

**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): October 28, 2021**

**DRIL-QUIP, INC.**  
(Exact name of registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction  
of incorporation)

**6401 N. Eldridge Parkway**  
**Houston, Texas**  
(Address of principal executive offices)

**001-13439**  
(Commission  
File Number)

**74-2162088**  
(I.R.S. Employer  
Identification No.)

**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 October 28, 2021, Dril-Quip, Inc. (“Dril-Quip”) reported third quarter 2021 earnings. For additional information regarding Dril-Quip’s third quarter 2021 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 October 28, 2021, Dril-Quip posted the Third Quarter 2021 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:

<b>Exhibit No.</b>	<b>Description</b>
99.1	<a href="#">Press Release issued October 28, 2021.</a>
99.2	<a href="#">Third Quarter 2021 Supplemental Earnings Information Presentation.</a>
104	Cover Page Interactive Data File - the cover page XBRL tags are embedded within the Inline XBRL document.

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**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: October 28, 2021

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**DRIL-QUIP, INC. ANNOUNCES THIRD QUARTER 2021 RESULTS**

HOUSTON, October 28, 2021 — Dril-Quip, Inc. (NYSE: DRQ), (the “Company” or “Dril-Quip”) today reported operational and financial results for the third quarter of 2021.

Key highlights for the third quarter of 2021 included:

- Increased revenue to \$83.0 million on higher aftermarket activity in the Western Hemisphere;
- Recorded third quarter net loss of \$11.1 million, or \$0.31 per share, an improvement of \$7.9 million, or \$0.23 per share, from the second quarter of 2021;
- Reported adjusted EBITDA of \$4.0 million, or 4.8% of revenue, driven by improved aftermarket and downhole tools activity;
- Generated net cash provided by operating activities of \$9.3 million and free cash flow of \$7.0 million, or 8.5% of revenue;
- Initiated additional stock purchases under the previously Board authorized share repurchase program; and
- Achieved targeted \$10 million in annualized productivity gains ahead of schedule.

Blake DeBerry, Dril-Quip’s Chief Executive Officer, commented, “Our third quarter results are evidence of continued execution of our strategic growth pillars, while also demonstrating the challenges represented by depressed levels of product orders over the past several quarters, including bookings of approximately \$41 million for the third quarter. We achieved a new high in quarterly revenue in our downhole tools business since the acquisition in 2016 for the second time this year. We also continued to expand our reach with our e-Series products during the quarter receiving orders for deep water expandable liner hangers in new markets in Asia Pacific and the Caribbean.”

“We believe our strategic growth pillars are setting the foundation to outperform the market in a recovery; however, we have not yet seen product orders resume to pre-pandemic levels. As a result, we are experiencing increased pressure on our product revenue and margins impacted by customer and product mix. We believe that this is temporary and are encouraged by the stabilization of oil and gas prices being seen in the market as the global economy continues to recover. These sustained higher prices and energy shortages in parts of the world are examples of the continued need for hydrocarbons in the energy supply mix for years to come. Although we are still uncertain of some customer plans as they formalize budget plans for 2022, we are seeing activity increases in the shorter cycle onshore areas that are most suited to our downhole tools business. Additionally, increased service and leasing revenues in the quarter are a good leading indicator that our customers are getting back to work and consuming their inventory of our products. As we look toward Q4 and the first half of 2022 we are encouraged by indications of increased activity by our independent exploration and production customers that are seeking to take advantage of higher commodity prices. Lastly, we expect that the larger integrated oil companies will begin to look at placing new orders in the back half of 2022 should commodity prices continue to remain at or near current levels. Our view on fourth quarter bookings remains

unchanged and expect bookings will be at the high end of our \$40 to \$60 million range. However, we will continue to monitor market conditions and respond accordingly.”

“Even with these ongoing challenges, we have been able to generate strong free cash flow during the year, including \$7 million during the third quarter. Our efforts to manage our working capital while exercising capital discipline are the primary drivers of this success. As a result of this cash flow and the resulting strong financial position on the balance sheet, we opportunistically resumed the repurchase of Company shares during the quarter. We are optimistic about the future of Dril-Quip and will continue to evaluate ways to create value to shareholders as we prepare to emerge from this demand driven downcycle.”

