,085)	-
Total costs and expenses	<u>99,920</u>	<u>196,161</u>	<u>105,450</u>
Operating income (loss)	(5,603)	(98,826)	(6,277)
Interest income	2,006	2,075	1,797
Interest expense	(121)	254	(2)
Income tax provision (benefit)	2,333	(21,585)	2,901
Net income (loss)	<u>\$ (6,051)</u>	<u>\$ (74,912)</u>	<u>\$ (7,383)</u>
Earnings (loss) per share	<u>\$ (0.17)</u>	<u>\$ (2.09)</u>	<u>\$ (0.20)</u>
Depreciation and amortization	<u>\$ 8,356</u>	<u>\$ 9,346</u>	<u>\$ 8,241</u>
Capital expenditures	<u>\$ 3,527</u>	<u>\$ 5,378</u>	<u>\$ 10,571</u>

Balance Sheet

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

	<u>March 31, 2019</u>	<u>December 31, 2018</u>
	(In thousands)	
Assets:		
Cash and cash equivalents	\$ 414,808	\$ 418,100
Other current assets	428,532	434,881
PP&E, net	270,424	274,123
Other assets	69,965	65,406
Total assets	<u>1,183,729</u>	<u>1,192,510</u>
Liabilities and Stockholders' Equity:		
Current liabilities	\$ 70,729	\$ 82,258
Long-term debt	-	-
Deferred taxes	2,332	2,466
Other long-term liabilities	15,263	11,624
Total liabilities	<u>88,324</u>	<u>96,348</u>
Stockholders' equity	1,095,405	1,096,162
Total liabilities and stockholders' equity	<u>\$ 1,183,729</u>	<u>\$ 1,192,510</u>

Non-GAAP Financial Measures

Adjusted Net Income and EPS:

	Three months ended					
	March 31, 2019		December 31, 2018		March 31, 2018	
	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)	\$ (6,051)	(0.17)	\$ (74,912)	\$ (2.09)	\$ (7,383)	\$ (0.20)
Adjustments (after tax)						
Reverse the effect of foreign currency	(556)	(0.02)	(156)	-	1,059	0.03
Add back impairment and other charges	-	-	67,569	1.88	-	-
Restructuring costs, including severance	2,396	0.07	6,894	0.19	474	0.01
Gain on sale of assets	(13)	(0.00)	(857)	(0.02)	-	-
Adjusted net income (loss)	\$ (4,224)	\$ (0.12)	\$ (1,462)	\$ (0.04)	\$ (5,850)	\$ (0.16)