In conjunction with today’s release, the Company posted a new investor presentation entitled “Third Quarter 2021 Supplemental Earnings Information” to its website, [www.dril-quip.com](http://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](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 release.

## **Operational and Financial Results**

### *Revenue, Cost of Sales and Gross Operating Margin*

Consolidated revenue for the third quarter of 2021 was \$83.0 million, up \$2.2 million from the second quarter of 2021 and down \$8.3 million from the third quarter of 2020. The sequential increase in revenue was driven by increased service and rental activity, particularly in the Gulf of Mexico and higher product revenue in the Eastern Hemisphere. The decline in revenue year-over-year was primarily attributed to lower product revenues in Asia Pacific and the Eastern Hemisphere as a result of delays in customer orders and activity as a result of the pandemic. This was partially offset by downhole tools product line growth and increased technical advisory and leasing aftermarket revenues.

Cost of sales for the third quarter of 2021 was \$62.8 million, an increase of \$1.3 million sequentially and a decrease of \$4.4 million compared to the prior year. Gross operating margin for the third quarter of 2021 was 24.3%, slightly up compared to 23.8% for the second quarter of 2021 and a decrease from 26.4% in the third quarter of 2020. Gross margin rose sequentially due to increased contribution from aftermarket services in the Western Hemisphere, which was partially offset by a decrease in product revenues in Asia Pacific, increased freight charges and unfavorable mix. The decline in gross margin year-over-year was primarily related to decreased product revenues in Asia Pacific and the Eastern Hemisphere, partially offset by higher technical advisory and leasing margins in the Western Hemisphere and Asia Pacific.

### *Selling, General and Administrative Expenses*

Selling, general and administrative (“SG&A”) expense for the third quarter of 2021 was \$25.3 million, a decrease of \$4.3 million compared to the second quarter of 2021 and an increase of \$4.4 million compared to the third quarter of 2020. The sequential decline in SG&A was primarily

due to lower legal costs associated with FMC Technologies lawsuit, partially offset by higher professional services related to our global strategic planning exercise. The year-over-year increase in SG&A can be attributed to reinstatement of the employee short-term incentive compensation plan and higher professional fees. Engineering and product development expenses for the third quarter of 2021 were \$3.5 million compared to \$3.7 million in the second quarter of 2021 and \$4.0 million in the third quarter of 2020. The decrease sequentially and year-over-year was driven by cost reduction actions including reprioritization and completion of certain research and development projects.

#### *Net Income, Adjusted EBITDA and Free Cash Flow*

For the third quarter of 2021, the Company reported net loss of \$11.1 million, or \$0.31 per share, compared to a net loss of \$19.1 million, or \$0.54 per share, for the second quarter of 2021 and net income of \$14.3 million, or \$0.41 per diluted share, for the third quarter of 2020. The sequential improvement in net loss was a result of decreased SG&A expense. The decrease in net income year-over-year can primarily be related to the aforementioned higher SG&A expense and a decrease in income tax benefits.

Adjusted EBITDA totaled \$4.0 million for the third quarter of 2021 compared to \$2.6 million for the second quarter of 2021 and \$10.2 million for the third quarter of 2020. The sequential increase in adjusted EBITDA results from a non-recurrence of charges related to the forge facility lease cancelation and higher aftermarket contribution. This was partially offset by lower product margins due to mix and increased freight expense. The decrease in adjusted EBITDA year-over-year was due to declines in product revenues as a result lower orders throughout 2020 and higher SG&A for the reasons previously noted.

Net cash provided by operations was \$9.3 million and free cash flow was approximately \$7.0 million for the third quarter of 2021. The decrease in net cash provided by operations of \$2.0 million compared to the second quarter of 2021 was primarily driven by a decrease in accounts payable and other accrued expenses, partially offset by improved conversion of unbilled receivables and a reduction of inventory. Capital expenditures in the third quarter of 2021 were approximately \$1.9 million related to machinery and rental tools spend at our operations facility in Houston.

#### **Productivity Improvements and Liquidity**

In the first quarter of 2021, the Company announced its plans to target productivity gains of approximately \$10 million in annualized savings, of which approximately \$5 million is expected to be realized in 2021. The majority of these planned gains relate to the further refinement of our manufacturing and supply chain operations as part of the Company's LEAN journey. The Company has achieved these productivity gains ahead of its completion target of year-end 2021.

Dril-Quip's cash and cash equivalents as of September 30, 2021 was \$375.2 million, which, together with amounts available under the asset-based lending (ABL) facility, resulted in approximately \$406.3 million of available liquidity. The Company plans to use its strong liquidity position and debt-free balance sheet to ensure its ability to invest in innovative technology, pursue

strategic acquisitions, and maintain the financial flexibility to respond quickly to increased customer activity and demand during a market recovery.

### **Share Repurchases**

For the three-month period ended September 30, 2021, the Company purchased 45,225 shares under its share repurchase plan authorized by the Board of Directors in February of 2020 at an average price of approximately \$25.02 per share totaling approximately \$1.1 million and retired such shares. In October 2021, the Company purchased an additional 343,315 shares at an average price of approximately \$25.81 per share totaling approximately \$8.9 million and retired such shares. The Company has purchased approximately \$62 million of the \$100 million authorized by the Board. The Company continues to evaluate the amount and timing of its share repurchases and intends for the total amount of shares repurchased in 2021 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, 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 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, 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 (Loss), Adjusted Diluted EPS, Free Cash Flow and Adjusted EBITDA are non-GAAP measures.

Adjusted Net Income (Loss) 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 other adjustments for certain charges and credits.

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 (Loss), 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) 351-4098  
Blake\_Holcomb@dril-quip.com



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

	Three months ended		
	September 30, 2021	June 30, 2021	September 30, 2020
	(In thousands, except per share data)		
<b>Revenues:</b>			
Products	\$ 53,622	\$ 55,860	\$ 66,451
Services	19,560	17,536	17,778
Leasing	9,815	7,401	7,066
Total revenues	<u>82,997</u>	<u>80,797</u>	<u>91,295</u>
<b>Costs and expenses:</b>			
Cost of sales	62,834	61,539	67,211
Selling, general and administrative	25,265	29,593	20,843
Engineering and product development	3,510	3,722	3,983
Restructuring and other charges	-	1,000	602
(Gain) loss on sale of assets	(13)	82	14
Foreign currency transaction (gains) and losses	(1,663)	(475)	746
Total costs and expenses	<u>89,933</u>	<u>95,461</u>	<u>93,399</u>
Operating loss	(6,936)	(14,664)	(2,104)
Interest income	188	63	188
Interest expense	(94)	(59)	(138)
Income tax provision (benefit)	4,301	4,407	(16,380)
Net income (loss)	<u>\$ (11,143)</u>	<u>\$ (19,067)</u>	<u>\$ 14,326</u>
<b>Loss per share</b>			
Basic	<u>\$ (0.31)</u>	<u>\$ (0.54)</u>	<u>\$ 0.41</u>
Diluted	<u>\$ (0.31)</u>	<u>\$ (0.54)</u>	<u>\$ 0.41</u>
Depreciation and amortization	<u>\$ 7,899</u>	<u>\$ 7,343</u>	<u>\$ 7,908</u>
Capital expenditures	<u>\$ 2,303</u>	<u>\$ 3,112</u>	<u>\$ 1,925</u>
<b>Weighted Average Shares Outstanding</b>			
Basic	35,387	35,387	35,049
Diluted	35,387	35,387	35,249