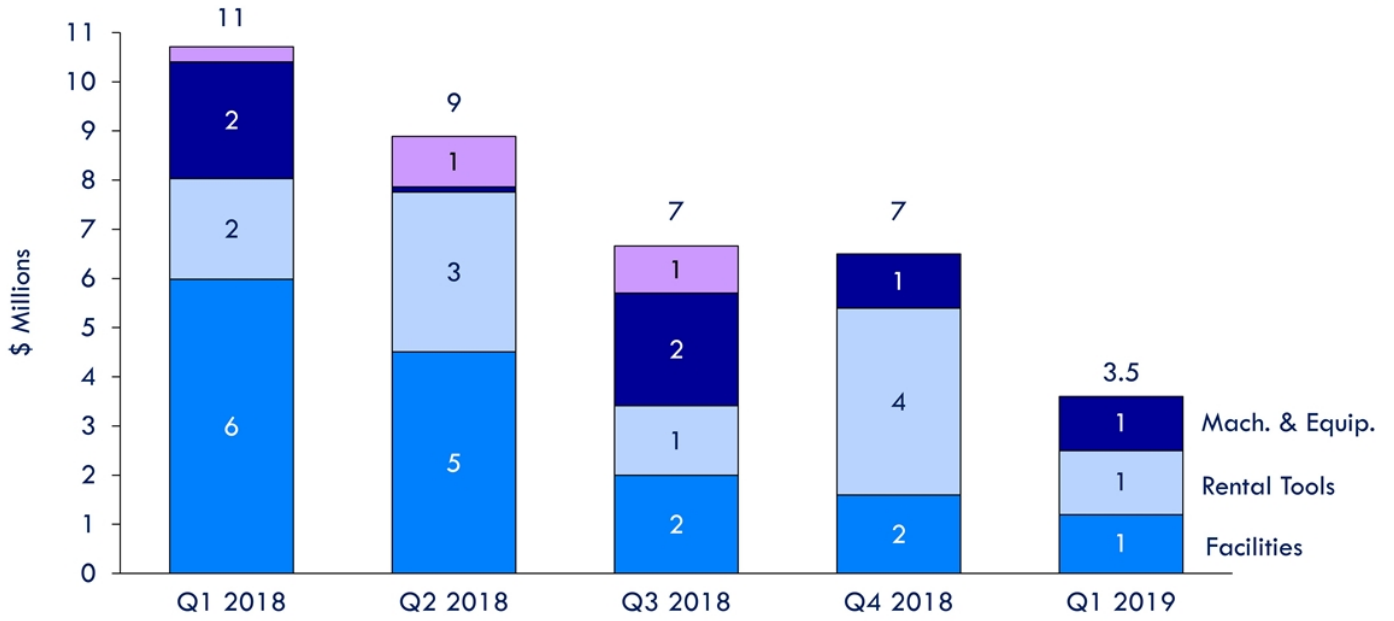
Non-GAAP Financial Measures

<u>Adjusted EBITDA:</u>	<u>Three months ended</u>		
	<u>March 31,2019</u>	<u>December 31,2018</u>	<u>March 31,2018</u>
	(In thousands)		
Net Income (Loss)	\$ (6,051)	\$ (74,912)	\$ (7,383)
Add:			
Interest (income) expense	(1,885)	(2,329)	(1,795)
Income tax expense (benefit)	2,333	(21,585)	2,901
Depreciation and amortization expense	8,356	9,346	8,241
Restructuring costs, including severance	2,396	8,726	600
Long-lived asset, inventory and goodwill impairments	-	85,531	-
Gain on sale of assets	(13)	(1,085)	-
Foreign currency loss (gain)	(704)	(197)	1,304
Stock compensation expense	4,862	3,509	3,974
Adjusted EBITDA (1)	<u>\$ 9,294</u>	<u>\$ 7,004</u>	<u>\$ 7,842</u>

Non-GAAP Financial Measures

<u>Free Cash Flow:</u>	<u>Three months ended</u>		
	<u>March 31,</u> <u>2019</u>	<u>December 31,</u> <u>2018</u>	<u>March 31,</u> <u>2018</u>
Net cash provided by operating activities	\$ 838	\$ 12,896	\$ 11,388
Less:			
Purchase of property, plant and equipment	(3,527)	(6,394)	(10,571)
Free Cash Flow	<u>\$ (2,689)</u>	<u>\$ 6,502</u>	<u>\$ 817</u>

Capital Expenditures



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

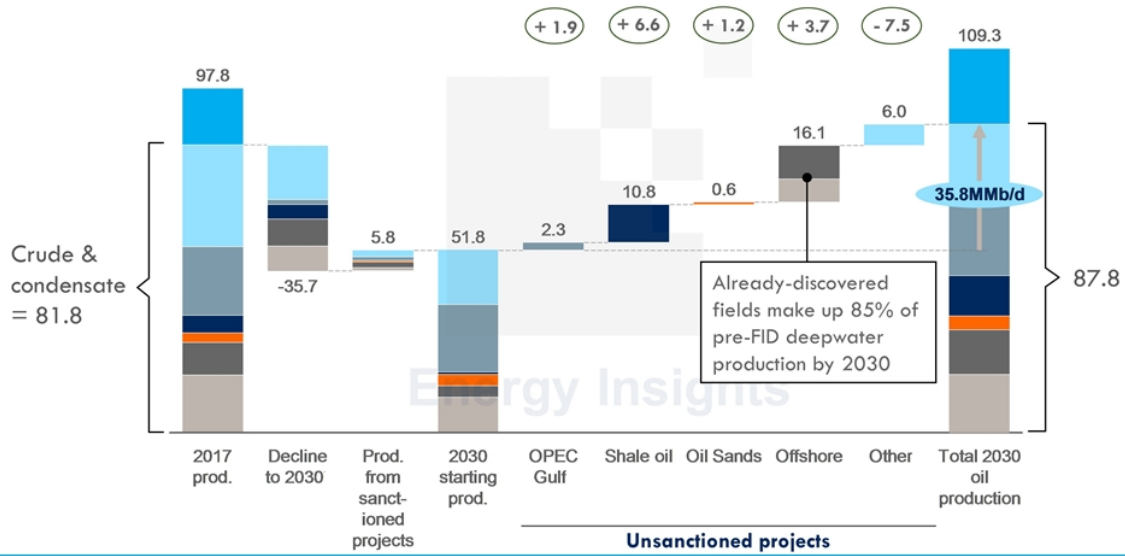
Note: Sum of components may not foot due to rounding.