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

	September 30, 2021	December 31, 2020
(In thousands)		
<b>Assets:</b>		
Cash and cash equivalents	\$ 375,172	\$ 345,955
Other current assets	452,099	517,238
PP&E, net	224,676	234,823
Other assets	41,790	53,156
<b>Total assets</b>	<b>\$ 1,093,737</b>	<b>\$ 1,151,172</b>
<b>Liabilities and Equity:</b>		
Current liabilities	\$ 91,826	\$ 85,512
Deferred Income taxes	6,194	6,779
Other long-term liabilities	15,940	17,353
<b>Total liabilities</b>	<b>113,960</b>	<b>109,644</b>
Total stockholders equity	979,777	1,041,528
<b>Total liabilities and equity</b>	<b>\$ 1,093,737</b>	<b>\$ 1,151,172</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, 2021		June 30, 2021		September 30, 2020	
	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)	\$ (11,143)	\$ (0.31)	\$ (19,067)	\$ (0.54)	\$ 14,326	\$ 0.41
Adjustments (after tax):						
Reverse the effect of foreign currency	(1,314)	(0.04)	(375)	(0.01)	589	0.02
Restructuring costs, including severance	-	-	790	0.02	476	0.01
(Gain) loss on sale of assets	(10)	-	65	-	11	-
Adjusted net income (loss)	<u>\$ (12,467)</u>	<u>\$ (0.35)</u>	<u>\$ (18,587)</u>	<u>\$ (0.53)</u>	<u>\$ 15,402</u>	<u>\$ 0.44</u>

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

**Adjusted EBITDA:**

	<b>Three months ended</b>		
	<b>September 30, 2021</b>	<b>June 30, 2021</b>	<b>September 30, 2020</b>
	<b>(In thousands)</b>		
Net income (loss)	\$ (11,143)	\$ (19,067)	\$ 14,326
Add:			
Interest (income) expense, net	(94)	(4)	(50)
Income tax provision (benefit)	4,301	4,407	(16,380)
Depreciation and amortization expense	7,899	7,343	7,908
Restructuring costs, including severance	1,400	7,250	602
(Gain) loss on sale of assets	(13)	82	14
Foreign currency transaction (gains) and losses	(1,663)	(475)	746
Stock compensation expense	3,276	3,079	3,003
Adjusted EBITDA	<u>\$ 3,963</u>	<u>\$ 2,615</u>	<u>\$ 10,169</u>

**Dril-Quip, Inc.**  
**Reconciliation of Net Cash Provided by Operating Activities to Free Cash Flow**

**Free Cash Flow:**

	<b>Three months ended</b>		
	<b>September 30, 2021</b>	<b>June 30, 2021</b>	<b>September 30, 2020</b>
	<b>(In thousands)</b>		
Net cash provided (used) by operating activities	\$ 9,323	\$ 11,343	\$ 13,889
Less:			
Purchase of property, plant and equipment	(2,303)	(3,112)	(1,925)
Free cash flow	<u>\$ 7,020</u>	<u>\$ 8,231</u>	<u>\$ 11,964</u>

# ***DRIL-QUIP***

## THIRD QUARTER 2021 SUPPLEMENTAL EARNINGS INFORMATION

dril-quip.com | NYSE:  
DRQ

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# 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 cyclicality 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, 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](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



Historically Superior Margins to Peers



Results Driven Management Team



# PROGRESS TOWARD UNITED NATIONS SUSTAINABLE DEVELOPMENT GOALS



Community involvement and investment in STEM education through ASME INSPIRE STEM Readiness program



23% of recent new hires globally have been women and 16% of our executives and senior management positions are women



Global footprint provides a platform to increase access to affordable, reliable energy & transition to cleaner sources



Helping customers reduce their carbon footprint and minimize environmental impact through investing in technology and R&D

# PRODUCTS & SERVICES

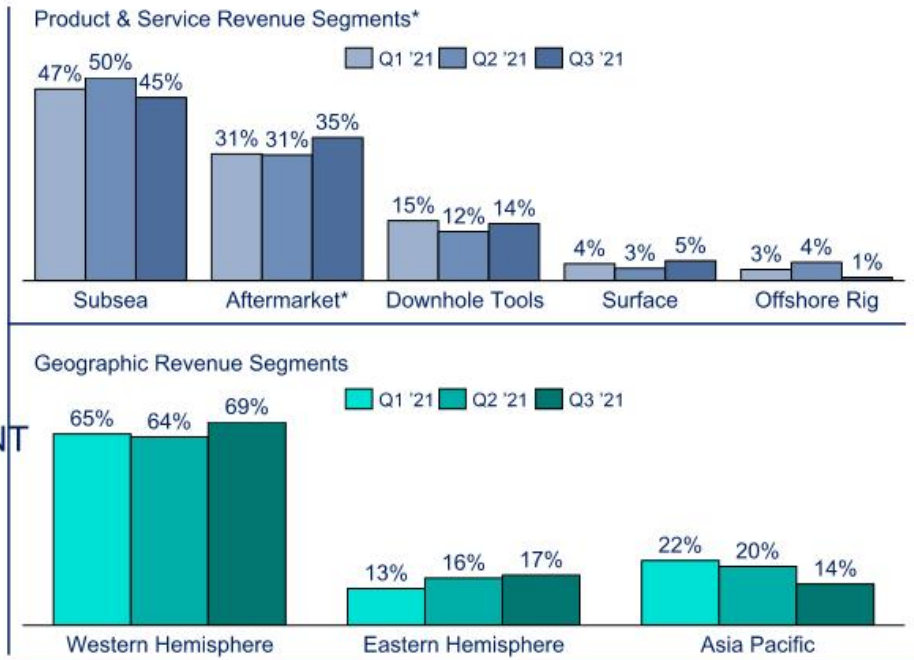
SUBSEA EQUIPMENT

SURFACE EQUIPMENT

DOWNHOLE TOOLS

OFFSHORE RIG EQUIPMENT

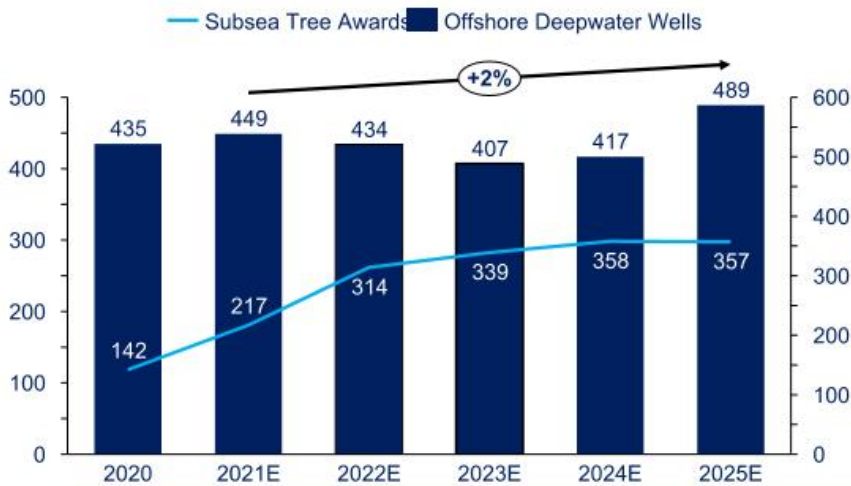
AFTERMARKET SERVICES



\*Aftermarket revenue includes Services and Leasing revenue from Subsea and Downhole Tools businesses 4

# GLOBAL MARKET ENVIRONMENT

## Estimated Offshore Deepwater Wells and Tree Awards



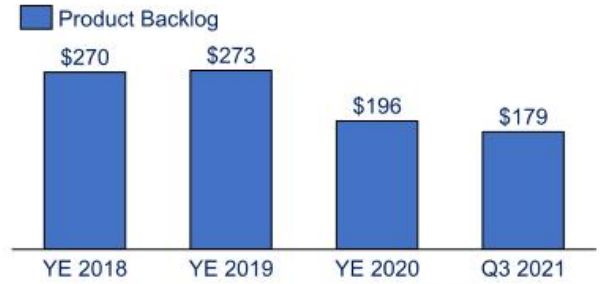
- Offshore deepwater wells drilled forecasted compound annual growth rate of 2% through 2025
- South America and Middle East leading overall offshore well count growth; shallow and deepwater
- Subsea Tree awards expected to exceed 300 beginning in 2022
- Europe and South America expected to lead growth in tree awards through 2025

Flexible operating model and peer collaboration expected to improve profitability and increase market share

# COMMERCIAL UPDATE

- Q4 bookings expected at top end of \$40-\$60 million range on strength of several subsea tree awards
- Backlog of \$179 million as of 9/30/2021 after recording \$41 million of product bookings in Q3 2021
- Highest revenue quarter for downhole tools business since acquisition in Q2 2021 and on track for 30% growth year-over-year
- Big Bore IIe wellhead seeing increased adoption with key customers