Global Supply & Demand Through 2030

Global oil supply growth 2017-2030
mmb/d

■ NGL and other liquids
 ■ OPEC Gulf
 ■ Oil sands
 ■ Shallow water
■ Other
 ■ Shale oil
 ■ Deepwater

○ Net change 2017-2030



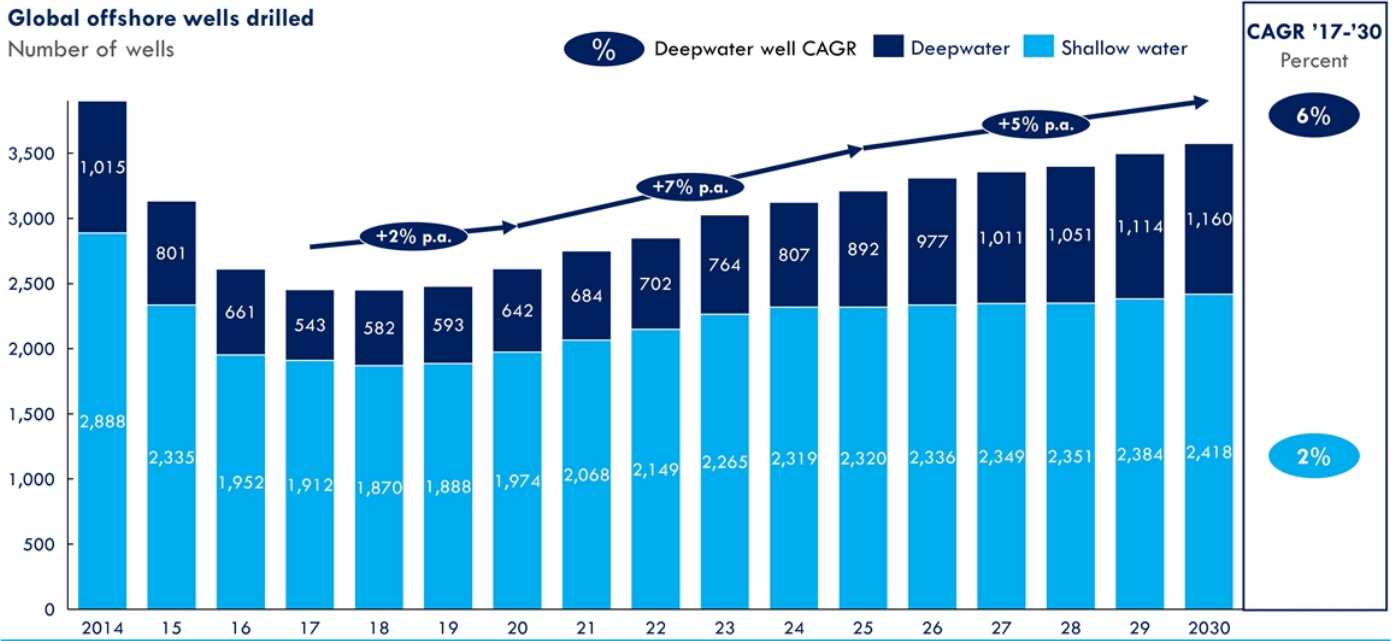
New Deepwater Project Sanctions Necessary to Satisfy Long-Term Demand

Source: McKinsey Energy Insights

Evolving View of Timeline for Deepwater Recovery

Global offshore wells drilled

Number of wells



Deepwater Market Recovery Expected to be Gradual Until 2020

Source: McKinsey Energy Insights

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)