Historical Backlog Trends (\$M)



Historical Booking Trends (\$M)



# BOOKINGS RECOVERY COMMENTARY





# Q3 2021 HIGHLIGHTS

- Increased revenue to \$83.0 million on higher aftermarket activity in the Western Hemisphere;
- Recorded third quarter net loss of \$11.1 million, or \$0.31 per share, an improvement of \$7.9 million, or \$0.23 per share, from the second quarter of 2021;
- Reported adjusted EBITDA of \$4.0 million, or 4.8% of revenue, driven by improved aftermarket and downhole tools activity;
- Generated net cash provided by operating activities of \$9.3 million and free cash flow of \$7.0 million, or 8.5% of revenue;
- Initiated additional stock purchases under the previously Board authorized share repurchase program; and
- Achieved targeted \$10 million in annualized productivity gains ahead of schedule.

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

**DRIL-QUIP**

# FINANCIAL PERFORMANCE

## Quarterly Comparisons

(USD\$ millions)



▨ Impact of AFGlobal cancellation

- Revenue up \$2 million sequentially due to increased aftermarket and downhole tools revenue, partially offset by lower products revenue in Asia Pacific
- Revenue declined year-over-year due to lower product revenue, partially offset by downhole tools growth and aftermarket revenue
- Adjusted EBITDA was approximately \$4 million, up sequentially due to higher revenue and non-recurring impact of forge lease cancellation, partially offset by unfavorable mix
- Year-over-year decrease in adjusted EBITDA driven by lower revenue and increase in professional services and variable compensation costs

## Margins Impacted by Mix and \$1M in non-recurring Professional Services

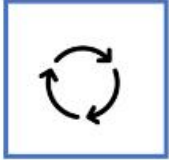
Note: Sum of components may not foot due to rounding. Adjusted EBITDA is a non-GAAP measure. See appendix for reconciliation to GAAP measure.

# IMPROVE FREE CASH FLOW YIELD



## Inventory Reduction Plan

- Inventory actions drove approximately \$8 million decrease from Q2 2021



## Order-to-Cash Improvement

- Trade accounts receivable down almost \$40M in 2021 from improved collections



## Drive Productivity Initiatives through LEAN

- Achieved \$10M annualized target ahead of schedule and monitoring cost base against current market environment

Free Cash Flow of ~\$26 million through Q3 2021



# 2021 STRATEGIC GROWTH PILLARS

## PROGRESS



### Peer-to-Peer Collaboration

- Initial orders associated with wellhead collaboration agreement expected to begin in Q4 2021 and early 2022



### Downhole Tool Market Expansion

- Reported highest quarterly revenue since acquisition and new awards in deepwater Asia Pacific and the Caribbean



### Expansion of Power of *e*-Series Technology

- Big Bore IIe wellheads seeing increased adoption with key customers across geographic regions

# PEER-TO-PEER COLLABORATION

- Controls systems collaboration with Proserv yielding results

- Regular meetings with collaborators on co-marketing opportunities

- Wellhead and liner hanger supply collaboration expected to gain traction in 2022

- Progressing toward energy transition collaboration agreements

Peer-to-peer collaborations are increasing opportunities for new orders and to grow backlog in coming quarters

# EXECUTING DOWNHOLE TOOL GROWTH STRATEGY

## Global Deepwater

- New purchase orders for liner hangers in Asia Pacific and the Caribbean

## Latin America

- Growth coming from increased activity in Ecuador and Mexico and new deepwater projects in Brazil

## Middle East

- Continue to expand opportunities and share in Saudi Arabia and UAE through quality service execution

# e-SERIES MEASURABLE BENEFITS



the power of **e**

## BADGeR™

- 5 hours
- \$115,000
- >33.5 metric tons of CO<sub>2</sub>

## XPak De™

- 1 day
- \$100,000
- >215 metric tons of CO<sub>2</sub>

## BigBore™ IIe

- 1 day
- \$500,000
- >220 metric tons of CO<sub>2</sub>

## VXTe™

- 3-5 days
- \$3-4 million
- >1,000 metric tons of CO<sub>2</sub>

## e-Series Products Combined

- 1 week
- \$5 million
- >1,500 metric tons of CO<sub>2</sub>

The *e*-Series products save customer time and money, reduce risk and lower carbon emissions of their projects

# Q4 2021 OUTLOOK

Q4 Revenue  
Mostly Flat to Q3 2021

Q4 Bookings Expected to  
be Top End of \$40 to  
\$60M Range

Q4 Estimated Capex  
\$2 to \$4M

Free Cash Flow Expected  
to Exceed 5% Revenue  
Margin Target

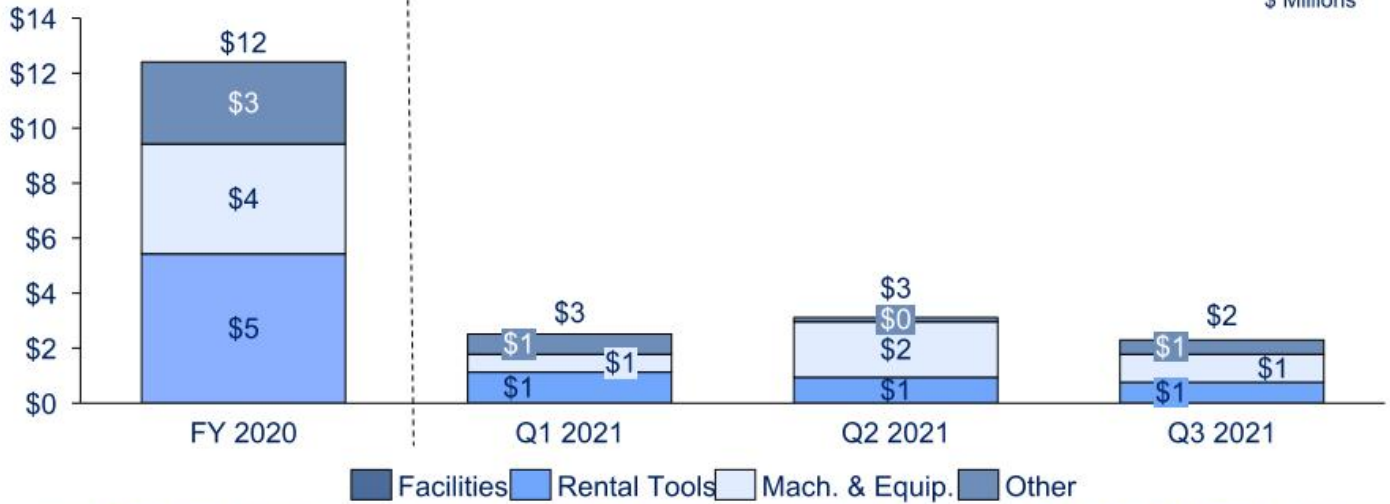
# APPENDIX

dril-quip.com | NYSE:  
DRO

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# CAPITAL EXPENDITURES

\$ Millions



Capital expenditures in 2021 are expected to be \$12 to \$15 million driven by manufacturing equipment upgrades and downhole tools growth

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



# MARKET PERFORMANCE

## MARKET INFORMATION

Ticker	NYSE:DRQ		
Share Price (at close: 10/20/21)	\$25.33		
52-Week Range	\$22.38 - \$40.62		
Performance:	DRQ	OSX	SPX
Since Q2 Filing (7/29/21)	-18%	22%	8%
Year-to-Date	-14%	49%	21%



Delayed Offshore Recovery Impacting YTD Performance Relative to

Source: FactSet, Market data as of 10/20/2021

OSX

DRIL-QUIP



# INCOME STATEMENT

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

	Three months ended		
	September 30, 2021	June 30, 2021	September 30, 2020
	(In thousands, except per share data)		
<b>Revenues:</b>			
Products	\$ 53,622	\$ 55,800	\$ 66,451
Services	19,500	17,536	17,778
Leasing	9,815	7,401	7,066
<b>Total revenues</b>	<b>82,937</b>	<b>80,737</b>	<b>91,295</b>
<b>Costs and expenses:</b>			
Cost of sales	62,834	61,530	67,211
Selling, general and administrative	25,265	20,593	20,843
Engineering and product development	3,510	3,722	3,983
Restructuring and other charges	-	1,000	602
(Gain) loss on sale of assets	(13)	82	14
Foreign currency transaction (gains) and losses	(1,663)	(475)	746
<b>Total costs and expenses</b>	<b>89,933</b>	<b>95,461</b>	<b>93,399</b>
Operating loss	(6,996)	(14,664)	(2,104)
Interest income	188	63	188
Interest expense	(94)	(59)	(138)
Income tax provision (benefit)	4,301	4,407	(16,380)
<b>Net income (loss)</b>	<b>\$ (11,143)</b>	<b>\$ (19,067)</b>	<b>\$ 14,326</b>
<b>Loss per share</b>			
Basic	\$ (0.31)	\$ (0.54)	\$ 0.41
Diluted	\$ (0.31)	\$ (0.54)	\$ 0.41
Depreciation and amortization	\$ 7,899	\$ 7,343	\$ 7,908
Capital expenditures	\$ 2,303	\$ 3,112	\$ 1,925
<b>Weighted Average Shares Outstanding</b>			
Basic	35,387	35,387	35,049
Diluted	35,387	35,387	35,249

# BALANCE SHEET

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

	September 30, 2021	December 31, 2020
	(In thousands)	
<b>Assets:</b>		
Cash and cash equivalents	\$ 375,172	\$ 345,955
Other current assets	452,099	517,238
PP&E, net	224,676	234,823
Other assets	41,790	53,156
Total assets	<u>\$ 1,093,737</u>	<u>\$ 1,151,172</u>
<b>Liabilities and Equity:</b>		
Current liabilities	\$ 91,826	\$ 85,512
Deferred income taxes	6,194	6,779
Other long-term liabilities	15,940	17,353
Total liabilities	<u>113,960</u>	<u>109,644</u>
Total stockholders equity	<u>979,777</u>	<u>1,041,528</u>
Total liabilities and equity	<u>\$ 1,093,737</u>	<u>\$ 1,151,172</u>

# NON-GAAP FINANCIAL MEASURES

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, 2021		June 30, 2021		September 30, 2020	
	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)	\$ (11,143)	\$ (0.31)	\$ (19,067)	\$ (0.54)	\$ 14,326	\$ 0.41
Adjustments (after tax):						
Reverse the effect of foreign currency	(1,314)	(0.04)	(375)	(0.01)	589	0.02
Restructuring costs, including severance	-	-	790	0.02	476	0.01
(Gain) loss on sale of assets	(10)	-	65	-	11	-
Adjusted net income (loss)	<u>\$ (12,467)</u>	<u>\$ (0.35)</u>	<u>\$ (18,587)</u>	<u>\$ (0.53)</u>	<u>\$ 15,402</u>	<u>\$ 0.44</u>

# 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, 2021</u>	<u>June 30, 2021</u>	<u>September 30, 2020</u>
	(In thousands)		
Net income (loss)	\$ (11,143)	\$ (19,067)	\$ 14,326
Add:			
Interest (income) expense, net	(94)	(4)	(50)
Income tax provision (benefit)	4,301	4,407	(16,380)
Depreciation and amortization expense	7,899	7,343	7,908
Restructuring costs, including severance	1,400	7,250	602
(Gain) loss on sale of assets	(13)	82	14
Foreign currency transaction (gains) and losses	(1,663)	(475)	746
Stock compensation expense	3,276	3,079	3,003
Adjusted EBITDA	<u>\$ 3,963</u>	<u>\$ 2,615</u>	<u>\$ 10,169</u>

# 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>September 30, 2021</u>	<u>June 30, 2021</u>	<u>September 30, 2020</u>
	<b>(In thousands)</b>		
Net cash provided (used) by operating activities	\$ 9,323	\$ 11,343	\$ 13,889
Less:			
Purchase of property, plant and equipment	(2,303)	(3,112)	(1,925)
Free cash flow	<u>\$ 7,020</u>	<u>\$ 8,231</u>	<u>\$ 11,964</u>

# 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)